



# FUTURE-PROOFING THE MUTUALS' CUSTOMER VALUE PROPOSITION

**TO FUTURE-PROOF THEIR VALUE PROPOSITIONS, AUSTRALIAN MUTUAL BANKS NEED TO PIVOT.**

**MUTUAL BANKS HAVE TRADITIONALLY CREATED VALUE THROUGH COMPETITIVE PRICING, PERSONALISED CUSTOMER SERVICE AND STRONG COMMUNITY IDENTITY. HOWEVER, THESE STRENGTHS ARE BEING ERODED BY SUSTAINED LOW INTEREST RATES, EVOLVING CUSTOMER EXPECTATIONS AND COMPETITIVE PRESSURES FROM DIGITISATION. KPMG RESEARCH HAS IDENTIFIED THREE STRATEGIES MUTUALS CAN USE TO FUTURE-PROOF THEIR VALUE PROPOSITION.**

## 1. REIMAGINE YOUR IDENTITY

Many Mutuals began as an industry or geographic community, tailoring their banking services to a specific community group. Branches were seen as an anchor. A way to provide a physical customer connection and deliver highly personalised services. Often customer bonds were drawn from the deep ties branch staff had in the communities they serve.

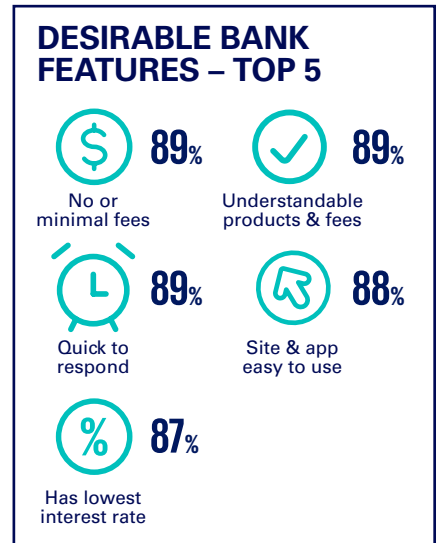
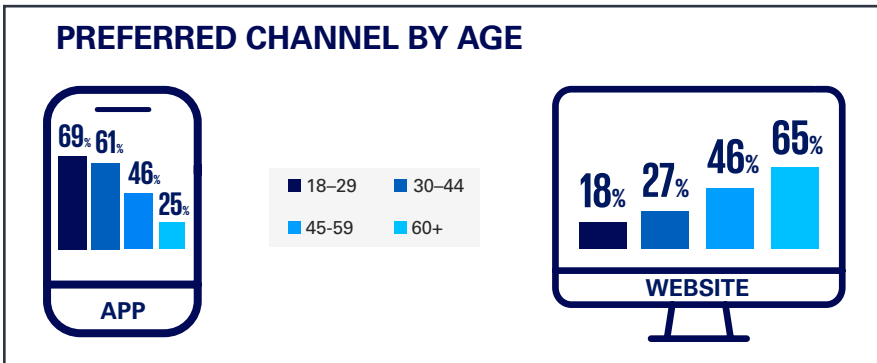
The digitisation of the banking sector is disrupting this notion.

Mutuals are being forced to reimagine how they create and maintain customer connection and loyalty. All customers are demanding more self-service solutions via multiple online platforms – a trend accelerated by COVID-19 and the shift to broker-introduced lending. As digital channel usage has increased, the relevance, reach and impact of the branch network has declined.

Digital channels are universally popular to conduct research, apply for new products or conduct basic banking tasks. Interestingly, KPMG research found younger customers heavily favour app-based banking, while older customers preferred using a desktop website.

Importantly, one-to-one channels still play an important role – with 37% of customers preferring to resolve issues or complex queries with a staff member over the phone. The good news is 78% of Mutual customers are highly satisfied with online and phone service channels, limiting the need to visit a branch.

Consequently, the branch experience is no longer a differentiator for Mutuals. So, it's business critical that Mutuals reimagine how they foster communities and deliver service value across the customer lifecycle. The future of the 'branch-first' business model is being pressured.



**Teachers Mutual Bank reimagines their customer relationship model.**

Through the recent launch of 'Hiver', Teachers Mutual Bank has focused on the community bonds between essential workers, who share a passion for helping their fellow citizens. Members are encouraged to contribute to the financial goals of their fellow 'Hivers'. As the Hive grows, the more Hiver can invest in its members. This innovation has helped Teachers Mutual Bank both engage a digital-first market segment and create community identity.

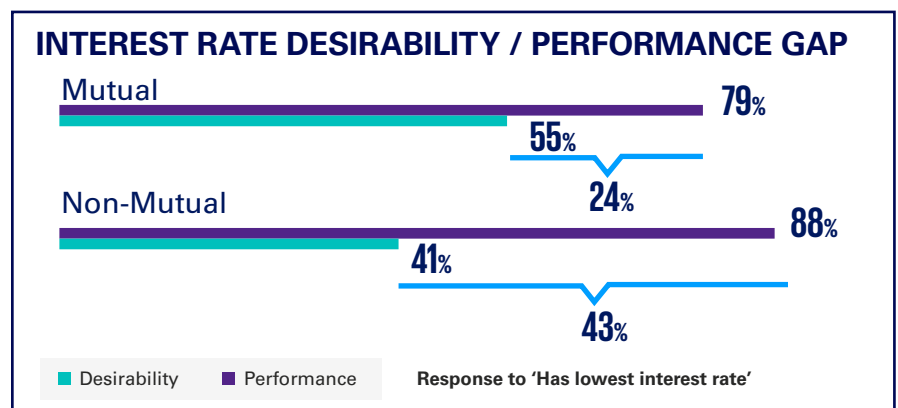
## 2. REMAIN FOCUSED ON MARGINS

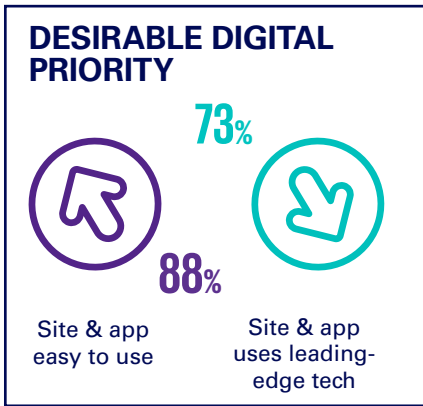
Home lending is the primary income driver for Mutuals. Margins are generated from the relatively low cost of deposit-based funding via competitive pricing. So, optimising margins relies on Mutuals stimulating mortgage flows without cutting too deep into interest income. Unfortunately, three simultaneous threats are now in play: The major banks hold significant market power; Nimble digital mortgage lenders have emerged; Plus interest rates are at record lows. With margins under threat so too is the source of funding for Mutuals to invest in quality customer service and innovation.

Mutuals now have very little wriggle room to generate margin and remain competitive.

Crucially, as the KPMG research shows, minimal fees and low interest rates remain two of the top five selection criteria for customers (see figure 2.) So, Mutuals must continue to focus on keeping costs low – particularly interest rates. They must continue driving customer satisfaction, to keep pace with high system growth amid a competitive housing market.

The good news is, as KPMG research revealed, Mutuals are doing a far better job of delivering for customers than their rivals. The gap between Desirability and Performance, as judged by customers, is almost half that of non-Mutuals.





One strategy which has seen success, is using partnerships to reduce fixed and variable costs while improving product and service value.

### 20 Mutual banks partner with Adatree

Adatree, a SaaS provider of turnkey open banking technology, has partnered with 20 Mutual banks, representing the largest bank and fintech partnership in Australia. Adatree is helping Mutuals meet Open Banking requirements and participate in the Data Recipient Scheme at a much lower cost than it would be possible as a stand-alone.

### 3. REDESIGN YOUR SERVICE EXPERIENCES

Customers of Mutuals are accustomed to deeply personalised experience – historically delivered via branches and sponsorship of community causes. This has translated into high customer satisfaction, particularly when compared to the major banks. Retaining this personal connection and community identity will be critical for Mutuals. This is the key to differentiating themselves from major banks and digital mortgage lenders.

However, there are other factors at play.

With all customers becoming more digitally savvy, they now have high expectations of any organisation that uses data and technology. They expect their experiences to be more relevant and intuitive. That’s why the banking sector has invested heavily in transforming cross-channel customer experiences – particularly for customers aged 18-29.

The temptation for Mutuals is to invest in leading-edge technology but, as KPMG research reveals, this should not be the sole priority. Mutual customers find ‘Easy to use’ far more desirable – which aligns with Mutuals historic value proposition.

There’s more good news for Mutuals.

Increasingly commoditised and competitive technology solutions, plus advances in data analytics and Open Banking, offer affordable pathways to meeting these customer demands. Mutuals can now deliver service experiences that delight customers and generate personal connection. All of which help strengthen customers bonds to their community.

Importantly, for new customers, Mutuals must clarify this differentiation – e.g. via fast approvals on competitive home loans. Existing customers need to see a seamless continuation of their ongoing proposition – e.g. easy to use online services. When executed well, Mutuals won’t need to invest in highly sophisticated tech like the major banks. Instead investment levels can be guided by complementing their purpose. Equally, Mutuals should limit customisation of technology to avoid high cost and risk.

## **Regional Australia Bank partners with Basiq for faster loan processing.**

Regional Australia Bank is Australia's first Accredited Data Recipient of Open Banking. So, they are authorised to receive customer data, including transaction data. That data is rapidly analysed and categorised by Basiq then inputted into the bank's automated credit decisioning. This collaboration led to Regional Australia Bank approving Australia's first Open Banking loan in under 6-minutes.<sup>2</sup> This is a step-change in the experience for customers – with better banking choices via greater control over their own data.

## **IN SUMMARY**

Mutuals are facing equal measures of disruption and opportunity. Customer engagement, competitive pricing, digital service design and market awareness are all key factors. Offering differentiated customer experiences and value propositions through community identity and funding models will be critical to Mutuals long-term sustainability.

To do this, Mutuals will need to selectively implement new digital capabilities across their front, middle and back office.

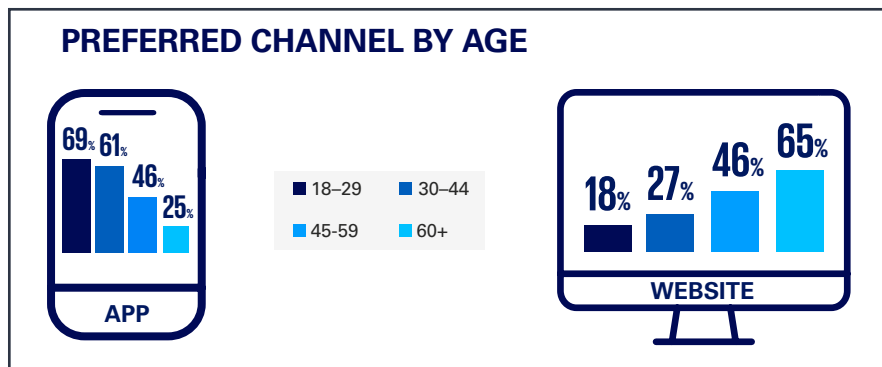
The aim is to enable easy and comprehensive online customer experiences. To help customers manage their finances in one place while offering competitive pricing and products.

## KEY INSIGHTS FROM CUSTOMER RESEARCH

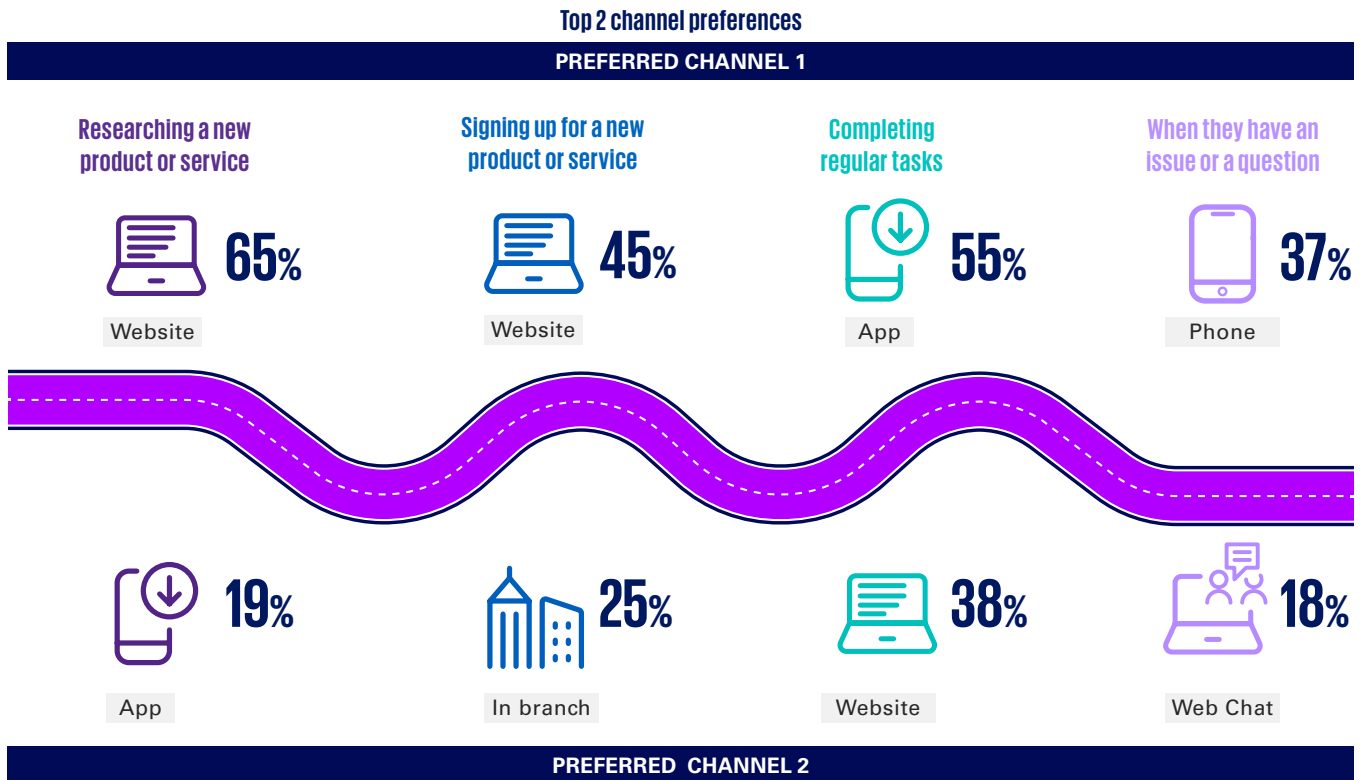
KPMG surveyed 1,203 Australians aged 18+ to build a fact base of customer preferences, including comparatively with those of non-mutual customers. All participants either had a home loan or are considering a home loan in the next two years.

## REIMAGINE YOUR IDENTITY

### SHIFT TO DIGITAL



### ROLE OF EACH CHANNEL



## REQUIREMENTS ACROSS CHANNELS

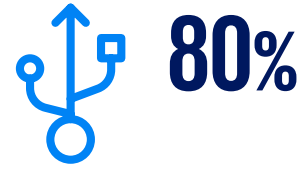
Ease of use



Full digital service



Omni-channel



Digital channels have everything I need for banking

I can do my banking in person, on the phone and online

(% ranking feature as extremely / very desirable)

## Remain focused on margins

### TOP 5 BANKING FEATURES

#### DESIRABLE BANK FEATURES – TOP 5



**89%**

No or minimal fees



**89%**

Understandable products & fees



**89%**

Quick to respond



**88%**

Site & app easy to use



**87%**

Has lowest interest rate

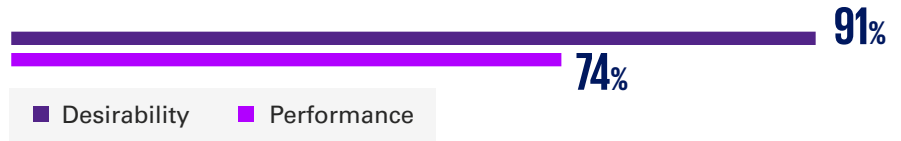
(% ranking feature as extremely / very desirable)

## COMPETITIVENESS VS. NON-MUTUAL BANKS

### 1. Minimal fees and charges

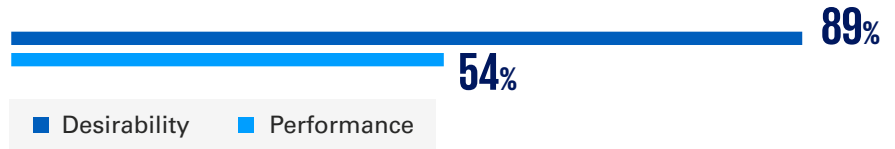
#### Mutuals MFI

Has no or minimal banking fees and charges



#### Non-Mutuals MFI

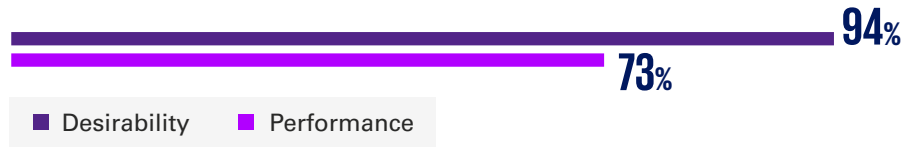
Has no or minimal banking fees and charges



### 2. Transparency of products and fees

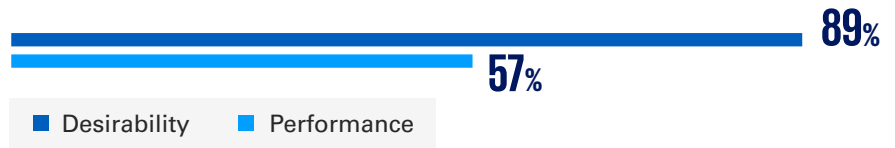
#### Mutuals MFI

Is transparent. Products and fees are easy to understand



#### Non-Mutuals MFI

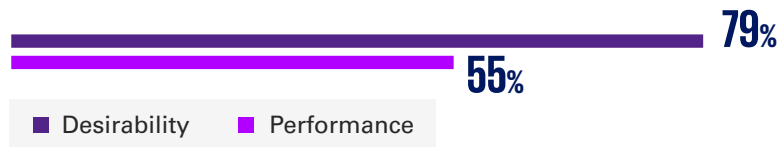
Is transparent. Products and fees are easy to understand



### 3. Low interest rates

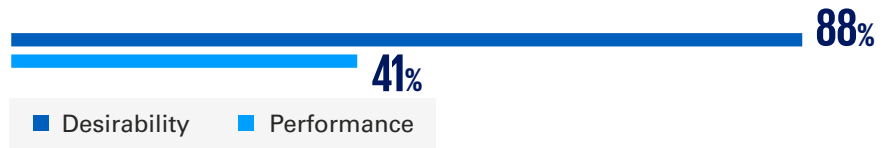
#### Mutuals MFI

Has the lowest interest rates



#### Non-Mutuals MFI

Has the lowest interest rates



## Redesign your service experience

### EXPERIENCE VS. TECHNOLOGICAL ADVANCED



## IMPORTANCE OF PERSONALISATION

I get special rewards and discounts



I receive personalised rewards and offers based on my banking needs



My website/app is personalised

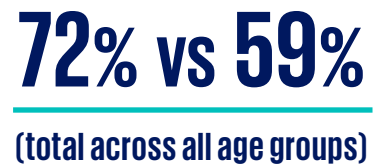


## GROWING IMPORTANCE OF PERSONALISATION

Digital personalisation is most important to the



Younger generation too want their banks to help manage their finances



(% ranking feature as extremely / very desirable)

## CUSTOMER AWARENESS OF MUTUAL BANKING PROPOSITION

Greater awareness of the mutual banking alternative is required to improve acquisition

of Australians aware of non-mutual banks

**99%**



aware of mutual banks

**78%**

Reflecting in comparatively low consideration levels for any new financial product or service.

Considering a non-mutual bank

**92%**



Considering a mutual bank

**31%**

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