



# The state of member-owned institutions in Australia: A technology perspective

## Trends, opportunities, and future directions

Member owned institutions in Australia, including mutuals, credit unions, cooperatives and friendly societies are critical components of the financial sector, prioritising members over maximising profits for external stakeholders. As these institutions navigate a rapidly changing technological environment, their ability to adapt and modernise will be critical for their continued relevance and growth. There are mounting pressures due to increased regulatory compliance, economic headwinds, and evolving consumer expectations.

## Industry overview

Australia's member-owned institutions hold approximately \$78 billion<sup>2</sup> in assets, serving over 5 million customers across the financial services landscape. About 30% of these institutions serve regional and rural areas and have a capital adequacy of 16.1%<sup>12</sup>. Though these organisations typically enjoy high trust levels with their members, they face increasing pressure from both traditional banks and fintech disruptors to modernise their operations and improve their digital offerings. According to a 2023 report by the Australian Mutuals Institute (AMI), about 64% of credit unions and mutual banks ranked technology modernization as one of their top strategic priorities for the next 5 years.

### In general, most of the institutions are:

- Combatting the disproportionate impact of increased regulatory burdens on operational effectiveness, as mutuals contend with high cost-to-income ratios averaging 75-80% and reduced Net Interest Margins (NIM) at around 2% due to economic pressures<sup>1</sup>.
- Seeking scale and unlocking capital to drive digital transformation while redefining 'local' in regional communities through enhanced digital banking and embedded finance.
- Ensuring technology resilience and security as digital footprints expand into new markets, requiring robust cybersecurity and strengthened vendor risk management.
- Preparing for long-term sustainability through well-structured knowledge management strategies that harmonize structured and unstructured data, enabling AI-driven customer personalization, automation, and seamless integration across physical and digital channels.



## Technology Landscape

### Reliance on legacy core banking systems

Legacy systems remain a key obstacle for modernisation. Member-owned institutions have historically relied on less integrated, legacy core banking systems installed before the year 2000.

This reliance on aging technology is limiting flexibility and scalability, making it difficult to integrate new digital channels. According to industry projection, over 50% of financial institutions in Australia plan to replace or upgrade their core banking systems by 2025<sup>3</sup>, with most opting for cloud-based solutions.

Some of the key challenges include:

- **Cost and Complexity:** Full core replacement is expensive and risky, with costs exceeding multi million dollars for larger institutions.
- **Vendor Dependence:** Reliance on a small set of core banking providers limits flexibility.
- **Scalability Issues:** Legacy systems struggle to support real-time processing and digital banking demands.

In response to the above challenges, organisations are seeking to adopt a modular approach, leverage Banking-as-a-Service (BaaS) and explore cloud native core banking opportunities

### Digital transformation: refining 'local' in a digital age

The traditional community banking model is evolving, requiring mutuals to expand their digital footprint while maintaining a personal connection with members. While large mutuals have adopted holistic digital banking platforms, the smaller institutions still offer minimal online services. Customer expectations have shifted dramatically due to the rise of fintechs. With more than 70%<sup>4</sup> of Australians now preferring digital-first interactions for their banking needs, it is imperative to meet digital member expectations.

Some of the key challenges include:

- **Branch Optimisation:** Digital engagement is growing, yet a large part of mutual bank members still prefer human interactions for complex financial decisions.
- **Embedded Finance:** Mutuals are exploring partnerships with retailers, utilities, and telcos to offer seamless financial services.
- **AI-Driven Customer Engagement:** AI powered chatbots and virtual assistants reduce call center loads and enhance service.

Organisations are focusing on enhancing omnichannel banking experience, hyper personalisation, and local focused (geo-targeted) campaign strategy.

### Payments modernisation

Member-owned institutions have made progress in modernising their payments infrastructure. As of 2023, 70%<sup>5</sup> of mutual banks had adopted the New Payments Platform (NPP), enabling real-time payments between institutions. However, integrating real-time payments with legacy systems remains a challenge for many smaller organisations, particularly those with limited IT budgets and outdated infrastructure.

### Cloud adoption

Although larger institutions are leading the charge, cloud adoption remains inconsistent across the sector. As of 2025, 55% of ADAPT forecasts that 55% of workloads for Australian organisations will be hosted on public clouds – bringing a testament to the massive demand for public cloud adoption across all industries, including mutual banks.

Many institutions identified regulatory concerns around data sovereignty and security as the main barriers to full-scale cloud adoption. The hybrid cloud model—combining on-premises infrastructure with private and public cloud environments—is emerging as the preferred strategy for 73% of institutions surveyed<sup>7</sup>.

### Cybersecurity

APRA's 2023 report highlighted that 65% of member-owned institutions experienced at least one cybersecurity incident in the past year, with phishing and ransomware attacks being the most common. 80% of large mutuals had implemented multi-factor authentication (MFA) and encryption, only 50% of smaller institutions had similar protections in place. This gap underscores the need for more widespread adoption of cybersecurity best practices, especially as regulators increase oversight under APRA's CPS 234 standard.

### Data and analytics

While data-driven decision-making is a major opportunity, the sector is lagging in terms of analytics capabilities. 30% of member-owned institutions have implemented advanced analytics platforms. Additionally, 65% of institutions still operate in siloed data environments, which hinders the development of personalized services and deep member insights<sup>4</sup>. The potential for advanced analytics to improve customer experience and operational efficiency remains largely untapped.

At Cognizant, we guide member-owned institutions through their transformation journey, tackling their most critical challenges while uncovering new avenues for growth and resilience.

Leveraging our expertise in the mutual banking financial services sector and our experience in modernising legacy systems, Cognizant delivers customised solutions that enhance operational efficiency and elevate member experiences.

## References

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