

• No 1 Autumn 2006

M Society Matters

from the Building Societies Association

MUTUALS DELIVERING IN COMMUNITIES

FIVE MINUTES WITH... **MATTHEW BULLOCK**

CHAIRMAN OF
THE BSA

PARTING SHOT FROM **SEYMOUR FORTESCUE**

OUTGOING
BCSB CHIEF

AGM ADVANCES...

TURNOUT ON
THE UP

LOST ACCOUNTS...

HIDDEN
TREASURE
OR PLUNDER?



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WELCOME TO THE FIRST EDITION OF SOCIETY MATTERS, THE BSA'S NEW QUARTERLY PUBLICATION.



"WE AIM TO COVER ALL ASPECTS OF BUILDING SOCIETY BUSINESS, FROM PRODUCT INNOVATION TO REGULATION"

Designed to get behind the headlines of the BSA's policies, *Society Matters* offers readers the opportunity to hear from key people in the sector. Every edition will cover what is happening in the world of building societies and the wider financial services sector today.

We aim to cover all aspects of building society business, from product innovation to regulation. This month we hear from the Yorkshire Building Society's Andy

Caton on their HomeBuy Scheme and gain an insight from Shaun Mundy into the FSA's financial capability strategy and how societies can get involved.

For non-executives, there will be a regular round up of news from the boardroom, this edition looking at the 2006 AGM turnouts.

We also aim to demystify the business of running a building society; Jon Pyzer of King & Shaxson Treasury Solutions explains the complex world of treasury management, while Barry Meeks of Mutual One challenges with his vision of the future.

We hope to stimulate conversation and debate, so have consciously invited contributors to air a wide range of opinions. If you have any comment, feedback or have a view you think should be heard, then get in touch. We are happy to print letters and articles, although of course cannot guarantee to publish everything we receive.

Finally, we hope you enjoy the read; you can e-mail your views to me at adrian.coles@bsa.org.uk or *Society Matters* editor, Rachel Blackmore at rachel.blackmore@bsa.org.uk

Adrian Coles

Society Matters is a publication of the Building Societies Association. The views expressed by authors in this magazine are not necessarily those of the Association.

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SOCIETIES SUPPORTING THE HOME SIDE

New research from the BSA

New research from the BSA has shown that the number of people now supporting local clubs through football affinity accounts has grown by over 80% in the last five years and now stands at 121,000.

Grassroots football

In 2005, football affinity partners received £4.7 million, thanks to the support of their saving fans. It is not just the larger clubs who benefit, often societies have affiliations with lower league and non-league clubs. In total 35 clubs are supported in this way.

Affinity accounts help because clubs receive a percentage of the total amount held by members in all accounts at the end of the year. Of course building societies also sponsor many teams, locally and nationally, to the tune of millions of pounds.

Growing in popularity

These types of accounts are growing in popularity and have a proven track record in encouraging people to save, with football affinity accounts now holding over £513 million, with the average account standing at £4,850.

- 121,000 accounts
- £513m total balances
- £4,850 average balance
- £4.7m donated in 2005



Encourage saving not debt

Many affinity credit cards benefit good causes by encouraging people to get into debt but football savings accounts help build a nest egg. In particular, kids really appreciate supporting their local team through saving. Some societies even link their children's savings accounts to local teams, including designing account literature with team information and team colours.

WOOLWICH DECLINE OF A GREAT BRAND

Branches close

The announcement by Barclays Bank that it was to "put the Woolwich at the heart of its UK retail revitalisation" while closing all the Woolwich branches, highlighted the decline of this once great brand.

Demutualisation

At the time of the Woolwich's demutualisation in 1997, there was great optimism. The Woolwich explained that it needed to build on its market position in its core businesses; strengthen its position in new markets; to become more cost effective; and to retain its strong culture and values.

The Transfer Document went on "we believe very strongly that retaining the Woolwich's culture and values is important for ensuring that the Woolwich's high standards of customer service are maintained and for safeguarding the future of its management and employees."

Profits v customer care

A year later, commenting on the departure of 25% of the group's senior managers, John Stewart, Group Chief Executive, told the FT, that "culture has been the biggest change at the Woolwich over the last year to 18 months. A building society culture is wonderful in terms of customer care, but it isn't particularly good at identifying where the value is in the business. We need a different type of person in the future."

The original aspiration of "safeguarding" the future of managers was not achieved; within a year a quarter of managers had departed. Secondly, the commitment to maintaining "the Woolwich's high standards of customer service" soon changed as a result of shareholder pressure, replaced with a drive to find "value... in the business".

Shareholder value destroyed

By 2000 the Woolwich had been acquired by Barclays. In the subsequent period, it is not clear that value was ever found.

"IN SOME RESPECTS, THE TRANSACTION WAS UNIQUE IN THAT IT MAY WELL HAVE DESTROYED VALUE FOR BOTH SETS OF SHAREHOLDERS."

John Paul Crutchley, a Merrill Lynch analyst, told the FT in June 2006, that Barclays "clearly overpaid" for Woolwich. He went on "in some respects, the transaction was unique in that it may well have destroyed value for both sets of shareholders; both Woolwich's original shareholders as well as Barclays'." Mortgage balances at Barclays/Woolwich fell by 3% in 2005 at a time when UK balances grew by 10%.

Society brands still going strong

People sometimes ask whether smaller, local societies can compete with large national brands. This misses the point that bigger brands also need management, promotion, care and understanding. All of these were absent in the case of the Woolwich, demonstrating that economies of scale are not the be-all-and-end-all of mortgage lending in the UK. Size does not mean everything; determining the right strategy and executing it efficiently means a lot more, as the excellent results of many building societies much smaller than the Woolwich have demonstrated in recent years.

WORKSMART, THE SECRET SERVICE

FORMED IN 1995 BY DON MURRAY, WORKSMART HAS BEEN THE BEST-KEPT SECRET IN THE FINANCE INDUSTRY

Many of the industry's market leaders are using our 'best of breed' tool to minimise regulatory risk and enable best working practices.

Known as the Secret Service to many who use them, WorkSmart is the leading provider of software for managing regulatory activities, sales productivity and HR in the Financial Services sector.

Benefits

For regulation, WorkSmart helps its clients manage key business processes such as risk and compliance; T&C; complaints; testing; file checking; and financial promotions. WorkSmart provides benefits like removal of paper, transparency of activity, savings in management time and high quality management information.

WorkSmart's Sales Productivity tools enable sales managers to

forecast sales performance, analyse 'under-performance' and provide coaching on key areas identified.

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Additionally, WorkSmart provides a complete suite of tools for managing HR records and processes like performance management; on-line recruitment; sickness and absence; training administration; performance related pay; holiday management; discipline and grievance; and employee self-service. Clients have been able to create HR systems that are tailored to their needs with significant benefits.

Our implementation and post sales teams regularly receive plaudits from clients. Training is provided as part of the implementation process and is available by phone or email. Finally, regular User Group



meetings are held bringing together clients who share experiences; support each other and provide suggestions for enhancements to the software.

Experienced professionals

Our Account Managers and Technical Staff are all highly experienced professionals so you can be confident that your contact with WorkSmart will be effective and efficient.

When asked about the importance of becoming an Associate, Don Murray, said: "I'm delighted that WorkSmart is now a professional Associate of the BSA. The software we produce is some of the most innovative and exciting on the market today and with the ever-

increasing regulation of financial services we feel that the cost-effective, ground-breaking solutions that we offer will be of great benefit to the industry."

Processes

WorkSmart is undoubtedly the best way to manage processes and people. Our customers have saved both time and money by using WorkSmart, enabling them to focus on what matters most to the business.

Processes are a necessity to any successful business so wouldn't it be nice to say that the processes within your society are driving business as oppose to just helping maintain it?

Come and share the financial services industry's best kept secret and Work Smarter, Not harder.

i More information about WorkSmart can be found at www.worksmart.co.uk
email sales@worksmart.co.uk
tel 01908 613613

GB GROUP - AT THE FOREFRONT OF ID VERIFICATION

IN A WORLD WHERE FRAUDSTERS USE INCREASINGLY SOPHISTICATED METHODS OF GAINING ACCESS TO CASH THAT IS NOT THEIR OWN, CONSUMERS EXPECT BUILDING SOCIETIES TO PROTECT THEIR MONEY.



Robust identity verification

The best way of doing this is to implement the most robust identity verification systems available to protect their cash and the society's own reputation.

But recent research carried out by Manchester Business School on behalf of leading fraud prevention specialists GB Group revealed that over 6.5 million identity checks a year are carried out in the bank and building society sector – with most organisations

still using outdated, unreliable and costly paper checks to verify customer identities.

Online checks

GB Group is the leading supplier of online identity verification technology known as ID3™ and which includes the award winning identity checking service, URU™. The web-based URU™ application allows staff taking new applications to carry out an ID verification instantly to ensure customers are who they say they are.

GB doesn't just look at the credit footprint of a customer and pass them simply because they've been verified in the past – it actually continues to cross-reference data including passport or driving licence numbers against updated datasets and algorithms to

check for potential identity theft and the possibility that a previously "good" customer is trying to perpetrate fraud.

Comply with legislation

The company was the first to launch a purpose-built ID verification service in URU. This sophisticated but easy to use application tackles the growing problem of ID fraud and also helps building societies comply with the increasing raft of legislation relating to the prevention of money laundering and terrorism.

Newcastle Building Society has used URU™ to overhaul its identity verification procedures to crack down on the growing threat of identity fraud.

URU is used across its 51 branches nationwide and is

credited with saving the organisation money - cutting the time it takes to verify a new customer application from 24 minutes to just a few seconds.

But GB Group does not just sell an off-the-shelf solution. The Group's fraud prevention specialists will audit an organisation's current processes and outline how improvements in procedures and technology can help increase staff efficiency, customer retention and contribute to a strong corporate and social responsibility policy.

i More information about GB Group, URU™, ID3™ and the businesses and sectors the company is involved with can be found at www.uru.co.uk and www.gb.co.uk

FIVE MINUTES WITH ... MATTHEW BULLOCK, CHAIRMAN OF THE BSA

MATTHEW BULLOCK, CHIEF EXECUTIVE OF NORWICH AND PETERBOROUGH BUILDING SOCIETY, IS CHAIRMAN OF THE BSA FOR 2006/07.



Matthew Bullock
Chairman of the BSA

Before becoming Chief Executive of N&P BS in 1999, Matthew had a broad banking career spanning investment banking, credit risk management, retail banking and savings/investments, and corporate and high tech banking. Matthew has also had a wide involvement in government, academia and the R&D community, including sitting on the Financial Services Practitioner Panel. He is currently a member of the East of England Science & Industry Council, Chairman of the Advisory Board of the Centre for Business Research at Cambridge University and is a member of Cambridge University Audit Committee.

After reading history at Cambridge University, Matthew moved on to take up a Transatlantic Banking Scholarship with the CIB, later attending Harvard Business School following the Advanced Management Programme. Married with two daughters and one son, Matthew enjoys walking, gardening, opera and music.

Currently sitting in my in tray is our Basel application for an IRB waiver in the first wave of applications to the FSA.

The most important financial lesson I have learnt is that sophistication and consistency pays in financial markets.

I think that the financial services industry does well at operations, such as clearing cheques and other payments in incredible volumes within three days with very low error rates.

We could be better at telling our customers what they should expect and where risks lie and then following through that advice in ongoing communication.

The main developments in the mortgage market over the next five years will be the increasing power of brokers and the internet.

And in the savings market the growth of an 'offers' based culture, like the mortgage market enabled by the internet.

I am at my best when I am dealing with strategic planning issues.

I am at my worst when reconstructing the observation of rules in the past, such as we had to do for endowment mortgage complaints.

The thing I most enjoy about my job is getting people to see and grow into opportunities. **I least enjoy** the amount of reading.

The thing I worry about most is someone getting to where we want to be before we do.

I am currently reading Mikhail Sholokhov's "And the Don flows home to the sea" - the second part of a long novel about the Don Cossacks' part in the Civil War after the Russian Revolution.

My first album was "Rubber Soul" by the Beatles.

RETIRING CHIEF EXECUTIVE OF THE BANKING CODE STANDARDS BOARD, **SEYMOUR FORTESCUE** SHARES HIS THOUGHTS ON AN INDUSTRY HE HAS WORKED IN FOR 40 YEARS.



I've always thought of myself as a poacher rather than a gamekeeper, so it's ironic that I've ended my career with seven years as a regulator. As retirement beckons,

I'm glad of the chance to indulge in some nostalgia and to mount some hobby horses.

Increasing complexity

It must have been 20 years after I joined Barclays in 1966 that the words 'regulation' and 'compliance' entered my consciousness. As competition increased and customers were offered an increasing range of more complex products, the need for rules that defined rights and obligations became apparent. Various self-regulatory organisations came and went, and now the only remaining one outside the statutory fiat of the FSA is the Banking Code Standards Board.

Regulation – the price of doing business

After a series of mis-selling scandals, few would argue that regulation should be abolished. Almost all would accept that it is part of the price of doing business. The issue is what form the regulation should take. At the BCSB, we have sought to provide a regime which is proportionate, low cost, responsive and firm.

- **Proportionate.** Regulation must relate to the risk of consumer detriment. We are conscious that small building societies generally look after their customers well, so a full monitoring visit every five years plus ad hoc advice may be all that is needed. Three small building societies do not subscribe to the Banking Code: we'd really like them to join. The case for self-regulation is greatly weakened by any absentees.

- **Low cost.** The cost of mortgage and general insurance regulation rose massively when the FSA took over responsibility. At the BCSB, we have reduced our fees for four out of the past six years. Conscious that regulation can raise barriers to entry and be anti-competitive, we have been particularly keen to keep the costs down for the smallest players. The smallest building societies pay only £490 a year.

- **Responsive.** Marketing, technology and business practices all change with bewildering speed. The Banking Code is formally reviewed every two or three years. There are procedures for interim changes, though I sometimes wish that the industry would be more ready to respond to these. A Treasury Select Committee grilling of chief executives shows that rapid change is possible! So much better to be on the front foot anticipating pressures than on the back foot responding to them.

- **Firm.** It might be perceived as a weakness that our 2006 annual report contains no instances of disciplinary action. Not so. Regular monitoring visits with rapid follow up of breaches, plus behaving as advisers rather than just policemen, can have just as much effect in removing consumer detriment as does high profile disciplinary action.

Industry should be seen more favourably

With all this in place, it's a real disappointment that the industry is not seen in a more favourable light by consumers and the media. Tabloid editors

like to print the words 'greedy' or 'rip off' before the word 'bank'. They ignore the facts that free banking and free credit cards are not the norm elsewhere in the developed world.

In my view, just a few issues are the cause of the unpopularity: overly aggressive lending, default charges, commission driven sales of payment protection insurance and poor service levels. Generally these are outside the remit of the BCSB or issues about which it is hard for a code of practice to be prescriptive.

Wider reputational issues

Should building societies, most of which are not involved in credit cards, unsecured loans and current accounts, be worried about the reputation of the wider industry?

Or should they regard it as good grounds to proclaim the virtues of mutuality over their rapacious PLC competitors?

In my view societies should worry about the wider reputational

issues. They are not perfect. Three out of 14 of the BCSB's public censure decisions have involved societies. The *Mail on Sunday's* 'fat cat' allegations have touched a raw nerve. Bad practices such as charging penalty interest rates on the whole overdraft borrowing rather than just the unauthorised 'excess' are not confined to banks.

Societies key to sector

The building societies have a proud tradition of being trustworthy and fair. In striving to deliver the benefits of mutuality, they remain a key element of the financial landscape of which I have been proud to be a part.

"TABLOID EDITORS LIKE TO PRINT THE WORDS 'GREEDY' OR 'RIP OFF' BEFORE THE WORD 'BANK'."

AGM ADVANCES

IN RECENT YEARS STANDARDS OF CORPORATE GOVERNANCE IN BUILDING SOCIETIES HAS IMPROVED. ONE INDICATION OF THIS IS SOCIETIES' ENGAGEMENT WITH THEIR MEMBERS AT THEIR ANNUAL GENERAL MEETINGS (AGMS).

Increase in voting

The proportion of members casting their vote has increased significantly in 2006. On average, 17.3% of members returned their vote, compared to 14.2% in 2005.

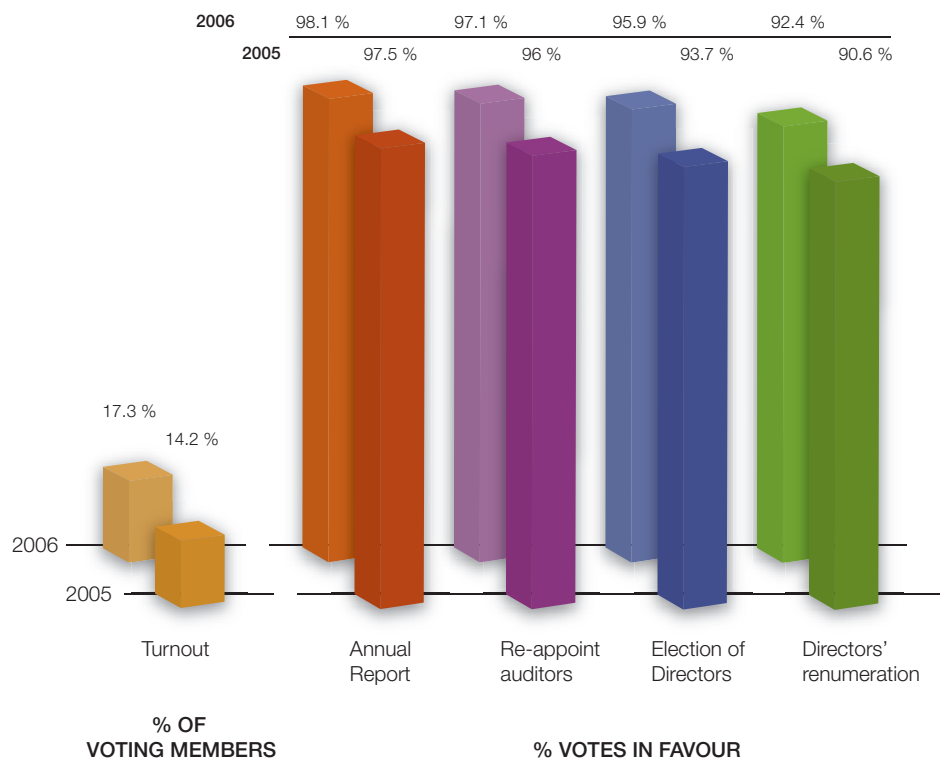
Many societies made concerted efforts to increase the turnout. Marketing campaigns and the offer of charitable donations for each returned voting form were among the strategies used to increase the response rate. So far this year nearly £250,000 has been raised for good causes by building society members casting their vote.

Voluntary vote on remuneration

There is an increasing emphasis on holding boards to account for their remuneration packages. For listed companies it is compulsory to hold advisory votes on their directors' remuneration report. Building societies hold a vote on directors' remuneration voluntarily and the BSA believes it is good practice to do so.

This year, 61 out of 63 societies held a vote on directors' remuneration. This is a vast improvement on prior years. Last year 54 societies held a vote, and in 2004, only 18

TURN OUT AND VOTES IN FAVOUR AT BS AGMS 2005/06



did so. The proportion of votes in favour of the remuneration report also rose this year, to 92.4%, compared to 90.6% last year.

Votes approving the annual report, the reappointment of the auditors and the election of directors were also higher compared to last year. All voting figures include abstentions.

The Combined Code

In their annual reports, 86% of societies also state that they have voluntarily had regard to the Combined Code on Corporate Governance. The Combined Code sets out standards of good practice in governance and UK quoted companies are

required by law to apply it, but building societies are not obliged to follow it. However, the BSA encourages societies to apply the Code where relevant and has issued guidance to assist them in this.

These results indicate that building societies take corporate governance and the engagement of the owners of the society very seriously.

i More information on AGM statistics contact **Andrew Gall** at andrew.gall@bsa.org.uk

THE BSA UNCOVERED



BY LAURA HARDING

IT IS EASY TO ASSUME EVERYONE KNOWS JUST WHAT YOU DO, AND HOW YOU DO IT, ESPECIALLY FINANCIAL SERVICES TRADE BODIES, WHO STRADDLE THE DIVIDE BETWEEN FIRMS AND THOSE WHO LEGISLATE, REGULATE AND COMMENTATE ON THEIR MEMBERS' BUSINESS. HERE WE TELL YOU EVERYTHING YOU NEED TO KNOW ABOUT THE BSA.

What is the BSA?

The Building Societies Association is the trade association for the UK's building societies. There are 62 building societies in the UK with total assets of over £270 billion and every society is a member of the BSA, meaning it truly is the voice of the sector.

What does the BSA do?

We carry out all the usual functions of a trade body, as our rules state:

"The principal Object of the Association is to represent and promote the interests of building societies as separate and distinct organisations in the field of financial services to Government, Parliament, the media, representative organisations and the general public."

This means that our main objectives are: to provide a forum for discussion and policy formulation such as seminars and working groups; to provide advice and information to members through circulars and increasingly online; to undertake research; and to meet and brief journalists, politicians, regulators and other opinion-formers.

The BSA offers advice and assistance on the whole range of issues affecting the operation of building societies, apart from some aspects of mortgage lending, which are looked after by the Council of Mortgage Lenders. The Association is not a regulator - that is the role of the Financial Services

Authority, nor does it deal with complaints about building societies - which are looked after by the Financial Ombudsman Service.

Who is the BSA?

We employ 27 members of staff who are all currently based at 3 Savile Row, W1 although the office will relocate to Kingsway at the end of 2006. The Council heads the BSA, and is made up of 12 building society CEOs elected and

nominated by the membership and representing different regions, backgrounds and sizes of society. The Council oversees the strategic direction of the Association, ensures the accountability of the Secretariat and, with advice from the BSA's staff, takes all major decisions that affect the Association.

Where does our money come from?

Unlike some other trade associations, the BSA is not a big commercial powerhouse. Nevertheless, just two thirds of our total income of £3.9million was funded by subscriptions from our membership and the other third came from the profit we made on our annual conference and other events and activities. The BSA makes a small profit every year; we invest our reserves with around half a dozen building societies.

Why are we effective?

Adrian Coles, Director-General of the BSA says, "our members trust us, we're close to them, we understand what they're about and we will always accept their invitations to events and conferences. We want to be responsive and approachable and therefore it is integral that we understand what our members want, and provide what they need to do their business efficiently and effectively. The knowledge we have of our members' business is the key to representing their interests in the wider world."

WHAT ARE OUR PRIORITIES?

The SEVEN KEY ISSUES identified in the BSA's policy priorities for 2006-2008 are:

- 1 Consumer Relations
- 2 Prudential and Financial Regulation
- 3 Constitutional and Corporate Governance Issues
- 4 Savings Policy
- 5 Financial Crime Prevention
- 6 Housing and Mortgage Policy
- 7 Payments Systems

Laura Harding undertook work experience with the BSA's external affairs team during summer 2006.

LOST ACCOUNTS - HIDDEN TREASURE OR PLUNDER?

HOW MONEY LYING FORGOTTEN IN BANK AND BUILDING SOCIETY ACCOUNTS SHOULD BE USED IS FIRMLY IN THE SPOTLIGHT.



Ever since Gordon Brown announced in the 2004 Budget that he had designs on lost accounts, people have been queuing up with ideas as to how best to spend it.

The Chancellor set out his ambition that unclaimed assets should be given over to encourage community engagement among young people and to promote financial capability and inclusion, in the 2005 Pre Budget Report. Separately, the Conservative Party has floated the idea of using the money to help fund pension scheme compensation. The latest organisation to set forward proposals is the Commission on Unclaimed Assets, which would like to see lost account monies used to establish a "Social Investment Bank."

The problem is, it sounds like a very simple idea - give money which no longer seems to belong to anyone to 'good causes' - but the reality is rather more complex.

The BSA starts from the premise that money in a building society always belongs to the person who deposited it. It should always be available to be claimed at any time by the individual, or if the person dies, by a rightful claimant. This should include the balance and any interest earned.

It is also important to remember there is a distinction between accounts that are lost and those that are merely dormant. In the case of the former, the society and the member have lost touch with each other. In the latter, the person knows perfectly well where their money is, but has not touched it.

This is especially the case for building societies, whose main business is savings accounts, where money is put away for the long-term for safe keeping. The 1990s also saw carpetbaggers opening accounts with the minimum balance allowed, in the forlorn hope that building societies would demutualise en masse.

To look at these issues in more depth, in October 2004 a

Working Party chaired by Treasury officials and made up from representatives from banks, building societies, the BSA and British Bankers' Association, was established.

THE COMMISSION ON UNCLAIMED ASSETS

The Commission on Unclaimed Assets

was set up at the initiative of the Scarman Trust. Chaired by Sir Ronald Cohen, the group is working up proposals in response to the Government's current policy, that bank and building society unclaimed assets should be paid over to good causes.

The Commission has been considering three main issues: reuniting customers with their money and consumer protection; the transfer of unclaimed assets to a new entity; and the best use of unclaimed assets.

The Commission proposes that the best way to achieve these objectives is to establish an independent financial institution using money from unclaimed assets. This follows the view that available funds will have a more lasting impact if used to provide equity for a "Social Investment Bank", leveraging further capital, rather than if the funds were distributed as grants or used to create a traditional endowment. Further information and the consultation paper can be found at <http://www.unclaimedassets.org.uk>

The BSA will be responding to the consultation, which closes at the end of 2006.

The proposal from the Treasury is that a voluntary approach to releasing lost accounts is adopted, based on a 15 year definition of dormancy. Using this definition, the BSA estimates that £50-£70 million is currently held in building society accounts, and £400 million in total for banks and societies.

However, just how money could be transferred out of banks and building societies is still the subject of detailed discussion, not least because of the complex accounting issues surrounding the inclusion of any monies in an independent scheme. For

building societies, there is the added issue of what would happen to membership rights.

The BSA has argued that only monies genuinely 'lost' accounts are included in any new scheme. For example, we have argued that a transaction on another account in the customer's name, or voting at a society AGM should be accepted as evidence that the society and the customer is still in contact.

We also contend that in order to maximise the amount of money available under any unclaimed assets scheme, the Government should rethink its decision not to involve National Savings and Investments' (NS&I) lost accounts in discussions. Evidence provided by NS&I to the Treasury Select Committee in October 2005, suggested that it may have around £1.8 billion in such accounts, with £25 million in unclaimed Premium Bond prizes.

But before any scheme is set up it will be paramount that as many people as possible are reunited with their money. We would expect that prior to the introduction of an unclaimed assets scheme, there will probably be a 12 month period where building societies will attempt to contact members, whose accounts fall within the definition of 'unclaimed'. The BSA already runs a free scheme which covers all building societies. Although it is the intention that people will always be able to claim their money, only after a period of high profile reunification can we be sure money handed over to charity really is hidden treasure rather than plunder.



For more information on the BSA's scheme visit www.bsa.org.uk or call 020 7437 0655.



For more information on lost accounts contact **Brian Morris** at brian.morris@bsa.org.uk



HIP PAIN CONTINUES



THE GOVERNMENT HAS EASED ONLY PART OF THE PAIN ASSOCIATED WITH HOME INFORMATION PACKS (HIPs) BY MAKING THE HOME CONDITION REPORT (HCR) ELEMENT OF THE HIP VOLUNTARY.

The BSA welcomed the decision and re-iterated our view that the entire HIP should be voluntary, but should include a HCR.

The HCR part of the HIP constituted a survey of the structural integrity of the property being sold. It was included in the HIP as an answer to concerns that the majority of buyers failed to get a survey of the property they are buying. Following the Government's announcement, the seller can now choose whether to include a HCR in the pack being made available to prospective buyers.

Unexpected surprises

This damages the Government's claims that HIPs will be a major step forward in terms of consumer protection. They maintained that, in view of the small numbers of surveys that were undertaken, buyers were at risk of purchasing a property, then finding it needs significant sums spent on it only after moving in. The HCR was supposed to help potential buyers get a better

understanding of the condition of the property before they bought it, and as a consequence, prevent any unexpected surprises.

So without this, buyers who fail to get a survey completed remain at risk of making an expensive mistake by buying a property which has hidden faults that need to be rectified after the sale has gone through, diminishing the value of the HIP.

Energy efficiency reports

However, this is not the only problem remaining with HIPs.

"WITH SO MANY CONCERNS REMAINING OVER THE PROPOSALS, WE BELIEVE THAT THE GOVERNMENT SHOULD NOW MAKE HIPs ENTIRELY VOLUNTARY."

The HIP will still require sellers to piece together documents such as title searches, planning searches and consents, building control certificates and

warranties and guarantees. As part of this, the seller will also have to provide an Energy Efficiency Report, providing buyers with information on the energy efficiency of the property and how it can be improved. And although this information will be of benefit to buyers, they may be a little apprehensive about the value of this information if they receive it a couple of months after it has been prepared.

Further delays?

The seller of a leasehold property will be required to provide all of the same information as a freehold seller. However, much of this information will have to come from either the freeholder or his agent. Not only may he choose to charge for the provision of this information, but it may take some time for this information to be made available. This could not just delay sellers plans, but also delay and disrupt chains.

Enough inspectors?

And all this assumes that there will be an appropriate number of inspectors able to compile HIPs. With concerns over the numbers of accredited inspectors being one of the reasons that the Government chose to make HCRs voluntary, reports since then have suggested that many of the inspectors that were in training have given up.

With so many concerns remaining over the proposals, we believe that the Government should now make HIPs entirely voluntary. This will allow any problems that the packs encounter to be overcome with the minimum of problems to buyers and sellers. And if they bring the claimed benefits, then, despite being voluntary, they will be embraced by both buyers and sellers.

i For more information on the BSA's housing and mortgage policy, contact **Neil Johnson** at neil.johnson@bsa.org.uk

TREASURY MANAGEMENT

- LIQUID ASSETS



IN THE FIRST COLUMN IN OUR SERIES EXPLAINING THE MECHANICS OF DOING BUILDING SOCIETY BUSINESS, JON PYZER, DIRECTOR AT KING & SHAXSON TREASURY SOLUTIONS, TACKLES LIQUID ASSETS. NEXT TIME JON WILL BE COVERING THE LIABILITIES SIDE OF THE BALANCE SHEET.



in immediately available cash, then any run can be stopped by the institution easily paying back savers.

So societies have to keep at least 3.5% of what they owe in investments that can be cashed in within eight days. This is called **8-day liquidity**.

Such investments can be in cash that has only been lent out for less than eight days, or securities such as UK Government bills or bonds, or certificates of deposits with banks, which mature within three months. All these investments are highly liquid and secure, with little or no chance of the borrower not repaying. Often, 8-day liquidity is held in bank accounts that are repayable on demand or at call. But investments in such 8-day instruments attract the lowest interest rate, so other types of investment are also allowed for the rest of the portfolio.

Prudential liquidity

These other investments have to be in instruments that are genuinely liquid. It

clearly is prudent to invest in such a way, and these investments are defined as prudential liquidity. These make up the balance of the assets held as liquid assets.

This prudential liquidity can be invested in cash deposits for up to three months, or high quality securities for longer periods. Certificates of deposits issued by banks and building societies are often held in this category, but then the society has to make sure that they only invest with the highest quality institutions. Such securities can be bought openly in the money market.

Short-term securities

Short-term securities issued by H.M. Treasury – Treasury Bills – are also becoming popular due to their liquidity and low risk. The whole market is moving towards buying securities for short-term investments rather than cash deposits. Cash deposits over three months until maturity do not count as prudential liquidity.

Longer-term investments

Longer-term investments are often made in Government bonds or securities issued

“THE WHOLE MARKET IS MOVING TOWARDS BUYING SECURITIES FOR SHORT-TERM INVESTMENTS RATHER THAN CASH DEPOSITS.”

by banks. The former, gilts, are traded through market makers and brokers. They have no credit risk, and can guarantee longer-term returns. But there is some risk that the capital value might fall if interest rates rise. Societies also invest in Floating Rate Notes. These are securities issued by banks and other institutions whereby the interest rate is reset every three months in line with market rates, though the investment may be for three or five years. These carry virtually no risk of capital loss but do not guarantee a fixed return.

Managing assets

Societies need to be able to repay savers if they want their money back; if all savings were lent out for twenty-five years on mortgages, there would not be any funds for savers to withdraw. So, typically societies keep between 15% and 25% of the amount owed to savers, depositors and others, in investments that can be quickly turned into cash. Managing these assets to ensure that they are safely invested is a key part of treasury management.

8-day liquidity

The types of investments that can be made are laid out in the FSA's Interim Prudential Sourcebook. The regulations also divide the investments into two categories. Hundreds of years of banking experience have told regulators globally that if an institution keeps around 3% of what it owes to savers

MOVING FORWARD WITH FINANCIAL CAPABILITY

SHAUN MUNDY, HEAD OF FINANCIAL CAPABILITY AT THE FINANCIAL SERVICES AUTHORITY, GIVES A RUN THROUGH OF THE STRATEGY DESIGNED TO HELP CONSUMERS HANDLE THEIR FINANCES MORE CAPABLY.

What do societies and their members stand to gain from the National Strategy for Financial Capability?

Aim

The overall aim of the National Strategy is to help consumers to improve their understanding and confidence when dealing with personal finance. In leading the strategy, the FSA is working in partnership with firms, the Government and the education and voluntary sectors.

Survey

Earlier this year, we published a groundbreaking survey into of the nation's financial capability. In summary the survey found that:

- most people are fairly good at making ends meet and keeping track;
- the majority are poor at planning ahead, such as planning for retirement or an unexpected expense or drop in income;
- overindebtedness, while very severe for some, is not widespread. However, two million households are just managing as it is and could be pushed into financial difficulties if their circumstances change;
- many are poor at choosing products and are unaware of the risks they have taken on; and
- under 40s are typically less capable, but carry much greater personal responsibility than their parents' generation.



Programme

We have designed a seven point programme to address these issues. Over the next five years, we aim to reach over ten million people. This will include around 1.8 million school children, two million students in higher and further education, one million young people not in education, employment and training, 1.5 million new or prospective parents, four million adults at work and four million visitors to the consumer information and tools on our website.

In schools - We are very encouraged that the Government has agreed to mainstream personal finance education in the maths curriculum from 2008/09.



To support this, we have partnered with the personal finance education group (pfeg), who are working to ensure that schools and teachers are equipped to provide good financial education.

At work - Free information packs and seminars are now being offered in workplaces. We have been very encouraged by the feedback we have received from seminar attendees: a high proportion have said that they will take action as a result.

So what can your society do to get involved and how can you help your members to take more responsibility for their own financial well being? From


“IMPROVING PEOPLE'S FINANCIAL CAPABILITY WILL BE OF BENEFIT TO YOUR SOCIETY AS WELL AS YOUR MEMBERS.”

featuring links to our materials and on-line tools on your websites, to providing secondees and sharing learning, there are many opportunities for your society to get involved. Contact me at Shaun.Mundy@fsa.gov.uk

We would also encourage your society to consider what steps it can take – including through the literature you provide to new and existing members and on your website – to educate and inform consumers.

Improving people's financial capability will be of benefit to your society as well as your members.

Their improved understanding and awareness of personal finance should lead to more demand for savings and protection products and more appropriate levels of debt: debt that is more likely to be repaid. They will also be more likely to identify for themselves when they should buy a product and which one to buy. This will mean that your customer-facing staff will need to spend less time educating your members about your products.

 For more information on the National Strategy for Financial Capability visit fsa.gov.uk/financial_capability

LENDING A HELPING HAND TO HOMEBUY



ANDY CATON FROM YORKSHIRE BUILDING SOCIETY EXPLAINS WHY THE SOCIETY SIGNED UP TO OFFER THE GOVERNMENT'S NEW SHARED EQUITY SCHEME.

Stake in a property

If all goes to plan, Open Market HomeBuy mortgages will become a new feature in the market from October this year. They form part of a range of assisted home-ownership schemes sponsored by the Department of Communities and Local Government (DCLG), aimed at improving the ability of key workers, such as nurses, teachers, policemen and social housing tenants, to acquire a stake in a property.

Four lenders involved

The Office of the Deputy Prime Minister (ODPM) commenced discussions with an original group of around ten lenders to jointly offer the scheme back in mid 2005. Since then, a number of elements have been substantially re-engineered (including the ODPM's own involvement in managing the initiative). There are now four lenders actively involved in the pilot scheme: HBOS, Nationwide Building Society, Yorkshire Building Society and, latterly, Advantage (the lending arm of Morgan Stanley).

Improve affordability

Unlike the existing Social HomeBuy and New Build HomeBuy schemes, key workers will no longer be restricted in the type of house they can consider buying on a shared equity basis (eg from a local authority or housing association or via public sector development projects). Apart

from widening the choice of housing, the scheme's other main objective is to improve affordability for key workers, especially those living in areas

"HOMEBUY IS DIRECTLY ALIGNED TO A BUILDING SOCIETY'S TRADITIONAL ROLE IN ENABLING RESIDENTIAL HOMEOWNERSHIP FOR ITS MEMBERS."

where the pace of house price inflation has most outstripped the growth in incomes.

Part government funded

The generic version of the mortgage allows up to 25% of the loan to be made on an initial interest-free basis – with the eventual repayment being linked to any increase in the value of the property. The equity loan is partly funded by the DCLG and partly by the lender, with the DCLG taking the more subordinate position in the event of default. The remaining 75% of the loan is provided by the lender on a conventional interest charging basis.

First time buyer difficulties

The issues of affordability and the difficulties facing first time buyers are clearly well known and well publicised. Since 1995, the proportion of loans for house purchase accounted for by first time buyers has fallen from 53% to 34%, whilst their average age has risen from 28 to

34 years old. Depending on your viewpoint, this may be seen as an inevitable result of inadequate supply in the housing market, a sign of shifting attitudes towards

homeownership, or a reflection of changes in the structure of homeownership – encouraged, for example, by the growth in Buy to Let. Or possibly all of the above.

Shared equity in the mainstream?

Either way, the Open Market HomeBuy scheme provides one potential solution to the affordability problem, albeit one that is limited to a particular group of public sector workers. And in doing so, it may possibly raise the prospect of other shared equity mortgages being developed in the mainstream market in due course.

Societies help homeownership

So, why is YBS a participant in the DCLG scheme? Fundamentally, we see it as an opportunity to address an obvious customer need and one which is directly aligned with a building society's traditional role in enabling residential homeownership for its members. But the product clearly carries

some quite untraditional risks. House price inflation is usually just a concern from a potential default perspective – in this product it also has to be factored into the expected revenue figures. The project has also presented its own unique challenges in terms of producing Key Facts Illustrations and developing the right processes for sales, distribution and administration. And under the new IFRS accounting regime, it's provided an endless source of joy and amusement for the finance team.

40,000 households

The DCLG aims to assist around 40,000 households to become homeowners through the Open Market scheme by 2010. Based on the government funding available for the scheme, this seems to present a worthwhile market opportunity for a lender of YBS's size and an innovative way of delivering a mortgage solution to a new group of members. Only time will tell whether shared equity mortgages develop from being part of a labour market solution for the public sector into a housing market solution for a wider group of first time buyers. But you can't help feeling that demand should exist for the right proposition.



THE BUILDING SOCIETY SHARED SERVICE PLATFORM - DREAM OR REALITY?

BY BARRY MEEKS, MANAGING DIRECTOR, MUTUAL ONE

A few weeks ago I sat down for a coffee with an old friend who today is chairman of one of the UK's top ten lenders. Our discussion covered everything from new lenders, to HIPs, politics, personalities in the sector and all the usual gossip.

New entrants

But what staggered me was the sheer volume of business his firm was handling, running at a daily application rate of circa £100m! Now here was a business which did not exist in its current form ten years ago. So how has it been achieved?

Well it's always been focused on its target markets, designing products to suit different sectors, developing relationships through all channels, marketing effectively and innovating in electronic trading. But above all it has followed virtually a 100% outsourced business model for most of its systems and mortgage administration. This has delivered an ability to work with an exceptionally low gross margin, which when you then align to a high level of critical mass and strong systems, is a recipe to continue to grow and thrive.

Business comes from societies

So where did this business come from? Partly from organic growth in the market, partly from creating unique products that other lenders cannot match. However, a great deal has come from you – UK building societies - in the form of good old fashioned prime lending. And in 2006/2007 it is estimated another 12 or so new lenders will come into the game, with the same appetite and similar business models.

The fight back

So how will the building societies fight back? One CEO recently told me that societies do not need to. They can sit back for many years and see their lending and market share fall, ride out the storm on the back of 150 years reserves and let the 'new boys' compete and burn. Now I can understand why he said this, and maybe for a few years it could be a sound philosophy. However not actually competing for new customers, not trying to retain existing customers and not investing, innovating or developing the

business competitively, means you're actually not in the game long term and seems highly risky.

So what are the alternative options? Well there are four clear choices...

1. BUILD CRITICAL MASS

- clearly the bigger any operation, then one would hope the cost asset ratio/cost income ratios also move positively, giving a society of some size a degree of ability to compete. So where's the threshold size? Well, I'd say a minimum of about £20bn.

2. CREATE A DIFFERENTIATED BUSINESS STRUCTURE

- build income streams from non-traditional operations, leveraging your capital into new sectors and new markets. The Skipton, West Bromwich and Newcastle are prime examples of this approach. This strategy however comes with a degree of risk and requires strong management and an entrepreneurial operating culture.

3. GO NICHE

- some building societies are already niche operations either working in one town, or focused on one market group or one region. These societies, if they can address the challenges of inflexible costs and limited distribution, could move forward aggressively and highly successfully.

4. SHARED SERVICE PLATFORM (OUTSOURCED MODEL)

- this option covers the whole spectrum of outsourcing, franchising, and running a "virtual society". Some societies have dabbled already, by outsourcing IT, internal audit, or regulated insurance sales. Some have turned branches into agencies. But only one or two societies have taken the harder, bigger decision to copy the business model of their competitors and outsource all non-customer critical processes, such as investment/mortgage administration, treasury, finance, compliance, HR and training as well as systems and audit

Shared Service Platform

In Mutual One we are developing new business operating models for building societies outlined in option 4. At our core is not just the concept of simple outsourcing, but the delivery of a total "Shared Service Platform", which for years has been a dream of many in the industry. Building societies have much more in common than that which divides them; they share the same regulator, need the same or similar reporting support and MIS, need the same governance oversight and therefore have similar audit and compliance drivers. They all sell mortgages, savings and insurance products, all in either a retail or centralised context or both.

So why can't societies build a common operating platform and all share the costs in a true "collective" structure? That's why Mutual One was created, to provide a collective internal audit service. We are now expanding that model into compliance, mortgage distribution, financial services and ultimately into the full virtualisation/shared service platform scenario.

Making the dream a reality

Such a business model would leave building societies free to do what they do best and in my opinion far better than many of these new players. To develop and nurture customers, to provide superb retail services, selling products people need and which they can trust, delivered where they need them and to do all of this from a cost base that is shared, has critical mass and exists to do nothing else but to specialise in those support functions. It may sound like a dream but we are talking to a number of building societies today about making this a reality.

It's the future - are you interested?



More information about Mutual One contact **Barry Meeks** at barrymeeks@mutual-one.co.uk

DATA SHARING TO REDUCE FINANCIAL CRIME

BY ALEX LYONS, CIFAS POLICY & PROJECT MANAGER

SEVERAL BUILDING SOCIETIES HAVE REPORTED SUBSTANTIAL BENEFITS IN THE FIGHT AGAINST FINANCIAL CRIME, BY SHARING THEIR FRAUD DATA WITH OTHER ORGANISATIONS FROM ACROSS THE INDUSTRY.



Societies sharing information

Chelsea, Norwich & Peterborough and Coventry, along with ten other building societies share information on identified frauds through CIFAS, the UK's Fraud Prevention Service. The 250 members of this unique not-for-profit scheme reported combined benefits in excess of £680m in 2005.

The way CIFAS works is simple, as Chief Executive Peter Hurst explains "it's all about protecting our members from fraud by sharing data. Members commit to recording their identified frauds on an online database, and benefit from access to each other's records through this same database, regardless of their industry sector. This helps to prevent fraudsters from using the same identities, addresses and scams from one member to the next."

"THE UNDERLYING PRINCIPLE OF CIFAS IS THAT FRAUD PREVENTION IS A NON-COMPETITIVE ISSUE."

Savings

The total amount of fraud prevented by using the system has rocketed from £360m in 2002 to a predicted estimate of £700m in 2006. Financial Crime Manager Simon Pugh at

Chelsea Building Society states "categorising sources of fraud cases is not an exact science, but we estimate that around £7million of our 2005 fraud savings were a result of using CIFAS."

The underlying principle of CIFAS is that fraud prevention is a non-competitive issue, and the way to tackle it is through co-operation and communication. Members come from sectors such as banking, mortgage lending, personal finance, credit cards, asset finance, retail credit, mail order, insurance and telecommunications, from very small organisations to large multinationals, with each member paying an annual subscription according to its size.

Filed with the police

Members undertake to investigate and record attempted and successful frauds. Not surprisingly, the types of fraud recorded through CIFAS are as diverse as the membership. Members record everything from identity fraud, false employment details, concealed addresses, fake documents, to the misuse of accounts, across a variety of products, facilities and accounts. In every case, there must be sufficient evidence to report the fraud to the

Police before it can be filed with CIFAS.

Once a fraud is registered, 'warnings' are automatically recorded at the addresses involved with the credit reference agencies and through MCL's 'Hunter' product. Any other CIFAS member subsequently searching the address views the warning and is prompted to make extra checks. Simon Pugh at Chelsea BS continues, "CIFAS is an integral part of our defensive wall to detect and prevent fraudulent mortgage applications. It gives us an early warning that a particular case may require closer scrutiny and we tailor our response to concentrate on the higher risk cases."

Vetting

Stewart Carter is Operational Risk Manager at Coventry Building Society, a member since 1997, "investigation of CIFAS alerts forms a fundamental part of our vetting processes for mortgage, unsecured loan and current account applications. Over the years, this has helped us to identify and decline fraudulent applications, as well as to play our part in preventing innocent people's personal details from being used by fraudsters to obtain credit."

Exchange of information

In addition to the core benefits of CIFAS, there are other advantages, as Investigations

Officer Geoff Coltman at Norwich & Peterborough points out, "since 1994 we have consistently achieved substantial benefits as a result of fraud prevented thanks to the use of CIFAS. As well as the financial benefits, we have built up invaluable contacts with many other members, which allows us to exchange



details on best practice, tricks of the trade and latest scams, all of which assists us in becoming more effective in the fight against fraud."

Other societies sharing information through CIFAS include Nationwide, Leeds, Derbyshire, Portman, Principality, and Yorkshire, and with Skipton Building Society now a member, CIFAS seems fit to remain a central feature of many societies' fraud prevention strategies.



More information on CIFAS visit cifas.org.uk

FORTHCOMING EVENTS

Audit & Accounting Update

5 October 2006

Nottingham

In a highly specialist and regulated sector it is important for firms and auditors to keep up to date. This seminar provides a summary of the key changes to regulatory, auditing and accounting requirements, and explains the implications of such changes for building societies.



BSA Annual Lecture

17 October 2006

London

This year's lecture, "Current issues in retail financial services", will be delivered by Peter Vicary-Smith, Chief Executive, Which? The event, which is kindly sponsored by WorkSmart Solutions LLP, provides an opportunity to network with colleagues from building societies, regulators, government, trade associations, the media and others.

'Fast Start' - An Introduction to Building Societies

26 October 2006

London

This popular seminar provides recently recruited staff and graduate trainees with an intensive introduction to building societies. The event brings together a team of experts which would be difficult to assemble on an in-house basis (especially for a small number of new personnel) to offer a series of papers that challenge the intellect and provide a memorable introduction to the industry.

Introduction to Treasury Management

1 November 2006

Midlands

This workshop introduces directors and senior managers to treasury management.

Treasury Risk Management workshop

2 November 2006

Midlands

This workshop is designed to further participants' knowledge and understanding of treasury management.

BSA Annual Lunch

9 November 2006

London

This popular networking event, sponsored by Zurich, attracts around 200 guests from BSA members and associates, regulators, government, trade associations, the media and others. This year's guest speaker is Ed Balls MP, Economic Secretary to the Treasury.

Seminar for Newly Appointed Building Society Directors

29 November 2006

London

This seminar provides an intensive introduction to building societies for newly appointed directors. It covers issues such as the competitive pressures facing societies, the regulatory and legislative framework, the role of the board, and financial policy issues.

Seminar for Established Building Society Directors

5 December 2006

London

This seminar summarises the key issues affecting the building society sector and facilitates an exchange of ideas on strategic issues.

BSA Annual Conference & Financial Services Exhibition

23-24 May 2007

Bournemouth

The annual conference brings 300+ building society directors and senior executives together to hear top class speakers and exchange views and ideas on industry issues.

Forthcoming dates for your diary:

The Changing Face of UK Payments Forum

21 November 2006

Nottingham

Lifetime Mortgages Seminar

23 November 2006

Central London