

## **“Something for Nothing - It's Fabulous”: An Australian Perspective of Demutualisation**

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If one does a search of the internet for the word “demutualisation” many hundreds of entries appear.

This demonstrates not so much improvements in the capacity of internet search engines as the high level of interest in the recent series of conversions of co-operative and mutual organisations occurring in many countries throughout the world.

A starting point to gaining an understanding of this widespread trend may be found in the heading for this article. A report of the demutualisation of the Australian Mutual Provident Society, (AMP), quoted a member, happily, explaining his reasons for supporting the conversion<sup>1</sup>. He was going to receive something of value, shares or money – a gift - in exchange for something which clearly was not as worthwhile, namely continuing membership and control of his own mutual. Most members of similar organisations throughout the world have, when offered a choice between the money and the organisation, answered in a like manner.

Why this should be so and the general lessons to be learnt from the Australian experience are the focus of this paper.

### The Big Picture - Privatisation, Deregulation and Demutualisation

One writer (Birchall 1998) has suggested that just as in the 1980s the UK led the way in privatisation of utilities, in the 1990s it has led in the demutualisation of the co-operative and mutual sectors<sup>2</sup>.

From an Australian perspective our experience has been a little different - the demutualisation of building societies occurring mainly between 1985 and 1995, the conversion trend co-existing with, rather than following, privatisation initiatives. Nevertheless, the association between widespread privatisation of government services, deregulation of the economy and demutualisation of co-operative and mutual organisations may be more than coincidental.

Demutualisation has not occurred in isolation from broader economic, social and technological changes. Parallels could be drawn between some of the arguments, which have been used in support of privatisation of government services and for the demutualisation of mutual and co-operative structures. In these cases underlying ownership, whether public or co-operative, is often seen as less important or relevant than efficiency and competition in the marketplace.

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<sup>1</sup> Hong Kong Front-Page 15/06/98 ‘Australian investors reap bonanza as insurer makes its stock market debut’ quoting “‘Something for nothing. It's fabulous,” one policyholder turned shareholder describing the former mutual company's privatisation to ABC radio outside the Australian Stock Exchange, see also Sydney Morning Herald “AMP wins 93.2pc yes vote for \$b11 listing” 15/06/98

<sup>2</sup> Birchall, J ‘The Future of Co-operative and Mutual Business’, Meiji University, May 1998

A partial explanation for the success of the demutualisation trend may lie in the widespread acceptance over the last decade of the deregulatory and privatisation programs. Media reporting of demutualisations, highlight that the weight of public and elite opinion has tended to view these events, as basically positive, and part of the broader market liberalisation process. Hence, a largely sympathetic commercial, intellectual and public policy environment has been created which has been able to sustain, at least in part, the momentum of the demutualisation processes.

If past trends in the wider economic and political environment have assisted the process of demutualisation, then the re-evaluation currently under-way in many countries, of the appropriate balance between macro-economic and social policies may provide an opportunity for the mutual and co-operative sectors to re-enter the debate.

There are tentative signs that this is beginning to happen in some areas. The recent 'New Mutualism' initiatives of various organisations within the UK demonstrate that responses to demutualisation need not only be couched in defensive terms but can include wider claims for this form of organisation, often within the context of broader social economy agendas<sup>3</sup>. Part of this response seems to be founded on the re-affirmation of the legitimacy and relevance of co-operative and mutual values<sup>4</sup>. It is clear strategies of this kind are required to ensure the continuing loyalty and commitment of members.

No such broadly based responses have been apparent in Australia. During recent debates on the conversion of the mutual insurance companies and the former building societies there was virtually no public comment from other member based organisations, including the general co-operative sector. Perhaps this is not surprising when one recalls that it has been previously observed there has never been a co-operative movement, or shared sense of identity, as such in this country (Lewis 1992)<sup>5</sup>.

### Extent and Scale of Demutualisation – The International Experience

Demutualisation is not a phenomenon restricted to one country.

As already noted there has recently been a wave of demutualisations of mutual insurance companies and building societies in several countries, notably the UK, Australia, South Africa, Canada, New Zealand and the USA (Birchall 1998)<sup>6</sup>. Ireland

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<sup>3</sup> UK Organisations engaged in various positive responses to demutualisation include: the United Kingdom Co-operatives Council; the Co-operative Party; the Building Society Association; the Co-operative Wholesale Society (CWS) and other individual mutuals and co-operatives

<sup>4</sup> A related aspect seeks to ensure that these 'rediscovered' values are integrated into training for managers and directors of these organisations.

<sup>5</sup> Lewis, G ( 1992) *A Middle Way – Rochdale Co-operatives in New South Wales 1859-1986*, Brologa Press, Canberra

<sup>6</sup> Birchell, op. cit

has also recently witnessed the decision by a significant building society to demutualise<sup>7</sup>.

Similarly some agricultural and consumer co-operatives have changed from co-operative or mutual structures into investor-oriented organisations. A good example is the conversion of several of the larger Irish dairy co-operatives into publicly listed companies (plc's). The Kerry Group is the most widely known to Australian audiences. This trend is also evident in less complete conversions, whereby hybrid company/co-operative structures or equity vehicles are created. Ultimately many of these hybrid structures will complete the journey to a full demutualisation.

Interestingly, failed efforts to demutualise, for example the aborted takeover attempt of the UK's Co-operative Wholesale Society (CWS) or the recent multiple votes by members of that country's Nationwide Building Society to remain mutual, can provide important insights and lessons into the motivations for and responses to this trend<sup>8</sup>.

### Possible Reasons for Demutualisation

While to some extent the pressures or drivers for the demutualisation process can be found, as already noted, to originate in the broader economic and social environment external to the co-operative or mutual movements, many reasons for its apparent success can be found within.

There appears to be at least a partial consensus, among a number of researchers, on the reasons for the conversion of co-operatives and mutuals<sup>9</sup>. The reasons listed below should in no sense be understood to diminish the influence of the broader issues of deregulation, increased global pressures and changes in information and communications technologies previously referred to. Rather they relate more to the "internal" aspects of co-operatives and mutuals. They include:

- \* the need to grow the business
- the desire to unlock the value in co-operatives/mutuals for members and other investors and to enable this to be freely tradable
- the rapidly changing nature and increasingly competitive character of the markets in which co-operatives and mutuals are operating
- the need to access capital beyond the membership base
- the requirement for a more commercially flexible, competitive and less restrictive corporate structure

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<sup>7</sup> The First National Building Society is to follow the lead of the Irish Permanent Building Society and demutualise

<sup>8</sup> See Melmoth, G 'The Way Forward' Network, The UKCC, May 1998, No 13, for an examination of the CWS experience

<sup>9</sup> See Birchall 1996 and 1998, Rhodes 1996, Griffiths 1998, Cronan 1994

- the motivation and short-term self interest of the board, management, external advisors and members
- the lack of a sufficiently strong understanding of and support for co-operative and mutual principles, values and member service within the organisation
- a public policy environment which often doesn't fully understand the needs and operational character of co-operative and mutual organisations

### What do the Supporters Say?

The proponents of the demutualisation cause, regardless of their country of origin, also tend to agree about the reasons.

The Executive Chairman of a major South African mutual insurer gives a summary of some of benefits, he sees, of demutualisation:

"...demutualisation is in line with global trends and underpins Sanlam's strategic plan. It would provide Sanlam -- which has been registered as a mutual company since 1954 -- with greater flexibility and with access to a broader range of capital sources. It would also create a more effective group structure, separating the interests of owners and customers,... We face many challenges and opportunities in a rapidly changing marketplace. The mutual structure ... is restricting our business and is no longer in the interest of our policyholders. Our mission is to become an international and world-class financial services group, building on a strong domestic position. The board believes demutualisation will provide the optimal corporate and capital structure to support this objective. In analysing Sanlam's future, it became clear that, in parallel with our strategy to internationalise, we must demutualise."<sup>10</sup>

In Australia, J B Were and Sons, major financial advisors, gave the following advice to their clients, about the benefits to expect from the then forthcoming AMP demutualisation.

"If you are a policyholder, we expect that the demutualisation and listing will:

- \* Unlock the value of your membership in the AMP. Recent demutualisations (Colonial and National Mutual) have unlocked significant value for policyholders that took shares.
- \* Provide you with an investment in the Company that has the potential to provide growth and dividends over time.
- \* Enable you to trade your investment in the Company.
- \* Allow the AMP to grow through the ability to raise further capital on the market.
- \* Provide enhanced focus and accountability for AMP management.
- \* Provide you with an investment in one of Australia's top 10 listed companies and the 13<sup>th</sup> largest listed global life insurer."<sup>11</sup>

### Australia – The Demutualisation Capital of the World?

Perhaps any claim Australia could make, to being the world's demutualisation capital, should rest, not so much on the dollar value of resources transferred from the co-operative and mutual sectors to private hands, but more on the pervasive and largely unchallenged character the process has assumed in this country.

<sup>10</sup> See Sanlam's website, quote from Marinus D, Executive Chairman, (1998),

<sup>11</sup> See J B Were and Sons, website (1998)

The deregulation and conversion of mutual/co-operative organisations has been occurring against a background of considerable privatisation of Government services. Taken together, these trends are having a major influence on the economy as a whole. *The Age* newspaper reported in May 1998:

*“AMP policy holders were set to receive a “windfall gain” that could boost the economy...The Reserve Bank predicted the demutualisation would add 0.3 percentage points to the economic growth rate as some people cashed in their shares and spent the proceeds<sup>12</sup>.*

The article went on to draw a parallel with the experience in the UK acknowledging that most members undervalued or ignored their investment in mutual organisations:

*“Based on similar events in Britain, the Reserve said, most policy holders were likely to have ignored this component of their wealth and would now increase spending on consumption and housing. The UK experience suggested that the additional expenditure from policy holders who sold shares could amount to about \$1.3 billion in the two years following the demutualisation..., The Prime Minister, Mr John Howard, said yesterday he believed the demutualisation would have “a significant effect on consumer spending because you are unlocking about \$16 billion of accumulated wealth”. “Some of the people who get the shares will sell them and they will spend the proceeds . . . on trips, on washing machines, on cars and all sorts of things,” he said The Reserve Bank said the AMP demutualisation and the one-third sale of Telstra shares were “likely to have significant effects on the real economy”.*

One outcome of both the privatisation of Government utilities and the conversion of co-operative organisations is that it has raised to record levels the number of “ordinary” Australians who are now shareholders with a direct interest in the activities of the stock market.

Over the last few years demutualisations and conversions in Australia have predominantly occurred in the following areas:

- the mutual insurance industry
- the building society sector
- among a number of general co-operatives, the most recent examples being in the agricultural and taxi sectors
- a number of specialist organisations, for example the Australian Stock Exchange

In addition, the Credit Union movement has recently seen moves, which suggest it, may need to closely examine the implications of this issue.

## **Mutual Insurance**

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<sup>12</sup> Hudson, P (08/05/98) “Economic lift ahead from AMP wind-fall”, *The Age*,

The financial services and insurance industries have been at the forefront of changes in regulation, increased competition and technological change. Over the last few years the three largest (mutual) Australian life insurance companies have demutualised. The combined value of the AMP, Colonial Mutual and National Mutual has been estimated at approximately \$21 billion. This represents a historic shift of resources to the private sector.

During this same period the NRMA, a large mutual motoring and insurance organisation, voted by a significant majority to demutualise, but was prevented from doing so by successful court action initiated by dissident Board members who wished to maintain the mutual structure.

The future corporate structure of the NRMA remains, however, a very live issue within the organisation. As the chairman in the recent annual return said:

*As the directors of the largest remaining mutual enterprise in Australia, we have a duty to chart a course that will maximise the benefits of the membership to about two million Australians<sup>13</sup>*

The chairman went on to indicate that the board of NRMA has:

*...asked the corporate advisers at Credit Suisse First Boston to give us the benefit of their worldwide expertise in mutual structures and to review – comprehensively – a full range of structural options.*

*It is self-evident that, in order to be comprehensive, options that must be considered include the demutualisation of all or part of the NRMA...*

## **Building Societies**

The Australian building society sector has witnessed fundamental changes over the last twenty-five years.

The number of building societies peaked in the early seventies declining from 178 in 1975 to approximately 70 at the end of 1985.<sup>14</sup>

The ten year period 1985-1995 saw deregulation of the banking system, new and rapidly adopted technology, rapid expansion of bank lending, the failure of a number of state banks and the accumulation of massive bad debts by large banks.

The most apparent impact on the building society sector was the conversion of the large co-operative building societies into companies and then immediately into banks. This conversion process commenced in 1985 and continued through to 1995. In this period the number of building societies reduced from 71 to 29 and assets in the sector reduced markedly (see AAPBS website 1998). A difference between the Australian and UK experience has been that Australia did not experience the so-called carpetbagging activity to the same extent during these conversions<sup>15</sup>.

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<sup>13</sup> Whitlam, N (1998) "President's Report" NRMA 1998 Annual Report

<sup>14</sup> Australian Association of Permanent Building Societies, (AAPBS), (1998) website

<sup>15</sup> Another aspect of interest during this period is that a number of building societies introduced permanent shares.

A significant change occurred in 1992 with the enactment by state and territory governments of the Financial Institutions Code and the establishment of the Australian Financial Institutions Commission (AFIC) to regulate the industry – this initiative followed the failure of a number of building societies. The resulting legislative framework was uniform throughout Australia and the standards equal to those applying to banks. The structure now provides a solid prudential platform for the remaining building societies and offers depositors greater confidence in the security of building societies.

The period 1995 –1998 has seen far fewer conversions. There is now a range of corporate structures, which reflect a combination of the structural, regulatory and environmental changes of the past ten years, and the grafting of those changes to the traditional and original forms of Australia’s building societies. The co-operative structure is prominent in Queensland, New South Wales and Tasmania. In addition, institutionally owned and controlled societies, which are part of large financial service conglomerates, are important in major states and have national coverage.<sup>16</sup>

The remaining building societies are now presenting themselves as true mutual organisations, different from banks, with a focus on serving regional Australia. This response shares much with the UK building societies’ new mutualism.

### **Credit Unions**

Credit unions were introduced into Australia in 1946. Today, they have 3.5 million members. One in five adults relies on a credit union to provide them with some or all of their financial needs. They are one of the success stories of Australian co-operative and mutual activity

Nevertheless, the credit union movement is operating in a very competitive marketplace - one that is increasingly subject to a convergence of products and organisations along with new regulatory arrangements reflecting these marketplace changes.

In spite of this enviable record of success the demutualisation issue has touched even the credit union movement. This is apparent from an examination of three recent notices issued by AFIC, the present non-bank financial regulatory authority. The intention of the notices is to amend the prudential standards under which credit unions operate<sup>17</sup>. The three notices deal with:

- procedures for the possible demutualisation of credit unions
- the issuing of permanent shares by credit unions
- \* ensuring that credit unions seeking to issue capital instruments give proper regard to existing members’ interest and the mutual status that characterises a credit union

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<sup>16</sup> AAPBS ibid

<sup>17</sup> AFIC (1998) website

While it is clear that the Australian credit union movement is both proud of and committed to maintaining its mutual/co-operative character the changes outlined above show that even in this movement demutualisation can not be ignored.

### **General Co-operatives**

There are approximately 2400 general co-operatives in Australia<sup>18</sup>. Over the last ten years close to 60 of that number have converted from a co-operative into a company structure<sup>19</sup>. While this represents only a small percentage of the total number many of the conversions have been significant co-operatives which have played leading roles in their respective industries, particularly agriculture. The most important recent conversion, which occurred during 1998, was Australia's leading taxi co-operative.

A number of agricultural co-operatives formed as a result of the deregulation of Government-run Statutory Marketing Authorities (SMA's) have subsequently converted into for-profit companies – the rapid transition from SMA's to co-operative to company recently occurred in the egg and gains industries. Although this outcome may not always be the normal result of deregulating agricultural industries the fact that it does occur tends to reinforce the view, among some, that co-operatives are at best an interim and temporary solution on the road between regulated and free markets.

It has been previously noted that in recent years there has been a revolution in the Australian bush. There is hardly a significant co-operative that hasn't considered its corporate status or the adequacy of its capital structures.<sup>20</sup>

While it is undoubtedly true that a number of influential co-operatives have made a complete break from their co-operative roots by converting into companies many others have been exploring different solutions to their problems – ones which stop short of demutualisation.

It is in the area of hybrid equity models that many are searching for an answer. This quest is driven by a desire to maintain the co-operative heritage of the organisation, particularly the element of member control while accessing external equity. In summary they want additional funds, but don't want outsiders running their businesses.<sup>21</sup>

Whether external equity holders are prepared to invest for the long term in an organisation where they lack majority control, or in many cases any control, is not yet clear. The recent listing, for the first time, by the Australian Stock Exchange, (ASX)

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<sup>18</sup> This includes co-operatives registered under discrete state based co-operative legislation. It excludes co-operative type organisations incorporated under Corporations Law or other special purpose legislation

<sup>19</sup> Cronan, G, (1995) 'The Conversion Syndrome – A Review of the Conversion of Australian Co-operatives into Investor Owned Firms' Published by the International Co-operative Alliance, Regional Office for the Asia and the Pacific

<sup>20</sup> Williams, D, (1994), 'Raising Co-operative Capital' –Why Members Resist?', Australian Dairy Foods Journal

<sup>21</sup> The Bulletin, 18/09/98, 'Let's Co-operate'

of a form of hybrid equity instrument known as Co-operative Capital Units for Namoi Cotton Co-operative may well provide a test case.

CCU's are a debt/equity instrument currently only available under New South Wales co-operative legislation. Consideration is presently being given to their inclusion as part of the new national, Australia wide, Core Consistent Provisions (CCP) scheme.

The Namoi CCU issue involved a complex transaction requiring a series of lengthy regulatory approvals, from the New South Wales Registrar of Co-operatives, the national corporate regulator and the ASX among others. Because Namoi CCU's could be issued to both members and non-member external investors it was necessary to consider the relationship between the external CCU holders' rights and entitlements, and the operation of co-operative principles<sup>22</sup>. To what extent did the CCU issue conflict with the principles of democratic member control, independence and autonomy? This issue was given practical expression, and urgency, in that there were to be 'CCU' directors on the board<sup>23</sup>.

If such reconciliation, of outside equity and co-operative principles, can be generally achieved, both at a legislative level and commercially, it will relieve some of the demutualisation pressure being experienced in Australia.

Likewise moves by Dairy Farmers Co-operative one of Australia' largest to consider the introduction of a revised corporate structure involving external equity participation, somewhat similar in concept to that introduced into the Irish dairy co-operatives, is another response to the same problem.

A recent media report spelt out the intention of the changes:

*"Under the plan, which will be voted on by co-operative members next March, the co-operative will be the controlling shareholder in a publicly listed company that will take over production and marketing of all Dairy Farmers brands of dairy foods, milk and cheese...Producer members would be given 25 per cent of the shares of the new company....and they would indirectly own the remaining 75 per cent through membership of the co-operative.*

*The managing director of Dairy Farmers said demutualisation was needed to fund the expansion of Dairy Farmers, particularly in export markets"*<sup>24</sup>.

The 'demutualisation' proposal and plans for a new milk supply agreement among members are being driven to some extent by the deregulation of the milk marketing arrangements – the overall result is to increase the competitive pressures on the co-operative. Its response has been to seek growth, principally through acquisitions and mergers. Since 1991 the co-operatives' turnover has trebled to \$1.35 billion.

## **The Demutualisation of the Australian Stock Exchange (ASX)**

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<sup>22</sup> The International Co-operative Alliance principles are included in the New South Wales Co-operatives Act.

<sup>23</sup> An outline of the Namoi Cotton Co-operative Scheme of Arrangement, involving the CCU issue, can be found in the Australian Corporations and Securities Reports SC (NSW) Re Namoi Cotton Co-operative Ltd (26 ACSR 694), see also Namoi Cotton's Restructure Booklet, 11/98

<sup>24</sup> The Land, 12/11/98, 'How to go public?'

Given, that the recent spate of demutualisations has seen a great deal more activity on the stock exchange, it is probably not surprising that the ASX has, itself, decided to join the rush, by announcing its intention to convert from its mutual status into a company structure.

The Managing Director outlined his plans:

“In less than six months’ time, ASX will cease to be a mutual organisation of its stockbroker members and will become a public company listed on the stock market.

We are not breaking new ground in demutualising – that was pioneered by the Stockholm Stock Exchange in 1992, and four other European exchanges have since followed its lead. But we will be the first to list on our own market, and expose ourselves to the same market discipline as the other thousand-odd companies that we list.<sup>25</sup>

Mr Humphry went on to outline the reasons for the changes:

Two academic economists, Professor Oliver Hart from Harvard and Professor John Moore from the LSE, studied .....stock exchanges, and concluded on theoretical grounds that, when the interests of members ( corporate and individual) diverged ... a structure with outside ownership, of which a public company whose shares are traded is typical, was more efficient than the traditional mutual structure. This was particularly the case when the stock exchange was facing increased competition.

It had been clear for some years that the disparity between corporate members’ dominance as customers and individual members’ dominance as owners was undesirable. ASX had in fact made two attempts to remedy the anomaly by changing the voting structure.....

Further consideration led to the conclusion that it was not just the voting structure that needed to be changed, but the whole basis of the Exchange as a mutual organisation. Mutuals can be inefficient organisational structures, because it is easy for the needs of members, or of a section of members, to conflict with what the board or management sees as the needs of the organisation. For the same reason, it is more difficult to define strategic goals, or even the purpose of the business. These handicaps are the last things an organisation needs when it is facing increasing competition, both domestically and internationally. The need is rather for flexibility and swiftness of decision-making.

The move by the ASX is important, not only, in a commercial, but symbolic sense.

It follows the recent decision by the ASX to relax requirements preventing co-operatives from listing “equities” on the exchange<sup>26</sup>. The ASX has indicated that it is prepared to accommodate the special requirements of co-operatives, such as member control by way of one member/one vote. This however, will be only a limited period of time, after which the co-operative will be required to adopt a more usual corporate structure – in effect to demutualise like the exchange itself had done<sup>27</sup>.

Apart from the recent changes announced by the ASX other capital raising alternatives are being considered. A recent Melbourne capital-raising seminar was told:

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<sup>25</sup> Demutualising the Australian Stock Exchange Address to Australian Corporate Lawyers Association and City of Sydney Law Society by Richard Humphry, Managing Director, Australian Stock Exchange, May 98

<sup>26</sup> See ASX Discussion Paper, ‘Co-operatives’, May 1997

<sup>27</sup> National Co-op Update, 09/98, No 11 ‘Mixed Response to ASX Proposals’

While conventional wisdom is that co-operatives must radically change their structure to approach the capital market, Austock<sup>28</sup> director, Bill Bessimer, says there is another growing view that capital markets are competitive and flexible enough to allow alternatives to the conventional path of an ASX listing...

In his view:

The ASX's underlying theme – one share, one vote – flies in the face of co-operative principles. Mr Bessimer believes that the exempt market, which Austock created for the Sigma co-operative could be a model for other co-operatives...The market could effectively be tailored to suit the needs of particular organisations wanting to trade securities...Why can't we have all sorts of permutations and combinations of voting rights and residual income rights?<sup>29</sup>

The present Commonwealth Government, through its Commercial Law Economic Reform Program, is considering this issue. Under this program several stock markets could be created as long as the groups overseeing them observe prudential standards.

### Public Policy and Demutualisation

Governments in Australia have tended to reflect the generally held public view that demutualisation is on balance, both, a necessary and positive process. To this extent they have, largely, left the decision making about changes to the organisational structures, to the members.

Nevertheless, as has been reported, additional legislative action has been needed to enable some demutualisations to occur:

“The demutualisation of the big life insurance groups has required separate acts of parliament. The AMP float, for instance, required special legislation to be passed in New South Wales”<sup>30</sup>.

At the national level measures have recently been announced, by the Federal Treasurer that will simplify the tax law and address some potential anomalies.

“A new generic tax framework will be introduced for the demutualisation of non-insurance organisations. Demutualisation is an emerging trend as more sectors of the Australian economy respond to increasing competition and structural reform. The development of the framework has benefited from extensive public input. It will provide greater certainty for organisations about the taxation consequences of demutualisation.”<sup>31</sup>

As has already been noted, above, changes are also underway in the area of regulation of financial co-operatives. An important aspect, of public policy, in this area relates to adequate disclosure, to members, of the consequences of any conversion of their organisation. An informing principle is that, a member should not be prevented from

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<sup>28</sup> Austock are a stockbroking firm which run an exempt stock market for the former healthcare 'co-operative Sigma. Sigma was formerly a 'co-operative' registered under Corporations Law.

<sup>29</sup> National Co-op Update, 07/98, No 16, 'Tailoring the Capital Market to the Needs of Co-operatives'

<sup>30</sup> Wood ,C, Australia's Business Review Weekly magazine, 18 May 1998

<sup>31</sup> Budget Speech 1998-99 Delivered on 12 May 1998 on the second reading of the Appropriation Bill (NO. 1) 1998-99 by The Honourable Peter Costello, MP Treasurer of The Commonwealth of Australia, Commonwealth Parliament

voting to change the character of the organisation, but in doing so, he/she should be in receipt of all relevant information, including the 'no case'<sup>32</sup>.

Similar disclosure principles apply in relation to the conversion of general co-operatives. The protection of member rights, particularly control, through full disclosure regimes, are also central in public policy considerations where one is blending together traditional general co-operative structures and external equity participants.

### Conclusion

We are currently witnessing a period of sustained demutualisation occurring across a range of industries in a number of countries.

Demutualisation represents a fundamental challenge to the co-operative and mutual movements.

In Australia a large part of the mutual insurance and building society sectors have already demutualised. The general co-operative sector, particularly the agricultural and trading areas have also witnessed conversions. A number of large and influential co-operatives are seeking new hybrid equity models as either an alternative to full demutualisation or as a staging post on the way to conversion. Other long established organisations like the stock exchange are not only demutualising but also establishing new pathways for partial or full conversions.

The promoters of the demutualisation process are many and varied. In a number of countries, the co-operative/mutual movements appear to be responding to this challenge, by regrouping under a banner proclaiming the importance and relevance of values and principles. To be effective, however, these values need to be embraced by the staff of co-operatives/mutuals and communicated to members<sup>33</sup>. This seems a necessary and logical starting point for an informed response.

The final decision, however, still lies with the members. If members continue to see no special value in their own organisations, then clearly there is no future.

In the Australian case, time may be running out.

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<sup>32</sup> The need for disclosure documentation relating to possible demutualisations to adequately cover the 'no case' was one of the outcome of the failed NRMA demutualisation

<sup>33</sup> Melmoth, G, op. cit and particularly Davis, P, (1996), 'The Future of Co-operative Management', Journal of Co-operative Studies, No 87.1

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