Mutuals Industry Review 2024

Technology's role in a prosperous future

KPMG.com/au/mutualsreview

Contents

DARREN BALL
KPMG National Lead,
Mutual Banks

The 2024 financial year saw the Mutuals' overall operating profits before tax remain consistent with 2023, increasing by 0.32% (2023: 27.0% increase) to $775.2 million (2023: $772.7 million). The flow-through impact of high interest rates on Net Interest Margin resulted in an increase of 45bps to 2.45% on continued loan growth of 7.88% to $139.6 billion (2023: $129.4 billion).

Offsetting this, cost increases experienced during the year have resulted in the Mutuals' cost-to-income ratios increasing by 292bps to 78.5% (2023: 75.6%). The sector's capital adequacy increased by 11bps to 17.71% (2023: 17.6%) providing the ability to continue to invest in the business to enhance resilience, meet future regulatory requirements and modernise and simplify core member-facing processes.

Introduction

Many commentators believe that we are at the dawn of the next industrial revolution, one that will be led by advances in technology. It is difficult to believe that ChatGPT was first released in November 2022 – and ever since then, there would rarely have been a strategic, operational or regulatory conversation take place without generative AI being mentioned. However, for all that has been predicted about its transformative impact, making this a reality is the challenge currently facing all organisations.

The economic challenges of recent years show no sign of subsiding with continued softening economic conditions. Despite the recent high inflation levels reducing significantly over the last 12 months, there is still the need to see further and sustained reductions before the interest rate decrease cycle commences. There has been no abatement to the cost-of-living pressures on local communities. This means the Mutuals' focus must be more than how to support the communities they serve, but how can that be done while balancing the need to reduce costs, expand service offerings, modernise and simplify processes and protecting members from the ever-increasing threat of cyberattacks and financial crimes. It is clear that technology must play a role: the question is what to prioritise…

It is for this reason that the theme of our 37th KPMG Mutuals Industry Review is technology's role in a prosperous future.

In our review, we provide our analysis of the sector's results and key metrics over a five-year horizon. We also share the key insights the sector has provided us around strategic and operational imperatives. We then provide our observations as to how Mutuals can use technology to manage their regulatory requirements and protect against the threat of cyberattacks, and harness the power of AI through a focus on the quality of data – the old adage 'garbage in, garbage out' is still as relevant today as it ever has been. We also explore insights into the digital transformation agenda and how it can play a role in Mutuals adapting to changing member expectations. Finally, we consider the new ESG reporting standards that became mandatory in September 2024 and how these requirements can become a strategic advantage rather than just another overhead.

Mutuals that embrace the role of technology in meeting these challenges and see opportunities through leveraging their strong connection to the community, sense of purpose, and ability to embrace the possibilities of AI, will continue to grow sustainably.

We trust that you find this publication insightful and thank you to those Mutuals that completed our survey. It is your commitment and support that makes this review a reality and KPMG looks forward to supporting the sector to help your members thrive.

Preface

This report examines the performance and trends of Australia's customer-owned banks, building societies and credit unions (together, the Mutuals) as regulated by the Australian Prudential Regulation Authority (APRA).

It includes the financial results of 40 Mutuals for the 2024 financial year (2023: 45 Mutuals), which represents over 90% (2023: 99%) of the Mutual sector by total assets. The financial information, analysis and observations have been compiled from publicly available financial reports, APRA statistics and includes information from the prior year. In certain circumstances, data has been obtained directly from survey participants.

This report also includes the results of our qualitative survey, which asked Mutuals to share their views on the risks, challenges and opportunities they see the industry being exposed to. This year we had a response rate of 70% (2023: 70%). This reflects the Mutual sector's eagerness to come together, leverage experiences and operate in unity.

For the purposes of reporting we have often grouped the Top 10 Mutuals by total assets (the Top 10) as well as the remaining Mutuals (Mutuals excluding the Top 10). We have also made reference to the financial results of the Australian major banks (the Majors).

We would like to thank the survey respondents for their time, support and contribution to this report.

KPMG Mutuals Insights webpage and dashboard

Access our financial charts and graphs online via our webpage and dashboard tool

In our Mutuals Industry Review 2024, we have included a selection of our key financial analysis charts and graphs on our website with accompanying commentary.

Additionally, the KPMG Mutuals Insights Dashboard which accompanies this report contains all of our interactive charts and graphs that are underpinned by the publicly available financial data collected from Mutuals surveyed. This dashboard enables you to filter the data based on your own preferences and view the financial metrics for a particular year or segment of the mutual sector. You can also view metrics for an individual mutual in comparison to a peer group.

The interactive dashboard can be accessed via our website.

KPMG Mutuals Industry Review 2024 webpage

Year in review – 2024 highlights

0.32%

Operating profit before tax increased by 0.32% to $775.2m
(2023: $772.7m)

7.88%

Lending grew by 7.88% to $139.6b
(2023: $129.4b)

5.11%

Deposits grew by 5.11% to $137.8b
(2023: $131.1b)

2.02%

Non-interest income decreased by 2.02% to $310.7m
(2023: $317.1m)

45bps

Net interest margin increased 45bps to 2.45%
(2023: 2.00%)

292bps

Cost-to-income ratio increased by 292bps to 78.5%
(2023: 75.6%)

11bps

Average capital adequacy ratio increased by 11bps to 17.71%
(2023: 17.6%)

$7.9m

Increase in credit provisions to $187m
(2023: $179.1m)

4

Mergers completed
(2023: 2)

Key highlights from our 2024 Mutuals Survey

Top 3 contributors for growth:

69%
Better product pricing

66%
Customer centricity and offering new/tailored products

54%
Better customer service

Top 3 priorities for the next 3 years:

91%
Maintaining profitable and sustainable growth

32%
New members and market share growth and Digital transformation **(these 2 options were equal second ranking)**

29%
Mergers

Top 3 biggest risks:

40%
Information Technology, including cyber risk

26%
Funding sourcing and margin management

11%
Compliance and regulations

What do you see as the key technology challenges* in the next 3 years:

86%
Cyber

49%
Digitisation of products

35%
Productivity improvement

What do you consider your greatest competitor:

61%
Big 4 banks

29%
Banks in general (other banks)

6%
Other Mutuals

60%
of respondents feel confident about the 3-year growth prospects for Mutuals compared to 73% in 2023 and 75% in 2022.

* Note: Rankings are based on overall responses among the top 5 choices in this question.

76%

consider themselves prepared for a cyber event

(2023: 81%)

17%

anticipate being involved in merger activity during 2024

(2023: 19%)

26%

are considering the possibility

(2023: 19%)

What are seen as key differentiators?

39%

Personalised member service/experience

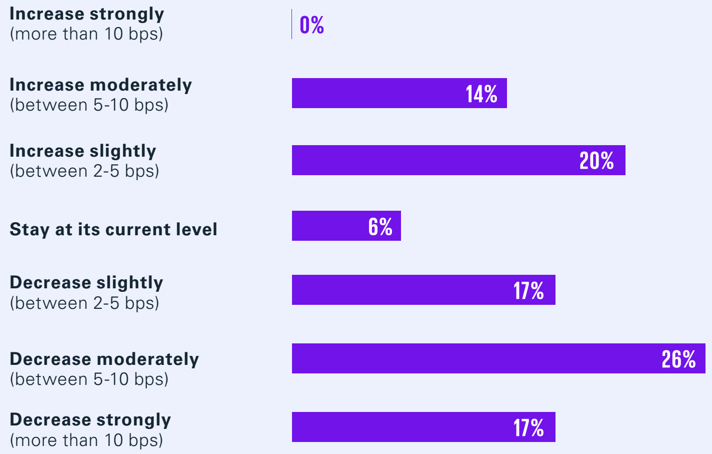
19%

Mutual structure/ ethical banking

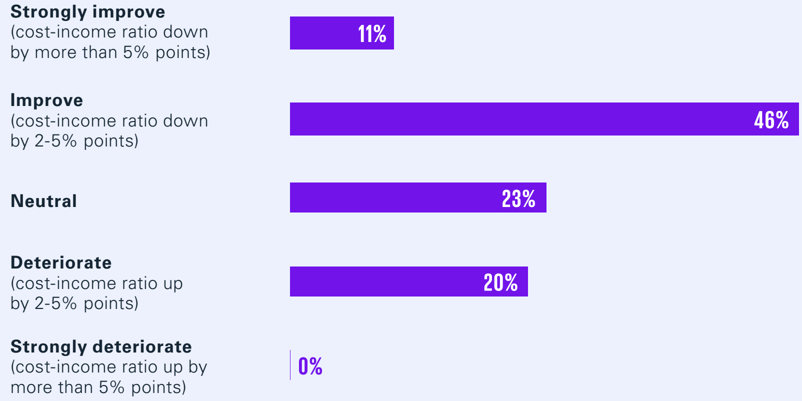
17%

Community involvement

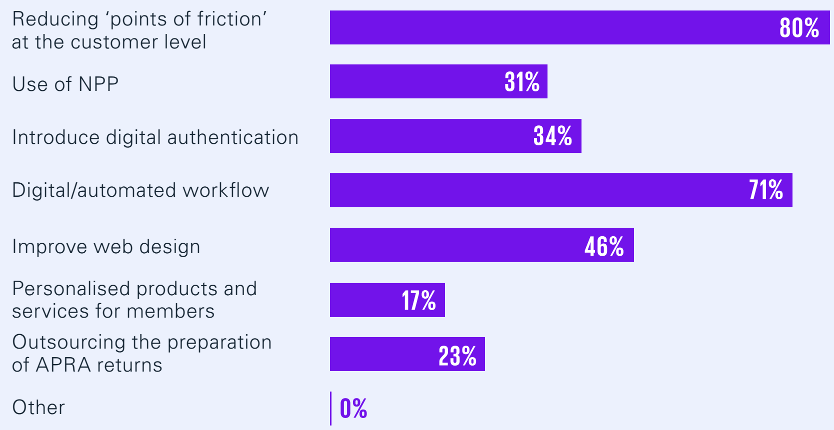
Future net interest margin expectations in the next 3 years



Cost efficiency development expectations in the next 3 years



Strategies to improve customer experience and costs



KPMG insights on key topics

LOUISE ROSE
Partner, Enterprise – Financial Services Industry Lead

Contributors:

Saurabh Shukla,
Partner, Consulting

Shane Lyell,
Partner, Enterprise

ARTICLE TOPIC: DIGITAL TRANSFORMATION

A digitised future for Mutuals

Digitisation isn't just a buzzword, it is a minimum requirement for Mutuals looking to thrive in this digital era. With evolving customer expectations, increasing competition, and the rapid pace of technological change, there is a need to embed security and trust in customer interactions with the bank. Mutuals must adopt digital strategies that position them for long-term success. Having long been known for their personalised service and community focus, digital transformation offers Mutuals the opportunity to stay relevant and competitive while delivering better services.

Adapting to changing customer expectations

Today's banking customers demand seamless, convenient digital experiences. They want to be able to manage their finances from anywhere, at any time, and expect their banks to provide intuitive, easy-to-use tools that make banking hassle-free. Modern digital tools are now a minimum expectation from customers, and Mutuals can leverage digital transformation to meet these expectations, offering mobile apps, online services and other digital tools that empower customers.

The goal is to ensure that digital engagements with customers enhance the personal touch that Mutuals are known for. By investing in advanced mobile banking platforms, Mutuals can offer features like instant product application through to approval, real-time spending insights, and full-function mobile banking. Mutuals can leverage customer data to offer personalised services, tailored product recommendations, and provide targeted financial advice. This level of customisation fosters deeper relationships with customers and builds loyalty.

Modernising banking systems

At the heart of digital transformation is the modernisation of core banking systems. Many Mutuals are still reliant on legacy systems that are difficult to maintain, costly to operate, and have significant complexity to support the integration of modern digital services. By upgrading to cloud-based, agile core systems, Mutuals can significantly reduce operational costs, improve efficiency, and provide a more seamless customer experience.

This modernisation allows for faster service delivery and creates the flexibility to scale and adapt as new technologies emerge. It enables Mutuals to process transactions more efficiently, provide real-time updates to customers, introduce new services with minimal disruption and help Mutuals comply with evolving regulations, ensuring they remain competitive and compliant.

Historically, the sector has been dominated by Ultradata and Data Action solutions, which are investing in and evolving their platforms. The sector is also moving towards cloud-based, composable solutions. As a result, new challengers entering the market – Fintechs such as Simpology, Backbase, Constantinople, and Nimo – are gaining a foothold, each with its own unique technology offering for customer origination and servicing.

Selecting the right partner(s) for the future is critical and this depends on each mutual having clarity on its organisational strategy, future operating model and how this aligns with its technology strategy and approach.

How to empower your organisation

A successful digital transformation is dependent on the people in the organisation embracing the technology and adopting a digital mindset. This requires a considered approach to change management.

There are some factors unique to Mutuals when considering change: firstly, Mutuals often have a long-tenured workforce where personal and community focus has been paramount and where face-to-face work is predominantly done. So leaders need to invest in shifting their employees' mindsets, helping them feel comfortable building relationships using digital channels and maximising data-driven insights to inform their decision-making.

Secondly, Mutuals have a strong regional footprint in Australia. In regions, the fear of job loss from automation is often more pronounced than in a city due to a lack of comparable nearby employers. Transparency around the transformation goals and the roles people will play is incredibly important.

Overcoming challenges

Digital transformation comes with its challenges. Mutuals often face hurdles such as limited budgets, regulatory constraints, implementation challenges of orchestrating multi-year complex transformation while harnessing new technology, and resistance to change. To overcome these, Mutuals must approach the transformation strategically, prioritising initiatives that offer the greatest return on investment while ensuring compliance with APRA and other industry regulations. Collaboration with a strategic adviser and technology partners can help Mutuals navigate these challenges.

A future-ready bank

For Mutuals, digital transformation is more than just adopting new technologies; it's about reimagining how they serve their members and operate in an increasingly digital world. Increasingly organisations are transforming incrementally, as opposed to the historical 'big bang' approach. This ensures that value is derived for members at regular intervals and provides an opportunity to adapt and evolve to an ever-changing environment. By embracing digital transformation, Mutuals can deliver on their members' evolving needs, drive operational efficiency, and position themselves for a prosperous future.

Why KPMG for digital transformation

KPMG invests significantly in capabilities that provide innovative digital transformation solutions for Mutuals. KPMG's nuanced understanding of the digital banking landscape enables us to adeptly navigate the complexities of digitisation, especially within the stringent regulatory framework of the Australian banking sector. Regardless of your organisation's size or technological platform, we have delivered customised strategies and comprehensive solutions from strategy through to implementation.

Our approach integrates services throughout planning, prioritisation, and delivery, ensuring that transformations are not only technologically robust but also drive business growth and resilience while engaging your members and employees. Our comprehensive support for Mutuals on their digital transformation journey includes:

- strategic planning and prioritisation, including end-to-end transformation program management
- customer experience design
- operational efficiency solutions
- transformational change and employee experience design
- secure and resilient technology implementation of AI, data and cloud-based solutions
- account and engagement management mechanisms.

FRANCINE HOO
Director, Enterprise

Contributor:
Kar Lim,
Partner, Enterprise

ARTICLE TOPIC: AI

Enhancing Mutuals' success with AI, data and automation

Using technology and innovation to find better ways of working is something organisations should embrace. Yet the overwhelming idea of diving headfirst into significant data, automation or artificial intelligence (AI) transformation can often stop organisations from starting a valuable and beneficial data transformation. Fortunately, it doesn't have to be all or nothing.

Where should we start?

To answer this, an organisation should first ask:

What is the problem we are trying to solve?

Technology transformation for Mutuals might involve:

AI – technologies that automate and enhance tasks, potentially improving efficiency and accuracy. For Mutuals, AI might be used for activities like risk assessments, fraud detection, and customer service.

Data insights – using data analysis to inform strategic decision-making. For Mutuals, this could involve analysing members' behaviour data to inform product development or marketing strategies, or analysing financial data to inform risk management strategies.

Automation – using technology to automate routine tasks, potentially improving efficiency and reducing the risk of human error. For Mutuals, this could involve automating tasks like transaction processing or report generation.

Each of these areas have distinct features, but they are often interconnected.

While AI is a hot topic, it is just as important to recognise that it may not be the right solution to every problem. The benefits of AI are derived from problem areas that involve highly repeatable processes or questions, are susceptible to manual error, or require time-intensive generation of content or interrogation of data.

Generative AI has also made AI more popular, and with its ability to generate reports, images, videos in minutes, it's easy to see why. Gen AI also offers comfort to organisations through standardised benchmarks and controls.

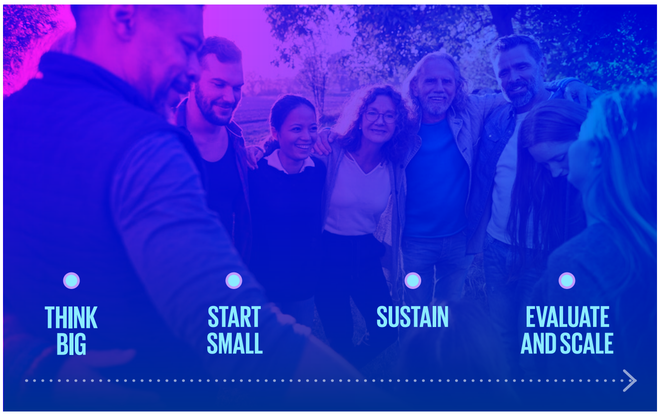
However, before deciding whether an AI, automation or data insights solution will be the best fit for your organisation and the problem statement, consider that each will require a solid data management and ethical use foundation plus a great user experience strategy to ensure it does no harm.

No two organisations are the same

While organisations often benchmark against others, it is important to recognise they can be at different data and technology maturity levels. So, a fit-for-purpose approach cannot be underestimated in the success of technology transformation. Acknowledging your organisation's maturity stage is very important for successfully achieving the desired outcomes with data, automation and AI. If you don't know your assets or your challenges, how can you strategise towards success?

A strategic approach to technology transformation

Think big, start small. This strategy will identify all the possibilities of productivity gains, better client or employee experience, risk management and other opportunities, while enabling digital uplift in a risk-measured way.



Think big

Strategise. Consider the prioritised business problem(s) to be strategised with the use of data, automation or AI. The strategy should be fit for purpose and driven by your organisation's financial and risk appetite. A good stress test for the strategy is whether you are able to define measures of success. This should include the benefit derived from the program, the health of the program implementation and ongoing business-as-usual sustainment.

Start small

Build. Once you have strategised and determined which data, automation or AI technologies to pursue, it's time to select and build a minimum viable product (MVP). It is important to be able to show the program's progress to build stakeholder trust – defining and measuring KPIs is an important component here.

Data, automation or AI programs should also consider operationalising sustainment, which includes transparency and explainability around how your organisation is using data, and its impact to people and the planet. Consideration of the controls are key to ensuring you can demonstrate how your organisation is ensuring safety and reliability of data throughout its lifecycle.

Sustain, evaluate and scale

Once the program is complete, it is just the beginning of the journey. Maintenance and monitoring frameworks should integrate with the existing regulatory, risk and technology framework.

At the point an organisation is sufficiently informed and experienced on the build and frameworks for sustainment, evaluating the learnings from the MVP will inform decisions for the next MVP and scaling of your digital strategy through data, automation and AI.

Trustworthy and responsible use

Underpinning technology advancements are human decisions and actions. People make the decisions that build the solutions, and as such, have the responsibility to protect people and planet from any misuse of technology. Controls to keep people and planet safe should be considered throughout your program and built into your sustainment.

The Federal Voluntary AI Safety Standard outlines 10 guardrails that can act as an anchor for Mutuals as you frame up your approach to responsible and trusted AI.

Why KPMG for a Trusted technology approach

Staying abreast of the advancements in technology can be challenging, but with KPMG's support, Mutuals can transform with confidence.

We proudly lead the charge in AI excellence as the first firm globally to receive ISO 42001 certification by BSI for AI Management Systems.

We leverage our extensive expertise in strategic support, alongside insights from our Trusted AI Framework and cutting-edge digital tools, to ensure that AI, data or automation deployment is ethical and responsible. This strategic backing enables companies to expand and innovate with assurance, ensuring they harness technology effectively while prioritising human values.

Questions to consider

Think big

- What are the processes needing improvement?
- Which improvements need technology (e.g. AI)?
- What does it take to bring it to life?
- How can it be made safe and reliable?
- Are you happy with the return on investment?
- How will success be measured (e.g. benefit, implementation, sustainment)?
- What does it take to sustain the operation, ensuring technology and outcomes adjust with an evolving landscape?

Start small

- Which MVP should your organisation start with?
- What is the measure of success for the MVP, i.e. outcomes and user experience?
- How will you operationalise the MVP into your business across people, process and technology?
- How will you ensure good data and technology foundations to maintain and optimise benefits from data, automation and AI solutions?
- What infrastructure are you using to ensure transparency for clients and staff around the safe and reliable use of data, automation and AI protection of people and planet?

Sustain

- How will you maintain and monitor for:
  - ongoing effectiveness
  - compliance
  - risk
  - responsible and reliable use
  - safety and security?

Evaluate and scale

- Are you happy with the MVP?
- What will you need to start/stop/continue with current practices?
- Do you want to continue?
- What is the next MVP?

Many of us can recall the days before the internet existed, but often overlook how integral it has become to our daily routines. Similarly, our advancements in technology – such as data insights, automation, and AI – will eventually also become second nature.

BIANCA SARTORI-SIGRIST
Associate Director, ESG
Advisory & Assurance

Contributors:

Elyse Vaugahan,
Manager, ESG Social

Andrew Mastroianni,
Senior Consultant, ESG Social

Amy Coney,
Consultant, ESG Social

Veronika Emetc,
Associate Director, Climate Change and Sustainability

ARTICLE TOPIC: ESG

Climate change exacerbating customer hardship

Opportunities within navigating climate risk and reporting while supporting customer resilience

In today's economic environment, with interest rates and the cost of living squeezing Australians' budgets, financial stress and hardship are all too common. When coupled with the increase in climate-driven hazards, customer vulnerability is further exacerbated.

The legislative and regulatory environment presents related obligations for the mutual banking sector. Between ASIC's focus on the handling of customers experiencing vulnerability and hardship, and the upcoming mandatory climate reporting under Australian Sustainability Reporting Standards (AASB S2), Mutuals are searching for effective strategies to meet their obligations while continuing to deliver strong outcomes for their members and communities.

The innovative and responsible use of technology can play a significant part here, presenting the opportunity to resolve data, efficiency, and productivity challenges while helping realise positive social impact possibilities.

> 'ASIC reminds lenders that they must have the right arrangements in place to respond to requests for assistance from customers experiencing financial hardship and to work constructively with them to find a sustainable solution.'
>
> **DANIELLE PRESS**
> ASIC Commissioner[1]

Shared impacts of climate events

Climate change is already having profound and growing impacts across Australia, affecting infrastructure and assets through extreme weather events. Long-term shifts such as rising sea levels and changing precipitation patterns are further exacerbating these risks. These climate events disrupt communities, destroy homes and businesses, and cut off key transport networks, leading to significant social consequences. Health issues, worsened social inequalities, increased poverty, displacement, and strain on social and economic systems are common outcomes.

Climate risk mitigation

Mutuals can play a vital role in building customer and community climate resilience through specialised financial products, educational initiatives, and timely support during climate events. Measures include ensuring continuity of banking services, adopting people-centred processes for post-event recovery, and connecting customers with other service providers, such as government agencies that are mobilising relief packages and non-governmental organisations offering housing and meals.

[1] As cost of living pressures persist ASIC calls on lenders to support customers in financial hardship, ASIC, 30 August 2023

Readiness for climate reporting aligned with ASRS

As Mutuals prepare for mandatory climate reporting, integrating climate risk management into broader sustainability strategies becomes crucial. Key areas include:

- Enhanced transparency: clear and detailed reporting on sustainability initiatives and their impacts.
- Climate risk management: embedding climate risk assessments in regular reporting frameworks, monitoring all climate risks and developing risk mitigation measures to ensure preparedness and resilience.
- Sustainable product development: crafting financial products that support sustainable outcomes.

Technology, data and AI as part of the solution

Advanced technology, data analytics, and AI offer significant advantages for Mutuals across the following areas:

- Risk prediction and assessment: machine learning can forecast regions and customers at higher risk from climate impacts, including predictive analytics for mortgage stress and default probabilities.
- Customer engagement: AI-driven communication tools can proactively contact customers, raise awareness of climate risks, and provide education.
- Early warnings: real-time data systems can monitor climate events and predict their economic impacts on specific customer segments.
- Automate hardship claims: the process of filing and managing hardship support requests can be streamlined using AI and automation.

When leveraging technology and AI, Mutuals should carefully consider their environmental impact, such as the energy consumption associated with AI technologies. Mutuals can also adopt a human-centred approach, as detailed in the Federal Voluntary AI Safety Standard to mitigate unintended harm to people. These efforts can be aligned with the bank's transition plan to sustainability.

Did you know?

There has been a

28% increase

in calls to the National Debt Hotline in 2023 compared to 2022.[2]

48%

of respondents to KPMG's Global Technology Report 2023 reported advancing ESG priorities, through technology, was a key innovation goal.[3]

'Mutuals play a critical role building the prosperity of their communities, and climate resilience is a growing part of this. Technology solutions can enhance how Mutuals understand, manage, and report on climate risk and events, ultimately driving improved outcomes for members and sustainable value creation.'

BIANCA SARTORI-SIGRIST,
Associate Director, ESG Advisory & Assurance, KPMG Australia

2 Letter to CEOs on supporting consumers experiencing financial hardship, ASIC, 30 August 2023

3 KPMG Global Tech Report 2023, KPMG International, September 2023

Next steps for Mutuals

KPMG's ESG Assurance and Advisory team work closely with financial institutions in managing financial hardship and climate-related risks. Our comprehensive services span policy development, climate risk assessments, staff training, data governance, and technology integration, ensuring your organisation is proactive, compliant, and prepared to address emerging challenges.

Technological advancements in data analytics and technologies such as AI, present valuable opportunities for Mutuals to better predict risks, engage with customers, and streamline processes, thereby improving support during climate-related events and financial hardships.

From our experience, customer-owned banks should look to take the following steps to appropriately integrate technology to manage their climate risks exacerbating customer hardship.

What Mutuals can do today

- Adjust policies and strategies to support customers through all financial hardship categories, including climate change.
- Develop intervention strategies, including tailored communication and engagement strategies.
- Ensure staff are well trained and empowered to recognise, respond to, and manage hardship cases and apply bespoke treatment strategies.
- Establish customer segment analysis to identify 'at risk' customers and monitor health of customer portfolios, including assessing for this purpose.
- Ensure compliance with AASB S2 by embedding climate risk assessments and providing transparent, detailed reporting on sustainability initiatives and their impacts.
- Ensure climate risk measures incorporate the latest technologies and include these in your Australian sustainability reporting standards strategy disclosures.
- Ensure data strategy and governance considers opportunities to collect, store and maintain climate risk related data.

What Mutuals can do next

- Revise governance and risk management frameworks to ensure support for customers affected by climate change.
- Measure and monitor outcomes of customers in financial hardship and continuously improve.
- Utilise analysis and early warning indicators for capacity planning.
- Create feedback loops from analysis of hardship into the product design and distribution functions.
- Assess the longer-term impacts of forbearance mechanisms on financial health.
- Integrate advanced technologies and robust data strategies for climate risk management, including predicting climate risks and managing customer portfolios.
- Continuously measure the outcomes of hardship interventions, using insights to refine strategies and inform product innovation.

By taking these actions, Mutuals can better address the financial challenges posed by climate change, comply with regulatory requirements, and enhance outcomes for their customers.

DOMINIKA ZERBE-ANDERS
National Cyber Partner, Enterprise

Contributors:

Jay Hira,
Director, Consulting

Gordon Pereira,
Director, Enterprise

ARTICLE TOPIC: CYBER

Ahead of the curve: cyber resilience for Australian Mutuals

Australia is one of the few developed markets with a thriving customer-owned banking sector. Mutuals play a vital role in the financial services landscape, with over 55 in operation, serving more than five million Australians, and holding close to $180 billion in assets. Their unwavering commitment to 'purpose in banking' and members' best interests has fostered a strong foundation of trust.

However, this trust faces a growing challenge: the rapidly evolving cyber threat landscape in an increasingly interconnected digital world. Coupled with the proliferation of threat attacks, rapid changes in the geopolitical landscape of cyber warfare and the cosmic acceleration of synthetic media, AI and deepfakes, the industry must stay ahead of these threats to protect their operations and maintain trust with their customers.

Mutuals as targets for cybercrime

Mutuals are often perceived as more vulnerable due to their smaller size and potentially limited resources. Recent high-profile cybercrime breaches in Australia have sent shockwaves through the industry, highlighting the devastating impact of cyberattacks on reputation, financial stability, and member trust. Some of the most relevant threats facing the sector include:

- **Ransomware attacks:** the most common form of cyberattack, where cyber actors encrypt your critical data to demand a financial ransom for its release.
- **Phishing scams:** tricking employees and members into revealing sensitive information through deceptive emails, websites, phone calls or text messages – 3.4 billion phishing emails are sent daily.
- **Data breaches:** unauthorised access to confidential member data, potentially leading to identity theft and financial loss. The global average cost of a data breach has increased by 10% this year to reach $7.43 million.
- **Human-centric compromise:** 74% of all data breaches involve an element of human error or intervention. Whether malicious insiders or innocent staff member, employees are likely to create significant cyber vulnerabilities for organisations if they are not a key focus of cyber security initiatives.
- **Supply chain attacks:** compromising third-party vendors to gain access to Mutuals' systems and data.

To prepare for cyber threats, it is critical for Mutuals to assess their current security posture and awareness of threats. To do so, Mutuals will need a proactive and strategic approach aligning with their business objectives.

A roadmap for the cyber threat landscape

1. **Embrace a risk-based approach**
   - Conduct a comprehensive cyber risk assessment to identify your vulnerabilities and prioritise mitigation efforts.
   - Focus on protecting your most critical assets and sensitive data, such as member information, financial records, and intellectual property.
   - Establish clear definitions for what constitutes a material supplier risk, control weakness, or critical component to ensure a consistent and targeted approach.
2. **Invest in cyber hygiene**
   - Strengthen your foundational security controls – implement robust patch management processes, multifactor authentication, and cyber security education.
   - This requires a commitment to proactive security measures and continuous employee education.
3. **Prioritise zero trust principles**
   - While a full-scale zero trust adoption may be a long-term goal, you can prioritise key principles to enhance their security posture.
   - Verify every access request, operating on the principle that no user and device can be inherently trusted, enforce least privilege access, implement micro-segmentation, and continuously monitor your environment for threats.
4. **Enhance threat detection and respond with speed and force**
   - Early detection and rapid response are crucial in minimising the impact of cyberattacks.
   - Consider cost-effective solutions, incident response services, shared threat intelligence platforms, or partnerships with a managed security service provider (MSSP) to bolster your defences.
5. **Safeguard the ecosystem with a focus on third-party risk management**
   - Assess the security posture of your third-party suppliers and ensure they meet your cyber security standards.
   - Implement robust contractual obligations and monitoring mechanisms to mitigate risks.
   - The security of your community depends on your own defences *plus* the strength of your partnerships and collaborations.
6. **Adopt a cyber resilience mindset**
   - Evolve your approach from cyber security to cyber resilience by building capability to prepare, respond to, and recover from a cyber threat.
   - Develop and regularly test your incident response, crisis management and business continuity capabilities.
   - Ensure your organisation response plans include procedures for crisis communication, stakeholder management, decision-making, containment, eradication, recovery, and lessons learned.
7. **Foster a culture of cyber security**
   - Move beyond simple compliance training and phishing campaigns to adopting immersive and engaging cyber security activities which play a vital role in building a strong cyber-conscious culture.
   - Establish key metrics for quantifying human risk and tracking ROI on your cyber culture initiatives.
   - Focus on measurable and sustainable behaviour change by establishing an annual calendar of cyber activities.
   - Tailor your training program to employee responsibilities to ensure staff receive targeted and risk-based training that applies to their daily roles.

How KPMG can support Mutuals in driving cyber resilience

At KPMG Australia, we understand the challenges of the financial services sector. Our team of cyber professionals have extensive experience working with Mutuals across Australia and are dedicated to helping you navigate cyber security complexities and protect your members' trust.

KPMG can help you:

- Assess your current cyber security capability maturity and identify the roadmap for improvement against your risk appetite and industry requirements.
- Develop a tailored cyber security strategy that aligns with your business objectives, strategic organisational and digital initiatives and reduces organisational risk.
- Embed a strong resilience capability by developing crisis management, incident response and business continuity plans.
- Simulate your crisis management and cyber response capability to validate plans and exercise team response, management and recovery skills.
- Establish a behaviour-changing training program to uplift employee and member awareness of cyber by utilising innovative activities such as persona-based training, cyber escape rooms, next-gen compliance training, and data-driven human risk reporting.
- Support you in your time of greatest need with incident response capabilities that include incident investigation and management, compromise assessment and threat hunting, cyber intelligence services and post incident reviews.

RICHARD DONALDSON
Partner, Risk Services

Contributors:

Samantha Hamilton,
Manager, Governance,
Risk and Compliance

Geoffrey Meng,
Consultant, Governance,
Risk and Compliance

ARTICLE TOPIC: TRUST

Three key regulations for Mutuals to watch

There are multiple regulatory updates on the horizon that will impact Mutuals, so it is more important than ever to understand how your organisation may be affected and what you need to do to remain compliant, while building trust with your members.

Three key regulations to watch for are:

1. CPS 230 OPERATIONAL RISK MANAGEMENT
2. THE AUSTRALIAN PRIVACY ACT REFORMS
3. VOLUNTARY AI SAFETY STANDARD

1. CPS 230 Operational Risk Management

The July 2025 rollout of APRA's CPS 230 regulation is looming closer. And, as we heard from APRA at the 2024 COBA conference, resilience in the banking sector is one of its main focus areas. CPS 230 aims to bolster the operational resilience of APRA-regulated entities, including Mutuals, by setting new standards in operational risk management, business continuity, and service provider oversight.

Some of the priority areas on your journey to CPS 230 compliance should include the following:

Impact assessment and preliminary Target Operating Model

- Perform an impact assessment to identify gaps in CPS 230 compliance.
- Use your future state operating model to guide your implementation and measure if the new requirements are embedded and sustainable.

Critical operations identification and end-to-end process and resource mapping

- Develop a framework for classifying and prioritising critical operations.
- Document end-to-end processes including resources, risks, controls and obligations.

Disruption tolerance methodology development

- Consider the inputs and data sources required to determine your organisation's disruption tolerances.
- Identify gaps between tolerance levels and recovery capability.

Service provider arrangement management methodology and program development

- Create a methodology and operating program to identify, assess, classify and manage service providers.

2. Australian Privacy Act reforms

The *Privacy Act 1988* (Cth) (Privacy Act) focuses on organisational data management practices, to ensure the protection of individuals' privacy and understanding of user consent. The first part of the Privacy Act reforms represent a significant change in the actions expected of impacted organisations,[4] ensuring your members' privacy is properly respected and protected.

Proposed reforms include:

- Clarifying that 'reasonable steps' to protect information in APP 11[5] includes technical and organisational measures.
- Facilitating disclosures to overseas recipients by prescribing countries and binding schemes that are substantially similar to Australia.
- Capturing technical advancements in privacy policies, by requiring entities to disclose the types of personal information used within privacy policies, as well as the decisions made by computer programs that could significantly affect individuals' rights or interests when using automated decision-making technology.
- Empowerment of the Office of the Australian Information Commissioner through a broader range of enforcement options, including new civil penalties tailored to the seriousness of a privacy breach.

3. Voluntary AI Safety Standard

The Australian Government is committed to pursuing a risk-based approach to artificial intelligence (AI), with the release of the Voluntary AI Safety Standard, as well as some upcoming mandatory guardrails for AI in high-risk settings. As AI proliferates across Australian financial services, including in Mutuals, it will be critical to demonstrate to members and regulators how AI use cases are being responsibly governed.

The following should be considered prior to embarking on an AI governance journey:

Strategy alignment

- Is your organisation already using AI?
  - If yes, where and what controls exist to mitigate unique AI risks?
  - If no, will integrating AI into your organisation's business processes address a strategic need?
- How can existing policies and processes, including in the areas of risk, procurement, data management, privacy and security, be uplifted to reflect AI-specific concerns, or if new policies and processes are required?

Risk exposure and prioritisation

- What AI solutions are already in use by the organisation?
- What is the risk profile of the current or expected first-order use cases the organisation will pursue, particularly considering the unique risks associated with AI and potential harm to people?

Organisational structure, skills and training

- Who are the key stakeholders to be engaged in the development and ongoing implementation of the AI governance process?
- What gaps need to be filled in the current skillsets of employees and leadership?

Tooling, continuous improvement and monitoring

- Has an escalation protocol been defined and documented for raising ethical concerns associated with the organisation's procurement, deployment and use of AI?
- Does your organisation have ongoing reporting and monitoring mechanisms in place?

[4] The Privacy Act 1988 applies to Australian Government agencies and organisations with an annual turnover of $3 million or more.

[5] Australian Privacy Principle 11 (APP 11) protects personal information by imposing specific obligations on both agencies and organisations which hold that information. The principle also provides that entities take reasonable steps to destroy or de-identify the personal information once it is no longer needed. The Companion Guide noted that keeping personal information for only as long as 'reasonably necessary is an effective way of reducing the risk that it may be mishandled'. In addition, these obligations are in line with international best practice on privacy protection.

Why KPMG for trust and regulation support

As we approach the start dates for these regulations, Mutuals will need to understand the gaps between their current state and their regulation-ready state. We can support your organisation on this transformative journey, ensuring it is well-prepared to meet the regulatory demands and uphold the trust of your stakeholders. Our services include:

CPS 230

- Project design, establishment, and governance
- Gap/impact assessment
- Target Operating Model
- Policies and frameworks
- Training and education
- Critical operations methodology and disruption tolerance setting
- Mapping key resources and plausible scenarios
- Service provider management
- Business and technology resilience
- Build monitoring and board reporting
- Change management and operationalisation

PRIVACY

- Data Protection Navigator: our innovative new digital tool for smart insights and to help manage emerging complexities in data and privacy
- Current and future-state regulatory management
- Local and global gap analysis
- Records management: framework design, implementation and analysis
- Third-party assessments
- Privacy training

RESPONSIBLE AI

KPMG's bespoke Trusted AI Governance Framework includes:

- Gap analysis and recommendations based on your existing AI governance framework
- Target Operating Model and responsible AI principles defined
- Policies and procedures uplift
- Data and infosec management criteria established
- Risk governance methodology
- AI risk oversight committee established
- AI use case inventory framework developed
- Training and communication

Acknowledgements

Article authors

Louise Rose
Partner, Enterprise –
Financial Services Industry Lead
lrose2@kpmg.com.au

Bianca Sartori-Sigrist
Associate Director,
ESG Advisory & Assurance
bianca1@kpmg.com.au

Richard Donaldson
Partner, Risk Services
rjdonaldson@kpmg.com.au

Francine Hoo
Director, Enterprise
franhoo@kpmg.com.au

Dominika Zerbe-Anders
National Cyber Partner,
Enterprise
dzerbe@kpmg.com.au

Article contributors

Saurabh Shukla, Partner, Consulting

Shane Lyell, Partner, Enterprise

Kar Lim, Partner, Enterprise

Elyse Vaughan, Manager, ESG Social

Andrew Mastroianni, Senior Consultant, ESG Social

Amy Coney, Consultant, ESG Social

Veronika Emetc, Associate Director, Climate Change and Sustainability

Jay Hira, Director, Consulting

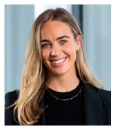
Gordon Pereira, Director, Enterprise

Samantha Hamilton, Manager, Governance, Risk and Compliance

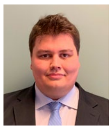
Geoffrey Meng, Consultant, Governance, Risk and Compliance

Report contributors

Llewelin Gwekwete



Celia Reid



Jake Muysken

Brendan Rheinberger

Wendy Chew

Zachary Hale

Contact us

Darren Ball
National Mutuals Lead
T: +61 8 8236 3197
E: darrensball@kpmg.com.au

David Heathcote
National Sector Leader – Banking & Capital Markets
T: +61 2 9335 7193
E: dheathcote@kpmg.com.au

Carmel Mortell
VIC Mutuals Leader
T: +61 3 9288 5845
E: cmortell@kpmg.com.au

Heather Hicks
TAS Mutuals Leader
T: +61 3 6230 4077
E: hhicks@kpmg.com.au

Scott Guse
QLD Mutuals Leader
T: +61 7 3233 3127
E: sguse@kpmg.com.au

Quang Dang
NSW Mutuals Leader
T: +61 2 9335 7214
E: qdangngoc@kpmg.com.au

Kevin Smout
WA Mutuals Leader
T: +61 8 9263 7105
E: ksmout@kpmg.com.au

Neil Ediriweera
SA Mutuals Leader
T: +61 8 8236 3254
E: nediriweera@kpmg.com.au

Louise Rose
Newcastle Mutuals Leader
T: +61 2 9335 8103
E: lrose2@kpmg.com.au

Adam Bird
Wollongong Mutuals Leader
T: +61 2 4231 7960
E: abird2@kpmg.com.au

Deborah Arghyros
Gold Coast Mutuals Leader
T: +61 7 5577 7498
E: darghyros@kpmg.com.au

KPMG.com/au/mutualsreview

November 2024. 1491605103FS.