Mutuals Industry Review 2025

Prosperity through purpose

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Contents

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The 2025 financial year saw the Mutual banks overall operating profit before tax increase by 14.5% (2024: 0.77% increase) to $844.1 million (2024: $737.1 million). This was achieved despite a 23bps decrease in net interest margin to 2.28%, driven by an 8.7% growth in deposits and a 10.7% increase in non-interest income. This has enabled continued strong loan growth of 8.2% to $145.8 billion (2024: $134.8 billion). Despite this, continued cost increases during the year has resulted in the Mutual banks cost-to-income ratios increasing by 135bps to 78.15% (2024: 76.8%). The sector's capital adequacy ratio continued its recent trend, increasing by 28bps to 18.31% (2024: 18.03%) providing the ability to continue to invest in technology to enhance resilience, meet future regulatory requirements and modernise and simplify core member-facing processes.

Foreword

Mutual banks in Australia are at a crossroads. Persistent margin pressure, rising regulatory expectations, and the need to modernise member experience are making it increasingly difficult for Mutual banks to compete at scale. These challenges are driving a wave of mergers across the sector, as organisations seek to pool resources, streamline operations, and strengthen their ability to invest in technology and innovation.

The last 12 months have seen the long-awaited start of the interest rate reduction cycle. While there have been three rate cuts since our last report was released, resulting in a 75bps reduction in the cash rate, economic commentary is mixed as to when, how much and in which direction rates will move over the next 12 months. Notwithstanding this, we saw a significant reduction in market lending rates, for which the Mutual banks were leading the way. One of the first lenders to offer a rate starting with a '4' was a Mutual bank.

In a world of unprecedented global challenges, such as the role of tariffs, international conflict and erosion of trust in established organisations there has never been greater uncertainty. This is amplified at an Australian level with continued cost-of-living pressures, house prices continuing to grow impacting affordability, and slowing employment growth. Your members are looking for a trusted partner to help them navigate their financial needs. The Mutual banks' strong sense of purpose, commitment to supporting your members and their communities, and established reputation for putting members at the centre of decision-making ideally places the sector to be that trusted partner.

It is for this reason that the theme of our 38th KPMG Mutuals Industry Review is *Prosperity through purpose*.

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 Mutual banks can protect against the threat of cyberattacks and harness the power of AI through collaboration. 2025 saw a significant increase in the number of mergers within the sector, and the results of our survey indicate that this is not expected to change in the short term. In this context we have provided our insights as to what is imperative to successful consolidation and how the finance function can evolve to play a role in achieving this. Finally, recognising the need to continue to modernise how the sector uses technology, we have provided our insights into how to do more with less through digitisation.

Mutual banks 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 generative AI will continue to grow sustainably.

We trust that you find this publication insightful and thank you to those Mutual banks that completed our survey. It is your commitment and support that makes this review a reality and KPMG looks forward to supporting the sector prosper through purpose.

Year in review – 2025 highlights

14.5%

Operating profit before tax increased by 14.5% to $844.1m
(2024: $737.1m)

8.2%

Lending grew by 8.2% to $145.8b
(2024: $134.8b)

8.7%

Deposits grew by 8.7% to $144.3b
(2024: $132.8b)

10.7%

Non-interest income increased by 10.7% to $325.5m
(2024: $294.1m)

23bps

Net interest margin decreased 23bps to 2.28%
(2024: 2.51%)

135bps

Cost-to-income ratio increased by 135bps to 78.15%
(2024: 76.8%)

28bps

Average capital adequacy ratio increased by 28bps to 18.31%
(2024: 18.03%)

$6.8m

Increase in credit provisions to $185.8m
(2024: $179m)

7

Mergers completed
(2024: 4)

Key highlights from our 2025 Mutual banks Survey

Top 3 contributors for growth:

64%
Better product pricing

64%
Better customer service

61%
Customer centricity and offering new/tailored products

Top 3 priorities for the next 3 years:

86%
Maintaining profitable and sustainable growth

39%
Digital transformation

32%
Aquisitions & Mergers and Managing margins and interest rates (these 2 options were equal third ranking)

Top 3 biggest risks:

50%
Information Technology, including cyber risk

36%
Funding sourcing and margin management

25%
Competition

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

68%
Cost reduction

57%
Innovation

46%
Piloting emerging technologies

What do you consider your greatest competitor:

71%
Big 4 banks

17%
Brokers

13%
Banks in general

79%
of respondents feel confident about the 3-year growth prospects for Mutual banks compared to 60% in 2024 and 73% in 2023.

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

89%

consider themselves prepared for a cyber event

(2024: 76%)

29%

anticipate being involved in merger activity during 2025

(2024: 17%)

21%

are considering the possibility

(2024: 26%)

What are seen as key differentiators?

21%

Mutual structure/ ethical banking

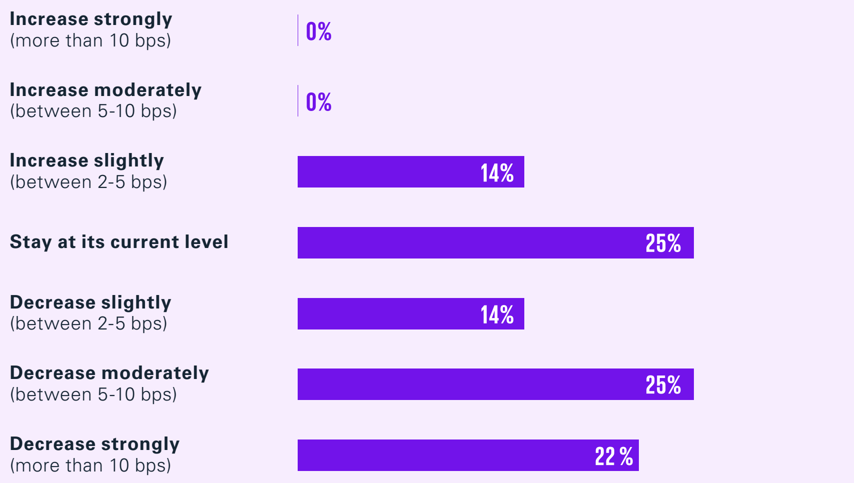
20%

Member experience

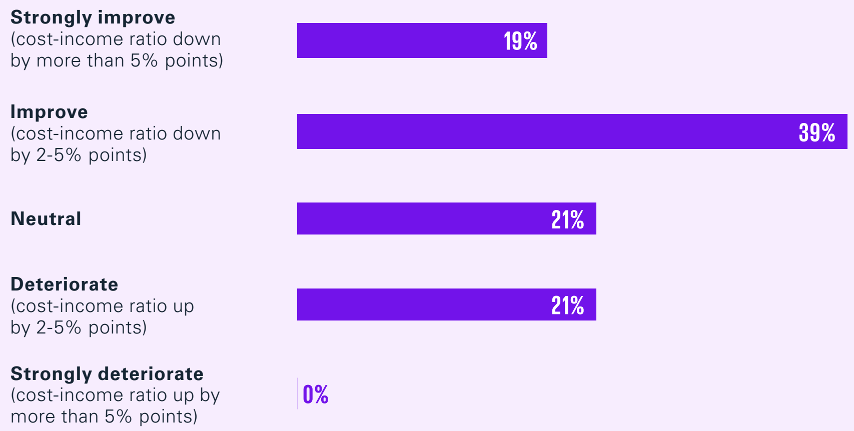
17%

Personalised services

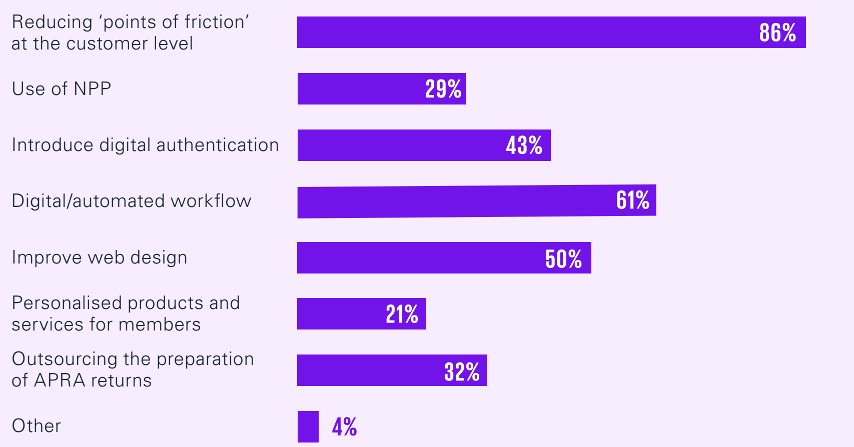
Future net interest margin expectations in the next 3 years



Cost efficiency development expectations in the next 3 years



Strategies to improve customer experience and costs



KPMG insights on key topics

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ARTICLE TOPIC: CONSOLIDATION

How to ensure a successful merger

In the ever-increasingly competitive financial services landscape, scale and critical mass have become imperative as the demands from customers for best-in-class products and technology are driving the need for technology improvement and operational transformation, alongside the continued escalation of regulatory compliance obligations and scrutiny on capital management. Merging with the right partners has been seen as a potential solution for Mutual banks to meet these demands, however, the ability to think beyond the deal and plan for future success early is often a key determinant in ensuring a successful outcome for members.

These trends of higher costs and baseline expectations from customers and regulators continue to put pressure on all Mutual banks. Many Boards are increasingly challenging themselves on the long-term value proposition, sustainability and viability to serve member bases, especially given the continued demand for digital banking services from younger customers and the competitive tensions across the entire financial services ecosystem. The result of these trends has been an active consolidation within the sector, with many organisations proactively seeking merger partners with aligned value member propositions. This is clearly illustrated by the total number of Mutual banks in the market, which has reduced markedly from over 200 in the early 2000's to currently just over 50. With seven mergers in the last year alone, should this trend continue, the number of Mutual banks will reduce significantly over the next five years.

The total number of Mutuals in the market has reduced from

200 (early 2000s) → **50** (2025)

Intent and desire, however, is not always sufficient to create an outcome. With an ever-increasing gap being created between the largest and smallest Mutual banks (and an even larger gap with many of the commercial banks), the ability to be organised, commercial and clear (both internally and in communication with members) is critical to managing and completing a successful merger both during the transaction and, importantly, post a transaction.

From our involvement in recent Mutual bank mergers and transactions, KPMG has identified **seven critical success factors** to help merging member-led organisations deliver effectively, both through the transaction process and post-integration:

01 Clear communication of the vision and strategy

Clearly define deal vision, the agreed view of the Target Operating Model and define the member benefits that are central to the deal. This will provide clarity on the deal rationale and allow each organisation to navigate member and stakeholder communication and not lose sight of the main goals.

02 Facilitate and execute rigorous integration plans with visible senior sponsorship

Establish clear central governance of the integration through an Integration Management Office (IMO) led by a senior executive reporting into the CEO or senior delegate. Don't underestimate the complexity of organisational change and the planning and resourcing required to execute and deliver on promises of value.

03 Agree on the approach to due diligence between both organisations to ensure a smooth process and maintain relationships

Noting a successful merger is in the interest of both sets of members, it is critical to ensure due diligence does not generate conflict. A clear reciprocal due diligence plan and articulation of critical factors for each organisation is key to ensuring the buy-in of both management teams from the outset. The early agreement of due diligence principles and each party's focus areas in due diligence is a good step in that direction. While the engagement is collaborative, diligence should ensure clear, robust and objective advice to meet the needs of each board in recommending the merger to members.

04 Understanding key investment projects and post-merger IT operating environment

In our experience, with any significant technology project or critical IT infrastructure, it is important to form a detailed understanding of the transition pathway, project progress and governance along with the downstream impact to integration of platforms. Data migration and the rationalisation of technology environments post-merger is a complex challenge which requires careful planning to ensure successful execution on time and on budget. Given a large number of mutual organisations operate across a small number of core banking platforms which are in the process of facilitating multiple ongoing mergers, the capacity of technology partners should be considered in overall timelines.

05 Early engagement with legal advisers to establish clear competition protocols

Given both organisations operate in the same sector with a common set of stakeholders and suppliers, it is important to ensure legal advice is obtained on protocols to follow through the process that do not give rise to any collusion/anti-competition issues. Your advisers can also act as a clean team for the exchange of commercially sensitive information.

06 Calibrate leadership and minimise workforce disruption across both organisations

Engage and charge senior management with accountability for success and resource with a senior team that can lead the transition. Establish an actionable employee communication program and develop retention plans for critical talent. Take steps to invest in the workforce transition plans to ensure culture is preserved.

07 Early and frequent stakeholder engagement to ensure no surprises

Early planning on which stakeholders to engage, when to engage them and the messaging required can help to ensure key stakeholders (e.g. boards, members and regulators) are brought along for the journey at the right time. This will help reduce the risk of surprises and achieve the right approvals through the deal.

While there is no doubt scale does provide a route to a sustainable future for many players in the space, the success of these transactions is often determined during the transaction process itself. Taking a long-term and operational approach to transaction negotiations and due diligence – where member interests are at the heart of your decision-making – will help ensure a consolidated, stronger mutual sector can thrive well into the medium and longer term.

FRANCINE HOO
Director, Enterprise

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ARTICLE TOPIC: AI

AI Whats next – a different approach

For most Mutual banks, the top priorities are clear: improving operational efficiency, enhancing member service, and ensuring compliance in an increasingly complex regulatory environment. There's a strong recognition that digital transformation – and particularly AI – can play a critical role in achieving these goals. However, the path to AI adoption is not straightforward. According to the KPMG *Intelligent banking* report,[1] 80% of global banking leaders agree that AI provides a competitive edge, yet only 51% believe AI is fundamentally reshaping their business. While 66% report cost savings from pilot AI initiatives, just 26% have delivered revenue growth from AI. The report also highlights that 72% cite poor data quality and 33% point to skills gaps as major obstacles to scaling.

Right now, if Mutual banks are exploring AI, they are doing so individually. This shows there is strong willingness to adopt AI, but the reality is that most efforts are likely to be fragmented – leading to duplicated work, slower progress, and missed opportunities to share learnings or resources.

But what if there was a different way? What if, instead of operating in silos, Mutual banks could collaborate – sharing resources, co-investing in solutions, and setting common standards? We're seeing a glimpse of this in local government, where councils are piloting collaborative models like the AI Marketplace – council-led, KPMG-enabled. In this approach, councils co-design and share solutions, pool expertise, and accelerate innovation together. The result is faster progress, lower costs, and solutions that are tailored to real-world needs.

Shared resources

Co-investing in solutions

Common standards

[1] KPMG, Intelligent banking, 2025

For Mutual banks, this highlights a real opportunity to innovate – not just in technology, but in the way they work together. While Mutual banks have a history of collaboration, pooling resources for AI would require overcoming challenges such as governance complexity, data privacy, resource allocation, and standardisation across different systems. However, the potential benefits are significant: shared investment could reduce costs, accelerate innovation, and strengthen risk management. For example, Mutual banks could jointly develop AI-powered fraud detection platforms, document automation toolkits, risk compliance or member sentiment analysis engines – solutions that would be more robust and cost-effective if built and maintained together.

Comparing this collaborative, design-led approach – where Mutual banks co-design AI solutions, enabled by KPMG – to using existing siloed AI solutions in the market, the advantages become clear. Siloed solutions may offer speed to market, but they are often generic, less flexible, and require each Mutual bank to customise, govern, and maintain their own systems, leading to higher costs and fragmented innovation. In contrast, a shared approach delivers sector-specific solutions, spreads investment, accelerates learning, and ensures robust governance and trust.

With KPMG's oversight, solutions are developed with responsible AI principles and compliance frameworks from the outset, building confidence among members, regulators, and stakeholders.

By working collaboratively, Mutual banks could unlock greater value for their members and ensure they remain resilient and competitive in a rapidly evolving landscape.

The question is not just how to adopt AI, but how to do it in a way that amplifies the strengths of the sector – through trust, collaboration, and a shared commitment to innovation.

Innovation is not just about technology – it's about reimagining how we work, connect, and create value together.

AI is not only transforming processes: it's unearthing new, creative ways for humans to collaborate, solve problems, and shape the future of our organisations. By embracing this broader view of innovation, Mutual banks can harness AI not just as a tool, but as a catalyst for meaningful, human-centred change.

ADRIAN CHEVALIER
Partner, Strategy
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ARTICLE TOPIC: GROWTH

With competition driving downward pressure on NIM, how can Mutual banks grow other sources of income?

A strategic blueprint for CEOs navigating growth and resilience in mutual banking

The landscape of mutual banking in Australia is rapidly changing. Deposit inflows remain solid, yet rising competition is putting relentless downward pressure on margins (NIM), threatening traditional profit sources. Facing these challenges means reassessing priorities and doubling down on both growth and financial stability.

Deposits: the foundation of growth and stability

Deposits serve as the cornerstone of mutual banking with total deposits at 30 June 2025 of $144.3 billion on growth of 8.7%, underpinning funding stability – a catalyst for broader financial activity. The enduring loyalty of the member base delivers a reliable and predictable deposit pool, shielding the balance sheet from the volatility of wholesale funding.

Deposits are being under-leveraged as a gateway to deeper member engagement as the customer relationship evolves. In this environment, digital engagement strategies, including data-driven campaigns and frictionless mobile platforms, are essential for optimising both deposit acquisition and retention.

Despite technological advancements, personalisation at scale remains a challenge for Mutual banks. By deepening member relationships and customising product offerings to meet evolving expectations, Mutual banks can ensure sustained deposit inflows that support liquidity and margin objectives, even amidst ongoing external pressures.

Total deposits at 30 June 2025

$144b ^ 8.7%

Lending: innovation and risk management

The competitive landscape, where some loans are being written below the cost of capital, demands a sharper focus on efficiency, pricing strategy, and customer experience. Lending processes must be faster, more accurate, and member centric. Accelerating origination through digital platforms – supported by AI-powered verification – streamlines assessments, enabling banks to scale decisioning without compromising quality.

To unlock lending growth, portfolio diversification can be delivered within the current risk appetite with targeted products such as SME lending to current customers, green loans and offerings for first home buyers and retiree investors who are typically under-served by major institutions. Aligning credit policies to these growth segments, alongside digital, verifiable data, ensures risk control and responsiveness to evolving member and community needs; further enhancing member satisfaction by eliminating friction and turnaround times.

New business models: diversification and digital transformation

Diversifying revenue streams away from interest income is vital to addressing margin pressures, capital constraints and smoothing earnings volatility. Mutual banks need to move beyond fees and charges and simplifying product sets to remove charging complexity. Mutual banks that are having success have the right mix of products servicing their target segments, e.g. SMEs and micro businesses that require merchant solutions and real-time transactions. Value-added services like premium subscriptions, security tools and budgeting apps can unlock fresh income sources while enhancing member engagement.

Customer retention: engagement, loyalty, and value creation

Member engagement is the true differentiator for Mutual banks. Retention strategies must go beyond standard offerings to deliver personal, responsive services: loyalty-based offers, tailored communications, and proactive support that keep members connected and satisfied.

Mutual banks need to better leverage data to understand member needs and anticipate future expectations.

Community involvement also boosts retention: local initiatives and social causes that resonate with your member base reinforce the unique positioning of a Mutual bank.

Acquisitions: strategic expansion and integration

2025 has been a record year for mergers in the mutual sector, as Mutual banks seek to maintain member value while enhancing operational resilience.

The sector is trending toward fewer, larger entities with broader capabilities and greater reach.

This consolidation wave is reshaping the landscape, positioning Mutual banks to better compete with major banks while preserving their customer-owned ethos.

While preserving member-centric values and identities is important, further consolidation is expected – likely resulting in fewer but larger Mutual banks, better equipped for today's financial challenges.

Cost management: streamlining operations and maximising efficiency

Cost management and productivity are now central to banking strategy, with institutions reshaping themselves to channel savings into growth initiatives and digital transformation. Recent KPMG research underscores the scale of ambition: a survey of more than 228 banking leaders globally found that 53% expect to achieve cost reductions of at least 10% by 2030, while 29% aim for cost savings exceeding 20%.[2] Mid-sized banks are particularly ambitious, with 88% targeting at least a 10% cut. However, only one in four institutions have been highly successful in meeting their cost reduction objectives, revealing a persistent gap between vision and execution.

Controlling costs is crucial for building resilience and agility for Mutual banks. To succeed, organisations must seek operational efficiencies across every facet – embracing technological adoption, automation, and cloud platforms to streamline routine processes and free up resources for growth. Banks are increasingly shifting towards operating models built around end-to-end value streams, which help break down silos and clarify accountability for both routine operations and change initiatives. Data analytics play a vital role in sharpening compliance procedures, enhancing reporting accuracy, and informing faster, smarter decisions.

Workforce optimisation, supported by targeted upskilling and strategic sourcing, ensures resources are focused where they deliver the greatest value. Rationalising branch networks and outsourcing non-core activities to trusted partners can unlock further efficiencies. Importantly, these changes do not mean losing the human touch; rather, they enable reinvestment in member-facing services.

Conclusion: the path forward for Mutual banks

Achieving sustainable growth and efficiency in 2025 requires a balanced approach: drive disciplined cost management, deepen deposits, innovate in lending, diversify beyond interest income, invest in member retention and strategically pursue acquisitions.

The mutual banking model's inherent advantages – loyalty, flexibility, and member focus – will serve as a strong foundation. By actively leveraging these strategic pillars, Mutual banks can navigate today's challenges, deliver enduring member value, and secure long-term success.

2 Beyond savings: Strategic costs optimisation for the modern bank

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Director, CFO Advisory

ARTICLE TOPIC: REGULATION

The CFO agenda: elevating finance functions

As the financial stewards of their organisation, CFOs and their teams have always worked to preserve and protect value as a part of their fiduciary responsibility.

As customer expectations evolve, markets consolidate and reporting requirements grow, finance teams are operating under intense pressure. The role of finance is shifting towards delivering value-accretive, forward-looking insights that drive business performance.

However, with investment spend stretched on core banking and digitisation, large-scale finance transformation may not be on the immediate agenda. Fortunately, there is a balanced path forward.

Think big

Today's CFOs can do even more – enhancing value by developing new strategies that support corporate development, promoting innovations for capital allocation, and improving the evaluation of new business models. They can also serve as a leader in enterprise performance by driving strategic profitability and cost management, supporting new levels of business planning, fostering agile resource planning, and creating new ways to optimise working capital.

CFOs should have a clear and compelling vision for finance and have a roadmap to bring this to life over the short, medium and long term.

It is imperative that this vision is not defined in a silo: it needs to consider the wider organisational strategy and appetite for innovation and change.

For Mutual banks that have recently merged or have plans to merge, having a defined vision and roadmap is critical to ensuring consolidation benefits can be realised, and operational overhead from duplicate or low-value-add processes can be eliminated.

Start small

However, to truly transform finance functions, CFOs must first focus on getting the basics right: build strong foundations in accuracy and control to release the capacity required for delivering insight. In the near term, this means staying alert to emerging risks, taking decisive action, and addressing skills and capability constraints.

Importantly, many finance teams are experiencing change fatigue after years of increasing demands and potential integration activity.

CFOs must invest in their people, providing the time, training and support needed to uplift capability and re-engage teams for the journey ahead.

For recently merged entities, immediate uplift activities may also be required to meet enhanced compliance requirements from becoming a 'significant financial institution'.

By balancing short-term discipline with long-term ambition, CFOs can position finance as a true driver of sustainable growth and strategic value.

Starting your finance transformation journey

KPMG believes that elevating finance can best be accomplished by a strategy based on five pillars of business value.

1. **Strategy and innovation:** embed a strategic, forward-looking mindset to collaborate across the organisation to create, integrate and realise enterprise value.
2. **Modern workforce:** drive capability-led initiatives and adopt new delivery models, ways of working, and talent strategies to increase the scope and value of services delivered.
3. **Digital acceleration and AI:** enable an accelerated development of fit-for-purpose solutions that deliver business objectives, enhance the human experience, and increase organisational agility.
4. **Data intelligence:** champion enterprise data and reporting strategies, proper governance, and effective decision support across the enterprise.
5. **Dynamic risk management:** maintain trust across stakeholders through the adoption of proactive risk management that strikes a balance between value preservation and innovation.

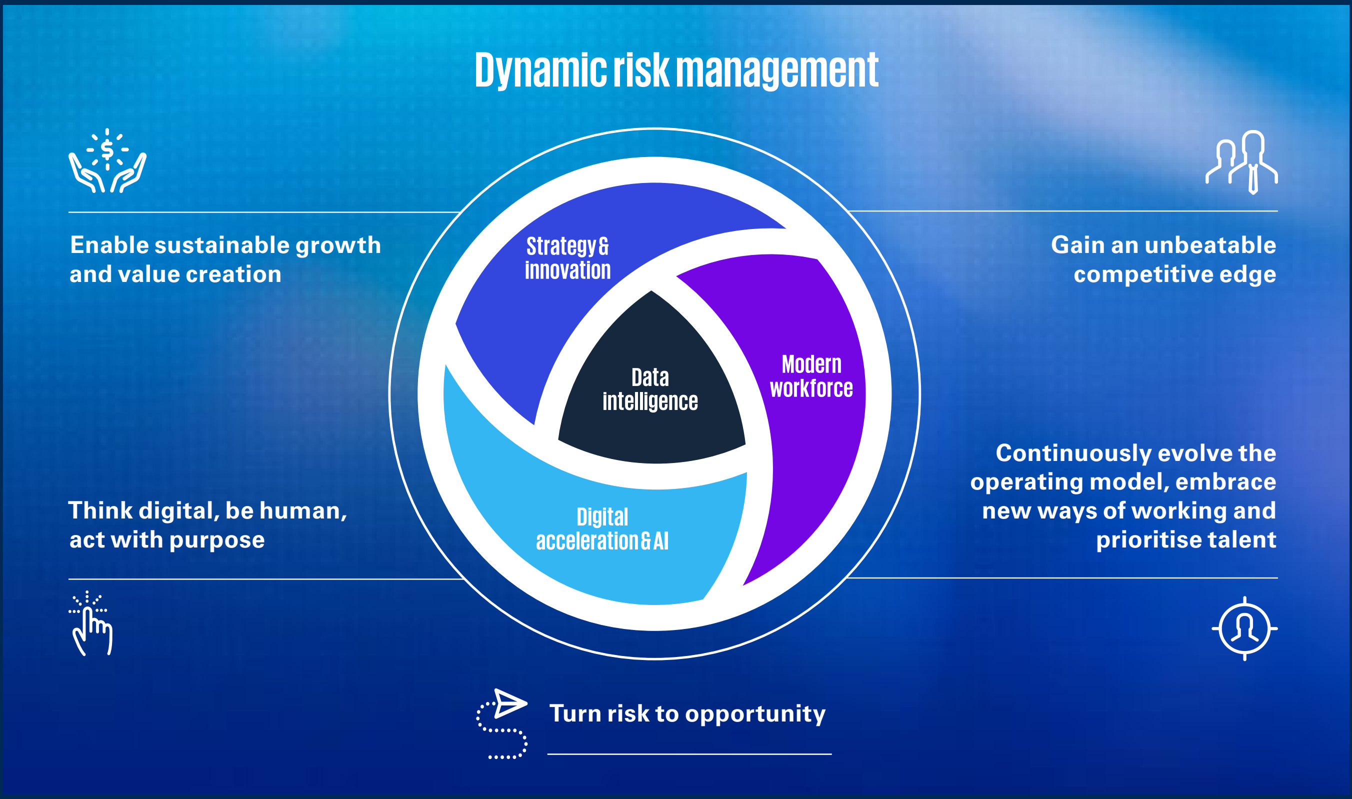
Questions to consider

- How should our finance function change to increase business agility?
- What skills and capabilities do I need in the future?
- How can I help my people embrace change and adopt new technologies and ways of working?
- How do I leverage my data to provide higher value to the business and oversee innovation and transformation?
- What risks and operational waste have been introduced in my post-merger operating environment?

Despite uncertainties, CFOs and their teams can lead the charge in elevating finance and their organisation to address the challenges and opportunities of a cost-constrained, price-sensitive and rapidly changing Mutual banking sector.

How KPMG can help

- **Finance strategy and target operating model** establishing prioritised initiative roadmaps, benchmarking and service delivery model design.
- **Finance talent and capability transformation** aligned with your Future of Finance strategy.
- **Post-merger** transformation activities, including risk assessments, operating model optimisation, reporting and process rationalisation
- Regulatory reporting **interpretation and process alignment** across merged entities, including any step-up activities required from transitioning to a 'significant financial institution'.
- **Finance technology architecture and systems selection** covering end-to-end current and target state finance technology (ERP, EPM, sub-ledger, disclosure, reconciliation engines, treasury, tax, digital finance).
- **Implementation readiness** activities to align your operating model and accelerate your transition to cloud-based finance technology.
- **System implementation** of selected finance technology tools.



SAURABH SHUKLA
Partner, Consulting

ARTICLE TOPIC: OPERATIONAL EXCELLENCE

Doing more with less through digital transformation

In an increasingly competitive and technology-driven financial landscape, Mutual banks face a unique set of challenges:

01 Limited access to capital

Mutual banks cannot raise external equity due to their member-owned structure, restricting their ability to invest in large-scale technology upgrades or withstand financial shocks. This makes prioritisation and ROI on digital investments critical.

02 Lower operating margins

Operating with lower margins than larger banks, Mutual banks must be highly disciplined in cost management and technology spend. Every investment must deliver measurable value.

03 Limited headcount and skills gaps

Smaller teams mean Mutual banks banks often lack the specialist digital, data, and transformation skills needed for complex change programs.

04 Regulatory and compliance pressures

Mutual banks face the same regulatory scrutiny as larger banks but with fewer resources. Keeping pace with evolving compliance requirements while transforming digitally is a significant challenge.

05 Competition from larger and digital-first players

Mutual banks must compete with well-capitalised banks and fintechs that can invest heavily in technology and customer experience. This raises the bar for digital transformation and innovation.

06 Member expectations and experience

Members expect digital-first, seamless experiences, but also value the personal, community-focused ethos of Mutual banks. The focus must be on striking the right balance in digitisation with maintaining the "human touch".

Benefits of modern and flexible technology

For Mutual banks to stay ahead of the curve and position themselves for long-term success, digital transformation is a must to unlock growth, operational efficiency, and better member experiences, without increasing their cost-to-income ratios.

Modern and flexible technology also provides the ability to course correct and evolve as member needs and product propositions change. Our research shows 83% of the leading banks continuously evaluate and extract value from technology investments. This always-on approach will lead to more opportunities to intervene and optimise where required from the same underlying investment.

With 57% of organisations saying that flaws in their foundational enterprise IT systems disrupt business-as-usual on a weekly basis,[3] a modern technology estate will enable Mutual banks to focus on member outcomes over management and maintenance of technology.

Registering profitability increases through digitisation where members can self-service and therefore allow Mutual banks to have increased velocity for member onboarding and reducing operational overheads. Right sizing and right investments can reduce cost-to-income ratio by 20–40%, an area where the numbers can be high for Mutual banks.

To achieve these benefits, Mutual banks should focus their digital transformations on three key areas: reducing technology fragmentation, modernising the core banking platform, and digitising end-to-end customer journeys. Each of these areas have their own cost, speed and risk profile, which should be weighed up against the organisation's strategic and technology objectives and their capacity for change.

83%

of **leading banks** continuously evaluate and **extract value from technology** investments

57%

of **organisations** say flaws in their foundational enterprise **IT systems disrupt** business-as-usual on a weekly basis

Reducing technology fragmentation

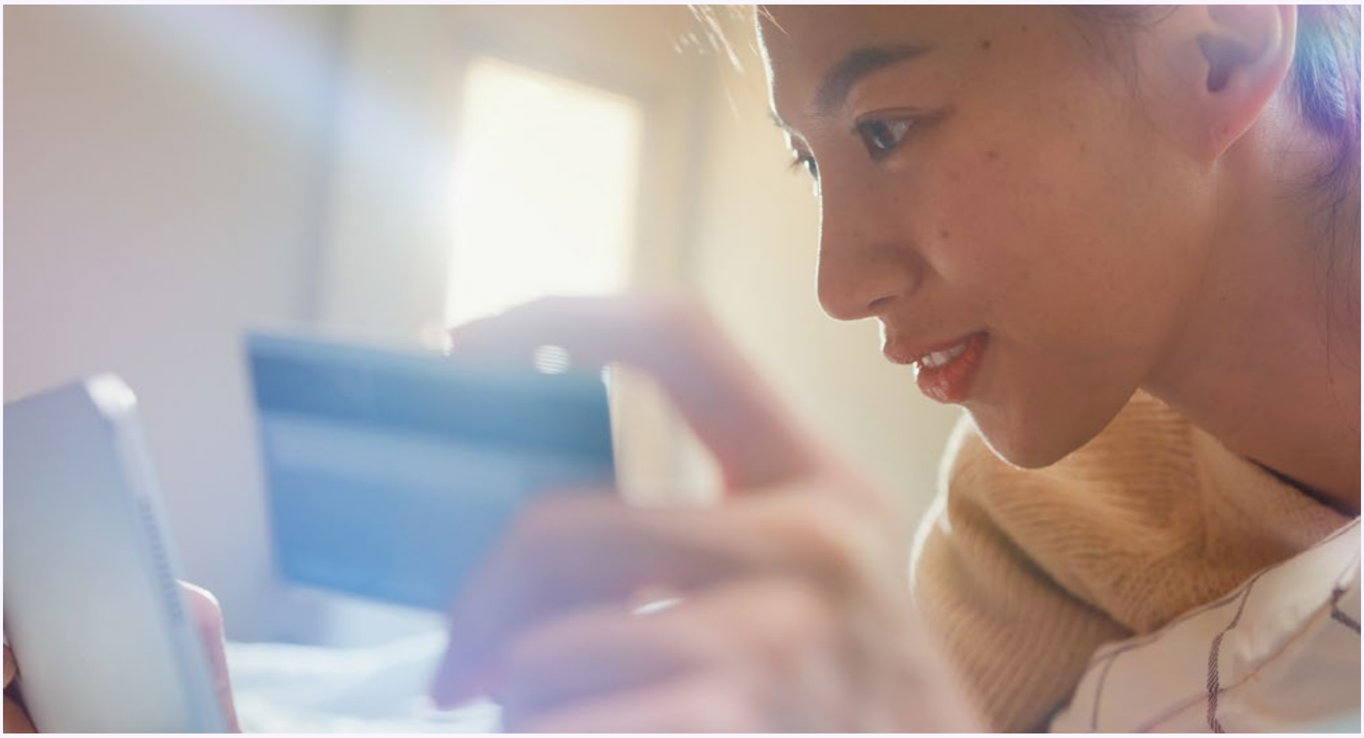
Many Mutual banks have accumulated a patchwork of systems over time, from legacy core platforms and separate CRM tools to multiple digital banking solutions and third-party integrations. This proliferation of applications leads to high maintenance and licensing costs, data silos, and inconsistent user experiences.

By rationalising and consolidating systems, Mutual banks can do more with less.

Capacity can be created by simplifying technology complexity to align with the simplicity of the business model. For example, a Mutual bank with simple deposit and lending products requires a much simpler technology landscape compared to a larger bank with a more diverse product offering.

A patchwork of fragmented technologies built over time needs to shift towards a platform-based capabilities model, where Mutual banks consume multiple capabilities from the same underlying technology platform. For example, rather than utilising separate products for customer management, payments and account management, Mutual banks could look to implement a platform from a single provider that delivers all these capabilities.

[3] KPMG Global Tech Report 2024



Core banking modernisation

Our experience with clients globally suggests that the lessons from recent implementations and failures is increasing the success rate of core banking transformations. The key is having discipline on the scope of the transformation and not overextending by attempting to deliver everything surrounding the core banking platform.

Modern core banking platforms enable real-time data access, faster product innovation, and improved regulatory compliance.

For example, the shift to real-time data access can significantly reduce the need for reconciliations and overnight processes.

They also enable easier integration with emerging fintech solutions, helping Mutual banks reimagine how they serve their members and operate in an increasingly digital world, all of which can enable Mutual banks to do more with less. For example, modern core banking platforms enable the generation of statements from the core banking platform with no need for separate systems.

Replacing core banking systems can be a complex and resource-intensive exercise. However, there are multiple pathways to core banking modernisation, each with different cost, risk, and speed implications, that Mutual banks can choose to best fit their business and technology strategy.

- **Hollow out:** involves the gradual 'hollowing out' of the legacy core as functionality is migrated out into more modern components. This approach reduces the risk profile of core modernisation but requires cost and time investments into the throwaway work of wrapping legacy systems in a modern integration layer.
- **Layered migration:** introduces a modern layer over the top of the legacy core to handle user experience, integrations and analytics. Over time, functionality is progressively migrated down the tech stack, reducing the need for investment into throwaway work but requiring stricter API and data management discipline in order to control introduction of additional tech debt.
- **Sidecar:** a parallel core banking system is deployed, with products and members migrated to the new system over time while existing business continues on the legacy core until fully transitioned. Enables controlled migration and limited operational disruption, however, at significant cost due to having to maintain and operate dual systems.
- **Big bang:** replaces the legacy core in a single cutover, with all products and members migrated to the new core banking system at once. Requires a higher up-front investment than other options with a higher risk profile due to the single cutover, however, can significantly shorten the modernisation process.

End-to-end digitisation of customer experiences

Members are increasingly expecting seamless, digital-first experiences that match those of leading banks and fintechs. End-to-end digitisation, from loan origination and onboarding to servicing and support, can help Mutual banks deliver on these expectations while reducing manual processes and operational overhead. Future members will also expect a customised and tailored engagement experience with Mutual banks, driven by usage of AI agents or chatbots.

Importantly, digitisation and AI doesn't mean replacing human interaction. It's about giving members and staff the tools to engage more effectively, enhancing the member experience while preserving the personal touch that sets Mutual banks apart from larger banks.

Planning and design for the future is critical and so is the choice of the vendor and advisory partner whose business model is focused on ongoing investment and automation through technology.

Why KPMG for digital transformation

Digital transformation isn't a one-time project, it's an ongoing capability that helps Mutual banks adapt, grow, and continue delivering value to their members. By taking a strategic and pragmatic approach to the three key areas of digital transformation, Mutual banks can turn structural constraints into competitive strengths and build a sustainable, digitally enabled future.

KPMG invests significantly in capabilities that provide innovative digital transformation solutions to help Mutual banks grow sustainably. 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.

KPMG's approach focuses on being a true partner for Mutual banks, providing value and advice where needed and equipping your teams with the skills and mindset required to manage continuous transformation and improvement. Our comprehensive support for Mutual banks on their digital transformation journey includes:

- **Conducting technology health checks:** we will identify duplication, technical debt, and integration pain points, to highlight the key areas for improvement.
- **Defining the target state:** assessing your business and operations, we will articulate what 'good' looks like for your organisation, balancing modern capabilities with operational realities.
- **Prioritising initiatives by impact and feasibility:** focusing first on areas that deliver measurable cost reduction or growth to help fund the rest of the digitisation journey.
- **Helping navigate partnership ecosystems:** our knowledge of the fintech and technology provider landscape can help assess existing partnerships and identify new ones that are best suited to your strategic needs.

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ARTICLE TOPIC: CYBER SECURITY

Trust under attack

Mutual banks operate on a foundation of trust, striving to foster strong member trust, delivering uninterrupted service continuity and paying the best possible return on their investments. Unlike large corporates, Mutual banks often have leaner teams and fewer layers of defence, amplifying the impact from a cyber breach and jeopardising the relationship and loyalty built with members over the years.

Cyber criminals are increasingly using AI to supercharge social engineering attacks. Voice cloning, deepfakes, and hyper-personalised phishing campaigns are now accessible to anyone with an internet connection. For Mutual banks, the risk is magnified. For some, cyber resilience is still an emerging and maturing capability; for others, critical systems housing sensitive and highly confidential member data is outsourced and in the hands of third parties.

Why traditional approaches fall short

Human error remains the leading cause of breaches. Generic training, misplaced reliance on plans, and rushed decisions under pressure are common precursors. So when a serious cyber incident occurs, these efforts rarely translate into effective action.

According to KPMG's recent *Keeping us up at night survey*[4] around 42% of leaders think that dealing with cyber risks was the second biggest challenge for their organisation this year. Mutual banks are not immune from this.

The problem isn't a lack of effort. It's a misunderstanding of what it takes to shift behaviour at scale.

Awareness alone doesn't lead to action. People need:

- **Role-specific preparation:** tailored to the risks they face (e.g. finance teams approving payments, member services handling sensitive data).
- **Realistic practice:** crisis simulations and team-based scenarios that build muscle memory and a repeatable, familiar capability which is second in nature.
- **Continuous reinforcement:** micro-learnings, regular communications, immersive outreach programs amplifying better practices and system nudges reminding staff of the right behaviours needed to be embedded into daily workflows.

Without these, even the best-intentioned staff can make costly mistakes – especially during a high-pressure cyber event.

42%
of leaders say dealing with **cyber risks** was the **second biggest challenge** for their organisation this year[4]

[4] KPMG Australia, Keeping us up at night, 2025

The human factor meets AI

AI is often portrayed as a threat, but for Mutual banks it can be a powerful cyber ally. A recent KPMG survey[5] noted that 60% of security leaders see AI as a game changer for threat detection, vulnerability management, intelligence gathering and regulatory assessments. By automating routine tasks, AI can free up overstretched teams to focus on complex, strategic decisions.

However, AI is not a silver bullet. It works best when paired with human intuition, creativity, and contextual understanding. Technology and security leaders should ensure teams are trained to work alongside AI systems – understanding their capabilities, limitations, and potential biases. Building trust into AI is essential: more than three-quarters of organisations still think their staff view it as a 'black box', creating anxiety, hesitation and resistance in adoption.

For Mutual banks, the goal should be human-AI collaboration: using AI for speed and scale, while empowering people to make informed, ethical and trusted cyber decisions.

From a resilience standpoint, AI can be an enabler of capability, allowing teams to escalate, respond and manage incidents in real time, collating live intelligence and driving teams to move ahead at pace with clarity and efficiency. Yet without trust, we cannot expect Mutual banks to use AI at times they are most vulnerable.

Culture is the game changer

The concept of cyber resilience is evolving. Cyber is no longer an IT risk – yet a business imperative driven by Board accountability and organisation-wide acknowledgement that embedding strong cyber practices and defences into the organisational DNA is critical. That means:

- **Adopting cyber culture and influence programs:** no longer relying on once-a-year mandatory training and the occasional phishing campaign.
- **Identifying top human risks:** Who holds the keys to critical systems or funds? Who interacts most with members and is externally visible?
- **Preparing leadership for disruption:** scheduling regular and rotating crisis and continuity simulations to build up the capability of the Board and executive team – moving beyond a reliance on antiquated or unfamiliar plans to embedding the practice of resilience into their muscle memory.
- **Measure what matters:** 8% of staff account for 80% of your security incidents.[6] Identifying, measuring and tracking which of your staff are demonstrating risky behaviours and intervening before they lead to a potentially catastrophic incident is essential. Mutual banks must go beyond tracking annual training completion and phishing click-through rates, to monitoring the human behaviour which makes some staff more vulnerable to targeted attacks. Further, by capturing staff escalation rates, decision-making under stress, and behavioural trends over time, Mutual banks can start to gain ROI data from their resilience and cyber intervention program.

8% of **staff** account for → **80%** of **security incidents**[6]

Resistance to change and siloed responsibility are two of the biggest cultural challenges. All too often, staff do not understand the risk they pose, or the responsibility they bear, in protecting member data, fund integrity and maintaining the trust instilled in Mutual banks from a cyber attack.

Building resilience as a competitive advantage

Mutual banks that invest in human-centric cyber resilience don't just reduce risk – they strengthen member confidence and trust. In an era where reputational damage can spread faster than malware, demonstrating preparedness and transparency is a differentiator.

Practical steps include:

- **Human-centric design:** streamline security processes to reduce friction and encourage compliance.
- **Inclusive talent strategies:** address the cyber skills gap by attracting diverse talent with complementary experience and a different perspective.
- **AI-readiness:** integrate AI responsibly with clear governance and workforce training.
- **Practice makes perfect:** focus less on developing the ideal resilience plan and more on building the skills, familiarity and confidence of the team members who have to use it – before the crisis happens.

[5] KPMG, Cybersecurity Survey: Security Operations Center (SOC) Leaders Perspective, 2024

[6] Mimecast, The Human Risk Management Platform, accessed 28 October 2025

Where to from here?

AI-driven threats are here to stay. For Mutual banks, the path to resilience is not simply about more technology – it's about smarter, sustained investment in people and cyber culture. When your workforce is prepared and empowered, they become your strongest line of defence.

Top 5 actions for Mutual banks to strengthen cyber resilience

01 Embed business resilience as a core capability

Develop a comprehensive resilience program that includes a crisis management plan, business continuity plan (BCP), and cyber incident handbooks. Ensure the executive leadership team and cyber teams rehearse and train regularly to build muscle memory for rapid, coordinated response.

02 Recognise the expanding role of the head of cyber security

Evolve their remit from technical defender to risk manager and influencer. Strengthening their influence, communication and lobbying skills to drive cyber security priorities across all levels and departments and enabling behaviour change across your organisation is key.

03 Move beyond compliance to human-centric risk reduction strategies

Address the human element of cyber security, which accounts for 60% – 74% of all global breaches,[7] through behavioural, science-based approaches and targeted interventions. Use innovative and behavioural training and change techniques – such as micro-learning, team-based exercises, gamification, persona based training and realistic simulations to embed secure behaviours and reduce your human risk.

04 Quantify risky behaviour

Deploy AI to quantify your organisational human risk, detect anomalies, and automate routine tasks so teams can focus on strategic initaitves. Go beyond phishing click rates by monitoring risky behaviors and identifying both high-risk staff and cyber champions. Track these patterns to measure ROI and confirm whether culture programs are reducing human-centric risk.

05 Double down on cyber controls and zero-trust principles

Continue to strengthen cyber controls and embed zero trust principles across your technical ecosystem. This means validating every user and device, enforcing least-privilege access, embedding multi-factor authorisation and segmenting critical systems to limit exposure. By combining these controls with the above recommendations, Mutual banks can significantly reduce the human risk factor across their organisations and increase their cyber resilience.

[7] Verizon, Data Breach Investigations Report, 2025

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