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# Matters Society

*from the Building Societies Association*

## MUTUALS PUTTING THE CONSUMER FIRST 6 PAGE POLICY SPECIAL

FEATURING TONY HAZELL, EDITOR OF THE DAILY MAIL'S *MONEY MAIL*

### **THE CONSUMER AND FINANCIAL COMPLEXITY**

BY VINCE CABLE MP, LIBERAL DEMOCRAT SHADOW CHANCELLOR

### **FIVE MINUTES...**

WITH IAIN CORNISH, THE BSA'S NEW CHAIRMAN



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## WELCOME TO THE SUMMER EDITION OF *SOCIETY MATTERS*, THE BSA'S QUARTERLY MAGAZINE.



"WE OFTEN BOAST THAT BUILDING SOCIETIES OFFER BETTER CUSTOMER SERVICE... NEW RESEARCH FROM THE BSA PUT THIS THEORY TO THE TEST AND REVEALS THAT CUSTOMERS REALLY DO RATE THE SERVICE THEY GET FROM SOCIETIES AS BETTER THAN THAT FROM THE BANKS."

We are already half way through 2007 and it has been another very busy year for building societies.

Looking internally for a moment, the BSA held another successful conference at which Iain Cornish became the Association's new Chairman. Iain gives a brief insight into his thoughts and inbox on page 6.

The conference mainly examined the key business issues facing the sector today. One of those is surely that the economy has a few

dark clouds forming. Since August 2006 we have seen a 1% rise in the Bank Rate, putting a strain on some household finances.

While we believe that there will not be a sudden correction in the market, this is something which worries our contributor Vince Cable MP, the leading Treasury spokesperson for the Liberal Democrats. Vince is known for his thoughtful and forthright expositions on consumer relations and financial services. His article for *Society Matters* does not disappoint, raising a number of challenges for the industry.

This edition we have concentrated on "mutuals putting the consumer first" as our policy special. We often boast that building societies put their members first, which means better customer service.

New research from the BSA put this theory to the test and reveals that customers really do rate the service they get from societies as better than that from the banks. Tony Hazell, the widely respected editor of the Daily Mail's money section, sets out his view on what building societies should be offering consumers and two societies, Britannia and Saffron, explain how they go about making sure members are valued and get the service they deserve. In addition the Financial Sector Skills Council (chaired, by the way, by a building society executive) explain how staff training helps improve member satisfaction levels.

I hope you find the read an interesting one. As always, if you have a comment on any of the articles, or want to contribute your own views to *Society Matters*, do get in touch.

**Adrian Coles**  
**Director-General**

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# THE CONSUMER AND FINANCIAL COMPLEXITY

BY DR VINCENT CABLE MP, LIBERAL DEMOCRAT SHADOW CHANCELLOR



Liberalisation of markets has opened up many new possibilities for aligning consumer preferences with what is available in the market; but also, because of the complexity and range of products on offer, there are serious dangers of mis-selling (or mis-buying). As someone who champions my constituents I engage with banks and other financial institutions mainly over 'mis-selling' issues but I recognise the wider merits of choice (and in particular the choice between mutual and non mutual institutions).

## Regulation: The right balance?

There is another dimension to the arguments about financial services. The main financial institutions of the City are not only retailers to the British public but major exporters of financial services. The system of financial regulation under the Financial Services Authority (FSA) recognises that dual role, at least in principle, with a 'twin peaks' approach to regulation in which the international, and wholesale, operations are subject to 'light touch' regulation and the UK retail operations are more heavily regulated. This distinction is easier to make in theory than practice. And in the early years of the FSA a succession of problems in relation to endowments, split cap trusts, precipice bonds and Equitable Life led to a

THERE HAS BEEN A REVOLUTION IN FINANCIAL SERVICES IN THE LAST TWO DECADES CHARACTERISED FOR THE CONSUMER BY A GROWING AND SOMETIMES BEWILDERING CHOICE OF INSTITUTION, INVESTMENT OR TYPE OF LOAN.

questioning of whether the balance was right, and sufficiently protective of the consumer.

## Transparency

I frequently meet bankers who see themselves as buccaneering international business men flying the flag for Britain and who are deeply miffed when they are attacked by the press, MPs or pressure groups for 'ripping off' their consumers and earning 'excess profits'. But both are true. There are several specific issues which create continuing tension between the banking sector in particular and consumer groups. The first relates to transparency. There has been a long debate, involving the OFT, over credit card charges which are often so complex and obscure as to be invisible. There is now agreement on the need for an explanatory box but not, as I would like, a standardisation of the box so it is possible, at a glance, to compare products. The controversy has now shifted to bank overdraft charges which may be illegal in some cases as well as difficult to identify in advance. The OFT is, again, investigating.

A STRONG MUTUAL SECTOR IS AN IMPORTANT SOURCE OF DIVERSITY AND COMPETITION.

## Service standards

Second, there are persistent complaints about poor standards of service with many mistakes, cut backs in branch networks and a clearing time for cheques which is one of the slowest in Europe. The obvious response to poor service – which is to change supplier – is less satisfactory if most banks have similar deficiencies and if there are practical obstacles to moving accounts quickly and easily.

## 'Irresponsible' lending

Third, there are growing concerns about 'irresponsible' lending caused by an aggressive approach to expanding market share and commission based employment in the banks. Bad practice is widespread including unsolicited offers of loans, increased overdrafts and new cards. Mortgage lending is taking place at multiples of income which are certainly unprecedented and probably reckless, especially where this involves non-verified

income. Only a minority of mortgage advances are covered by insurance.

There is a – somewhat theological – debate as to whether the blame for irresponsibility lies with the borrower or the lender. A more practical approach is

to worry less about finger pointing and to concentrate on the likely consequences which include growing bad debt, growing insolvencies and repossessions.

## Profits

Fourth there is the issue of whether the banking sector is making 'excessive' profits from its customers. This is an issue which enrages bank bosses who think they are being attacked for running successful businesses. But there is a serious point, argued in careful detail in the Cruickshank

Continued over ■■■

## THE CONSUMER AND FINANCIAL COMPLEXITY Continued

report, in 2000, that, because of various restrictions on competition, the commercial banks were consistently earning up to £5bn a year more than could be justified in terms of average market rates of return and the industry risk factor. As it happens, this is also roughly the amount of extra profit estimated to have been paid to shareholders as a consequence of the demutualisations which took place in the 1990s. The unwillingness of the government to follow up the Cruickshank report – which recommended a regulatory body, PayCom, to deal with these aspects of the business (like the clearing system) where banks enjoy a network monopoly – has led to continued, and justified, protests from me, among others, over profitability levels.

### Looking ahead

I am seriously anxious that the long boom we currently enjoy has created a legacy of unsustainable debt and when it ends there will be a brutal reckoning which will lead to much personal hardship and a trashing of the reputation of financial institutions. There is little prospect, now, of undoing the

damage already caused by the lending of the past. But there are various steps which should now be taken. The first is to build on the OFT investigation into payment protection insurance to establish a basis for rolling out affordable and transparent products to protect the millions not currently covered against the risks of redundancy or illness. The government could play a role here by promoting basic 'stakeholder' products.

A second is to complete the process of pooling debt data where the government's refusal to incorporate student debt is a major obstacle. Third, consumers are undoubtedly being taken advantage of in many ways and there is a need for a quicker response than is provided for in the complex, legalistic, enquiries of the OFT and the regulatory paper chase of the FSA

MORTGAGE LENDING IS TAKING PLACE AT MULTIPLES OF INCOME WHICH ARE CERTAINLY UNPRECEDENTED AND PROBABLY RECKLESS, ESPECIALLY WHERE THIS INVOLVES NON-VERIFIED INCOME.

and the Financial Ombudsman. An early priority is an agreed set of rules to enable customers to switch accounts quickly and without penalty when they are dissatisfied with the service provided by banks (or building societies). I would add, here, that a strong mutual sector is an important source of diversity and competition (though, as I know from my postbag, it is often as bad at dealing with complaints as the commercial banks).

Finally, there are the long term priorities of financial education and generic financial advice. The Government and the industry is seized of the importance of both of these, though progress is maddeningly slow.

**Vincent Cable is the Liberal Democrat Member of Parliament for Twickenham.**

## NEWS

from the BSA's latest Associates

## STERLING INTERNATIONAL BROKERS

STERLING INTERNATIONAL BROKERS LIMITED (SIB) IS DELIGHTED TO BE AN ASSOCIATE OF THE BUILDING SOCIETIES ASSOCIATION. IT LOOKS FORWARD TO DEVELOPING EVEN CLOSER TIES WITH THE SECTOR.

SIB is a specialist company operating out of London, which concentrates on three main areas of business to building societies. SIB undertakes traditional money broking services involving the execution of money market deals in all major currencies. The Sterling Consultancy Services division gives advice and training on the ever increasing complexities of treasury management. The company also provides a Cash Management Scheme whereby it administers a specialist cash fund suitable for those societies who wish to maximise returns within a tailored framework that protects against capital risk.

SIB has a long and committed history within the building society sector. In all areas of

business, it is focused on adding value by striving for excellence and promoting within the company the highest levels of expertise, knowledge and integrity. This philosophy has been enhanced and encouraged by the Skipton Building Society who, in July 2006, acquired a majority shareholding in the company.

As a result of the many years of working with the sector, most building societies will be familiar with the majority of our staff and the products and services offered; however, the impetus is to expand these services. Whilst SIB's broking team are heavily involved in arranging structured deals, FRN's and sub-ordinated debt the



Consultancy division continue to take far greater involvement in the treasury function of societies.

All the services offered encapsulate the company's underlying philosophy to be the natural first choice for those societies requiring a specialist service.



For more information please contact: **Peter Shuttleworth**, Managing Director

on 020 7962 9960 or visit the website at: [www.sterling-int.co.uk](http://www.sterling-int.co.uk)

## BANK MACHINE

### ATMS - THE NO COST SERVICE FOR BUILDING SOCIETIES

BY RON DELNEVO, MANAGING DIRECTOR, BANK MACHINE LIMITED



Bank Machine created the ATM revolution in the UK, installing the first Independent ATM in 1998.

Before 1998 there were only 25,000 ATMs in the UK - now there are over 60,000. The level of service to customers has improved immeasurably.

Of course, certain elements of the media have focused entirely on the increase in the number of pay-to-use ATMs. This focus misses the point that there are

now more free-to-use ATMs in the UK than ever before and Independent ATM operators run a significant number of them. Bank Machine has been particularly active in this respect. Hospitals, police stations, military bases and low-income areas all have free-to-use ATMs as a result of our efforts.

Now Bank Machine would like building societies to have our free-to-use ATMs at their premises.

Currently, few building societies have ATMs. Many take the view that it would be costly and, anyway, most societies don't provide card access to their accounts.

To deal with the second point first, even if a society does not provide card access to accounts, the fact is that most customers WILL have such cards in their wallets, supplied by other institutions. Providing an ATM ensures society members are more likely to use the branch as a 'One Stop Shop' for their financial services needs.

Now on to the first point: Bank Machine is willing to provide free-to-use ATMs to any building society that wants them and AT NO COST TO THE SOCIETIES!

Bank Machine meets ALL the costs of providing a fully managed ATM service, including cash provision and replenishment.

Bank Machine also encourages participating societies to use the ATM signage and screens to promote their services - again free of charge.

Too good to be true? Not at all. Bank Machine is making a genuine offer to assist the building society movement improve customer service.



For more information please contact me on **07973 210154** or visit our website at **[www.bankmachine.com](http://www.bankmachine.com)**

## ODGERS RAY & BERNDTSON

TWO OF THE BIGGEST CHALLENGES SOCIETIES FACE ARE LEADERSHIP SUCCESSION AND DEVELOPING AND MAINTAINING BALANCED AND EFFECTIVE BOARDS.



As the leading UK executive search firm, we can play a key role in helping societies identify, qualify and attract leadership talent. We have significant experience of working with societies to recruit executives, non-executives and senior managers and became an Associate of the BSA as part of raising our commitment to the sector.

The mortgage and savings market is more competitive than ever; regulation is intensifying as are member expectations. Against this background societies are

thriving, often without the economies of scale of competitors, differentiating through service and relationships and developing new profit streams.

Treating customers fairly and offering long term security have always been mutual values. Being true to these values today requires real commercial leadership, not just at the top but society-wide. A culture of creativity, engagement with staff and members, pragmatic governance and risk management is required. Some believe the

challenge of "how can we best deliver value to members" is much tougher than "how can we maximise return to shareholders".

Creating and sustaining an outstanding leadership team is a clear imperative for societies. The board and general management team set the direction and parameters for a society to serve members' needs. Succession planning is important, but mixing the gene pool and recruiting talented individuals with different experiences and perspectives is equally vital.

Supplementing our sector expertise, we can access talent in retail, property, outsourcing and other relevant sectors. We engage functional experts in financial management, IT, HR and PR to address specific needs. We also have an established network of regional offices; proximity and engagement with our customers is important too.



For more information visit **[www.odgers.com](http://www.odgers.com)**

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The views expressed are those of Associate companies.



More information on becoming a BSA Associate can be found at **[www.bsa.org.uk](http://www.bsa.org.uk)**

## FIVE MINUTES WITH...

## IAIN CORNISH

CHAIRMAN OF THE BSA

Iain became Chief Executive of Yorkshire Building Society in 2003. He joined the Yorkshire in 1992, initially in a corporate planning role and thereafter held a variety of posts spanning marketing, product development, insurance, compliance and corporate affairs.

**Currently sitting in my in tray is** risk committee papers, pension trustee committee papers, a Board strategy awayday agenda, daily sales performance figures, a draft press release from the FSA on TCF progress – and a 'to do list' with 41 items on it!

**The most important financial lesson I have learnt is** to face up to financial decisions, but keep money and financial matters in their proper perspective.

**I think the financial services industry does well at** coming up with competitive and innovative products – that, and occasionally shooting itself in the foot.

**But it could be better at** seeing the world through the eyes of the customer.

**If I could change one thing in my time as Chairman of the BSA it would be** to make further progress on promoting the building society sector as diverse, distinctive, successful and beneficial for consumers.

**The main developments in the mortgage market over the next five years will be** greater competition and more imaginative and flexible solutions to allow more people to get a foot on the housing ladder.



Iain Cornish, CEO of Yorkshire Building Society is Chairman of the BSA for 2007/8

**And in savings** - again greater competition for retail funding and products which allow high street customers to access a wider range of asset classes. I would like to think there will also be a simpler regulatory regime which encourages saving.

**My inspiration has been** Sir Ernest Shackleton. I have always thought of him as an inspiring character. I went to the same school as him, and on permanent display was the 23ft open boat in which he sailed the 500 miles from Elephant Island to South Georgia during an Antarctic winter. As an example of courage and determination in the face of adversity that's about as good as it gets.

**I am at my best when** I am working with people who are enthusiastic and really care about what they do. I am extremely fortunate in that there are many such people at the Yorkshire, and in the building society sector generally.

**But am at my worst when**, on those fortunately very rare occasions, I have had to work with people who aren't enthusiastic and don't care!

**The thing I most enjoy about my job is** the sheer variety of it, and the opportunity to meet colleagues and members around the country with vastly different perspectives and always an interesting story to tell.

**And I least enjoy** - with an Arrow visit coming up I am not going to say.

**The thing I worry about most is** my family.

**I am currently reading** Parallel Lives, by Alan Bullock, and the Tenderness of Wolves by Stef Penney. The latter is a beautifully written novel, but I am getting through it at quite a slow pace so if you see me, please don't tell me the ending.

**My first album was** either Elvis Presley's greatest hits or Atom Heart Mother – I can't remember which.



## WHAT DO CONSUMERS REALLY WANT FROM THEIR BUILDING SOCIETY?



ASKS TONY HAZELL, EDITOR OF *MONEY MAIL*



**TOP SAVINGS RATES AND LOW BORROWING RATES MAY BRING CUSTOMERS THROUGH THE DOORS BUT ONCE THEY ARE SIGNED UP MEMBERS DEMAND, ABOVE EVERYTHING ELSE, HONESTY, TRANSPARENCY AND FAIR TREATMENT.**

Without these a building society has no right to expect loyalty from its customers. On the whole societies do pretty well but there are areas where some could try harder.

Take notice savings accounts. Over the past year we've seen plenty of occasions when rates on these accounts have been moved out of line with base rate.

How can it be fair to do this in the full knowledge that the customer cannot have access to their money for perhaps 30 or 60 days? Northern Rock, a bank, gives its notice customers warnings of rate changes; surely building societies should follow this best practice.

Then there are the bonuses so loved by the marketing people. I remain convinced that these are simply a way of cutting rates by the back door once savers are lured. Is this transparent or fair? I would argue not.

In fact any strategy to cut rates on one account and then close it so a better alternative can be launched is not playing fair with your existing members.

What's of most concern here is that it is often the most vulnerable savers whose are left earning a pittance in the closed account.

Then we had the mortgage exit fee episode. It should not have taken the regulator to tell building societies that raising these fees as a means of penalising customers who planned to remortgage was

wrong. These customers had read and signed a contract and had a right to expect their lender to abide by it.

The difficulty faced by building societies is how to meet all customers' expectations while remaining competitive in the market and profitable.

But most customers don't expect to earn the highest savings rates

or pay the lowest mortgage rates all the time - instead they expect fairness over the long term.

There are plenty of occasions when building societies get it spot on. Nationwide's debit and credit cards, which don't charge a foreign currency transaction fee, are the perfect example of transparent deal that brings real value to consumers.

Savings accounts for pensioners - a group generally overlooked by banks - are another.

Involvement with the local community is also vital if societies are to retain a special place in the hearts of customers. Coventry Building Society gives employees a day off to work with a local charity, Norwich & Peterborough is aiming to become carbon neutral and there are plenty of examples of societies raising cash for local causes.

But the key test for any society is to remember that you are the employees of your members and are there to serve their interests. The organisation belongs as much to the pensioner in the High Street as it does to the young couple getting their first mortgage.

Keep that at the forefront of your thinking and you shouldn't go far wrong.

**MOST CUSTOMERS DON'T EXPECT TO EARN THE HIGHEST SAVINGS RATES OR PAY THE LOWEST MORTGAGE RATES ALL THE TIME - INSTEAD THEY EXPECT FAIRNESS OVER THE LONG TERM.**

# ARE YOU BEING SERVED?

NEW RESEARCH COMMISSIONED BY THE BSA SHOWS THAT CONSUMERS RATE THE SERVICE THEY GET AT BUILDING SOCIETIES AS BETTER THAN AT OTHER FINANCIAL SERVICE PROVIDERS. THIS STEMS FROM THE CENTRAL ROLE CUSTOMERS PLAY IN BUILDING SOCIETIES' OWNERSHIP STRUCTURES.

Consumers need to be informed that they don't have to tolerate the poor service they receive at banks, and that there are alternatives available that provide greater levels of satisfaction.

## The 'mutual dividend'

As they are owned by their customers, building societies do not have to pay dividends to shareholders. As a result, they are able to offer higher savings rates and lower mortgage rates than publicly quoted institutions, and their products consistently feature in the best buy tables. In addition, it is often claimed that building societies provide superior customer service compared to other financial institutions. For example, the quote from Liz Dolan shown is typical of those to be found regularly in the press.

The BSA commissioned GfK NOP to conduct independent research into levels of customer satisfaction with savings and mortgage providers to determine how service was rated at different institutions. The results of this research, presented at the BSA Annual Conference in May, show that service at building societies is judged better than at other financial service providers.

The research found that 71% of savers were extremely or very satisfied with the service at building societies, compared to just 56% of those using other savings institutions. On the mortgage side, 72% were extremely or very satisfied at building societies, against 62% at other lenders.\*

To analyse the provision of service in more detail, the BSA commissioned further questions that asked savers and mortgage borrowers to what extent they agreed that they received good service across several other criteria. Building society customers tended to agree more with the propositions, while bank customers often disagreed strongly with the statements. This applied for both savers and mortgage holders. The results are summarised in the chart opposite.

## Fairness

Of building society customers, 24% strongly agreed that they are treated fairly. While 14% of bank customers also feel this way, 20% strongly disagreed that they are treated fairly.

"WHILE COMPLAINTS ABOUT LOUSY SERVICE FROM BANKS ARE COMMON, I RECEIVE VIRTUALLY NONE FROM BUILDING SOCIETY CUSTOMERS."

LIZ DOLAN,  
SUNDAY TELEGRAPH,  
12 NOVEMBER 2006

## Trust

19% of customers strongly agreed that they trusted their building society to give good advice (and a further 39% agreed slightly, not shown in chart). In contrast, 17% strongly disagreed that they got this service from their bank (a further 17% disagreed slightly).

## Value

A fifth of building society customers strongly agreed that they got reasonable value for money, but a fifth of bank customers strongly disagreed that they got a good deal.

## Advocacy

As a result, nearly a third of building society customers would advocate their financial service provider to friends and family, compared to just over a quarter of bank customers. It is surprising that so many bank customers would recommend their institution to others, given the large proportion who strongly disagreed with the other propositions.

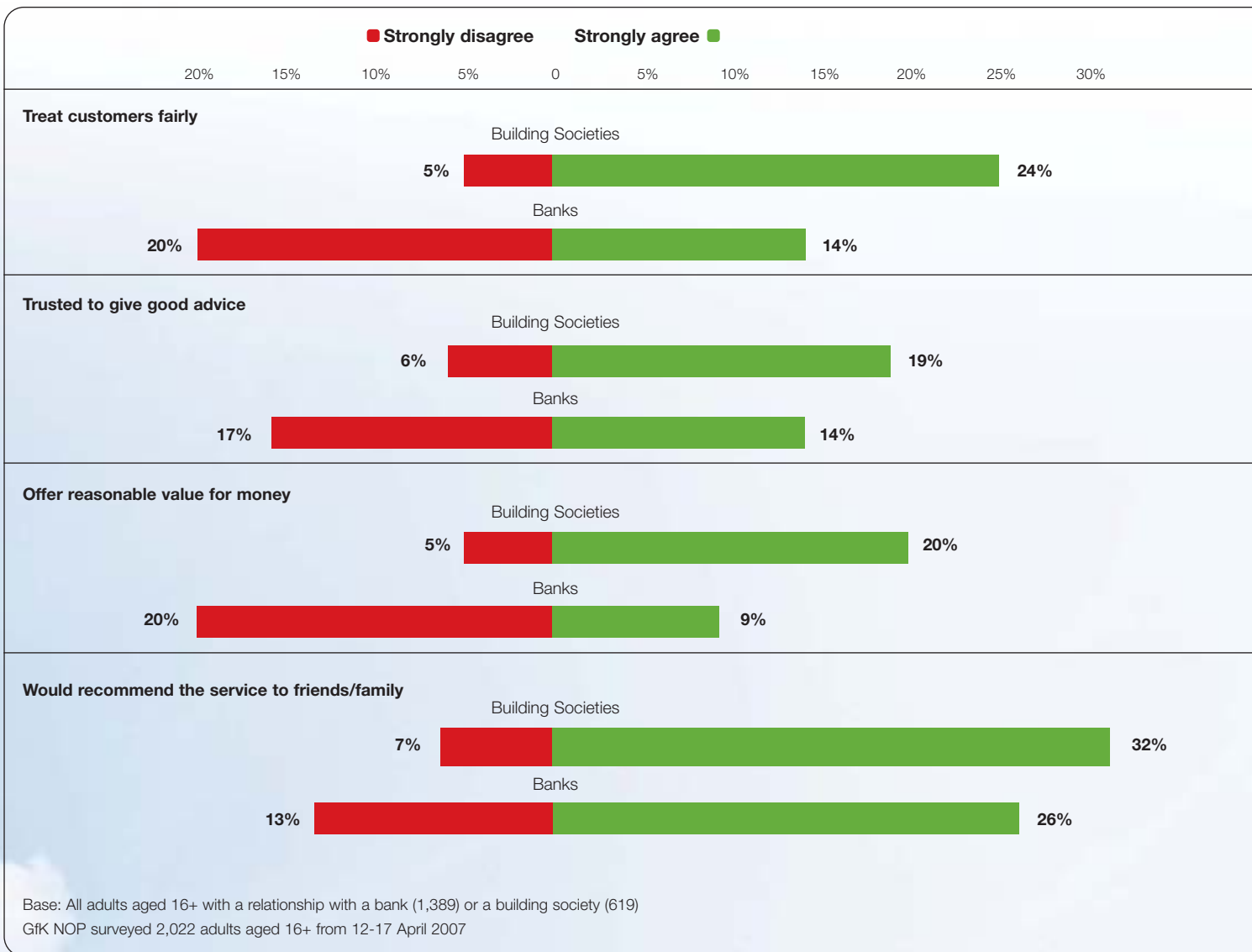
Furthermore, given the significant shortfalls in service at banks, it is surprising that customers do not switch to other providers who offer better service. It is possible that consumers are tied in contractually with a provider, or the effort to research and make a move is simply too daunting. Alternatively, consumers may not be aware that there is a difference in the perceived level of service between banks and building societies. They may assume the bad service they received at their bank is typical of all financial institutions.

## The service challenge

Therefore, the challenge for building societies is to show potential new customers that as well as offering market leading rates, they also provide better service than their competitors. The process of switching mortgages or savings accounts to a society should also be made as simple and painless as possible.

Good levels of customer service are important to institutions because satisfied customers are more likely to be loyal and stay with the provider, are more likely to take up additional products with the same

\*GfK NOP Financial Research Survey. GB, 6 months ending Jan 2007.



organisation, and also recommend the institution to others. The higher level of service at building societies represents a point of differentiation from their competitors, and it arises directly from their mutual status.

At a publicly quoted company with shareholders, such as a bank, customer satisfaction is important subject to the primary motive of profit maximisation. Instead, in the mutual model, maximising the benefit to customers and to the owners are one and the same thing. Good service

represents an alternative way to return the benefits of mutuality to members than via more attractive rates.

Building societies continue to invest in staff and facilities to try to improve service levels. This is against a background of increasing customer requirements and more varied and complex distribution channels, such as the internet, that make comprehensive and consistent service more difficult to deliver.

Ensuring high levels of service is increasingly challenging. However, the central role that their customers play in building societies' business models means that customer service continues to be of utmost importance in all societies' operations.

The BSA will be publishing a more detailed report on this research later in the summer.

**i** For more information please contact:  
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# BRITANNIA BUILDING SOCIETY

BY NEVILLE RICHARDSON, CHIEF EXECUTIVE, BRITANNIA BUILDING SOCIETY

Britannia's members are the owners of our business – which is why a fundamental part of our strategy is 'putting customers first'. Giving our customers exactly what they want doesn't happen simply by chance – it depends on our

We like to think we are more than just a building society offering mortgages and savings. As a mutual society we recognise the importance of listening to, and learning, from our membership. By providing opportunities for two-way

Britannia is unique for having formed a Member Council. Created in 2002, the Council is a group of 24 members recruited from across the country. They meet quarterly to learn more about the society and to give us their views on

the chairman, me and other directors. Local branches play a key role in these events, both by nominating members and hosting lunches. We believe it is an enjoyable way for us to meet our members and hear their views.

As well as engaging with members to ensure they feel valued, it is important to share our success and rewards. The Britannia Membership Reward (BMR) is unique and makes Britannia stand out from other financial services providers. The BMR returns a share of the society's profits to our members to reward their loyalty every year. This year 900,000 members of Britannia Building Society shared more than £51 million thanks to this unique profit-sharing scheme.

2006 saw Britannia celebrate its 150th Anniversary and to mark this milestone we held our biggest member event ever. 25,000 members flocked to our free, summer celebration weekend at Uttoxeter racecourse and the whole event was a roaring success.

Britannia is currently considered by other building societies and mutual organisations to be 'the best' with respect to membership engagement. The examples I have given are just a handful of the activities we undertake every day to make membership of Britannia worthwhile and ensure we put customers first in everything we do.



WE LIKE TO THINK WE ARE MORE THAN JUST A BUILDING SOCIETY OFFERING MORTGAGES AND SAVINGS. AS A MUTUAL SOCIETY WE RECOGNISE THE IMPORTANCE OF LISTENING TO, AND LEARNING FROM, OUR MEMBERSHIP.

Members of Britannia enjoy free days at horseracing events across the country

people understanding and delivering this strategy. What's great for Britannia members, is our staff satisfaction survey shows that 98% of our people understand our strategy and their role in delivering it.

Being a member of Britannia Building Society brings with it great rewards – not only from our competitive products and world class service, but also from the positive experiences we strive to create.

communication, we can demonstrate what it means to be a member of a society and not 'just a customer'.

In order to differentiate ourselves from competitors and achieve our mission to 'be known as Britain's best mutual', Britannia has a responsibility to give members meaningful opportunities to influence strategy and operations. We recognise that members need variety and the chance to do this throughout the year – not just at the AGM!

how it should be run. Recent achievements of the Council include implementing improvements to the AGM information packs, and being invited to present at the BSA conference last year.

Member lunches are another way Britannia creates a positive experience for its three million members. Every year we organise members' lunches around the UK. They provide an opportunity for members to meet and put their questions to



# SAFFRON BUILDING SOCIETY

BY ANDY GOLDING, CHIEF EXECUTIVE, SAFFRON BUILDING SOCIETY



Saffron's Member Conference 2007

As a mutual building society, Saffron's members are at the heart of everything we do; from having their say on new products and the look of our literature and advertising, to giving their opinions through regular member meetings.

One of our most important initiatives has been the establishment of member panels, which now have over 100 active members. All members are invited to apply to join panels through annual communications and our website. This provides a good cross section of the society's membership and has given us a priceless 'customer's eye view' of our work. Member panels meet throughout the year to discuss the society's latest products and services. For example, in 2006 a panel met to test the latest design of the society's website, giving valuable feedback.

All members are also invited to an annual member conference, where they have the opportunity to meet senior management and executives from Saffron, pose questions, participate in interactive sessions and discover more about the society's plans. The member conference in 2006 resulted in a suggestion that members could take a more active role in the day-to-day running of the society. We now have members sitting on our literature panel, which is a forum to discuss product design and the literature and advertising that accompanies it. At our 2007 conference we encouraged

AN IMPORTANT ASPECT OF ALL SAFFRON STAFF TRAINING IS 'SEEING IT FROM THE MEMBERS' SIDE'.

members to participate in a quarterly service review committee designed to look at all aspects of customer service, including complaints.

Members are actively encouraged to participate in the society's Annual General Meeting. Donations to charity are made for each vote cast and this year saw an increase in accessibility through on-line voting.

Last year also saw the establishment of Saffron Direct. Our membership now consists of those who joined through our branch network, and in addition, those who have discovered us through buying products over the internet. Saffron is keen to ensure that all its members feel they have a good relationship with the society and has set up Saffron Direct as a 'virtual branch'. Alongside help and advice over the telephone or internet, members also have access to a named, fully trained member of staff. This means that every member gets the quality of service they would expect in a branch.

An important aspect of all Saffron staff training is 'seeing it from the members' side', treating customers fairly and ensuring that information and literature is clear and accurate.

Members nominate or apply for funding for local charitable groups, with Saffron staff being able to vote on which organisation receives the money. In 2006, for example, the society gave over £30,000 to good causes across the Eastern region.

Involving members in our work, through asking them to share their views on matters of importance to them, will continue to be a key part of our member interaction for years to come.



Saffron's Member Conference 2007



# STAFF TRAINING - THE KEY TO MEMBER SATISFACTION?



STUART BERNAU, CHAIRMAN OF THE FINANCIAL SERVICES SKILLS COUNCIL, LOOKS AT THE WORK OF THE COUNCIL AND THE CONTRIBUTION STAFF TRAINING MAKES TO ACHIEVING HIGH MEMBER SATISFACTION LEVELS.

The UK financial services sector is a world leader, and its best employers have long been aware that their continued success in ever-changing markets – both domestically and internationally - relies on skilled people. As global competition begins to bite, this realisation is permeating throughout the entire industry.

But what has this got to do with putting the consumer first? Well, apart from the well-worn truism that nine out of ten people don't complain, they just don't use you again, think about your own experiences as a consumer. Memorable customer service, I would contend, generally comes from skilled, confident and empowered staff. Staff skills therefore become a major differentiator – in some markets, the only competitive edge you may have.

## The work of the Financial Services Skills Council

The Financial Services Skills Council (FSSC) is an independent, employer-led organisation, established in 2004 to provide strategic leadership for education, training and skills development for the financial services industry across the UK. It aims to improve productivity and business performance by ensuring that the industry is equipped with the range and level of skills that it needs.

And one reason why you need the FSSC is because skills will prove increasingly important for competitive advantage. Financial services employers know this, because they're already spending around £1.3 billion each year on education and training services; that doesn't even include spending on in-house training.

Across the whole financial services sector, our current research forecasts an increasing need

for higher level qualifications to meet the changing structure of the industry. The demand will come from managerial, professional and technical roles as well as the need for a massive upskilling of the industry's administrative and customer service workforce, if we are not to lose these to overseas providers.

In our industry, the rise in the significance of middle and back office operations is key. These areas are becoming ever more sophisticated and the resulting demand for higher level skills has resulted in a number of significant skills lags – with a potential

negative impact on customer satisfaction. The FSSC is working with the industry to address skills gaps and career choices in these important areas.

## National Skills Academy for Financial Services

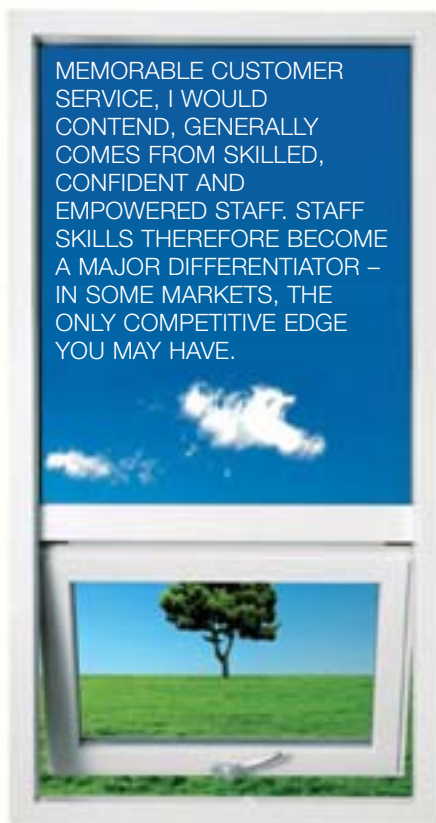
One current initiative where we believe training can make a contribution to improved customer confidence is the new National Skills Academy for Financial Services. The FSSC bid to run one of the country's first skills academies in the firm belief that it could make a difference to our industry, whether that difference was reflected in the potential choices for school leavers, in the profitability of your business or in the competitive position of UK plc.

Our vision is that the National Skills Academy for Financial Services will deliver excellence in skills training and development, from entry level to retraining and continuing professional development, by putting employers at the heart of skills training.

Employers across the whole of financial services – large or small, from wholesale to retail – can influence the curriculum. They will ensure it reflects their needs and get involved in the leadership of the Skills Academy, helping to set standards and influence its strategic direction.

As a body representing employers' interests, we can never be complacent, and we can never stand still. Let us know what you think; get involved in our work; ensure yours is one of the many voices that will shape our work in 2007.

**Stuart is Executive Director at Nationwide Building Society.**



**i** You can join our consultations and find out more about the FSSC's work at:  
[www.fssc.org.uk](http://www.fssc.org.uk)  
The National Skills Academy for Financial Services has its own website at: [www.nsafs.co.uk](http://www.nsafs.co.uk)

# DIGITAL EDUCATION

BY PHILIP DEARING, CHIEF EXECUTIVE OF MARKET HARBOROUGH BUILDING SOCIETY

Innovation is key to the success of any business, and being at the front of the queue is nothing new for East Midlands based Market Harborough Building Society (MHBS). Often described as 'small but perfectly formed', the society is keen to remain at the forefront of technology.

## Mortgages online

In 1995, Market Harborough became the first UK building society to launch an online mortgage application process - a move which enabled us to be at the forefront of using technology to speed up the whole home buying and remortgage process. Today Market Harborough's website has moved on, incorporating a mortgage application tracking system, 'You View', (a system which enables customers to see

all their accounts 24/7) and a suite of online, easy access savings accounts.

Competitive rates, convenience and speed of process are all hallmarks of the society's website - a facility which shows that the smaller lender can truly compete with the large players in today's financial services marketplace.

WE BELIEVE A DIGITAL WORLD NEEDS DIGITAL EDUCATION, AND SHORT PODCAST MODULES ARE A GREAT WAY TO DELIVER FINANCIAL AWARENESS IN A MEDIUM THAT WILL APPEAL TO MANY - PARTICULARLY YOUNGER - PEOPLE.



## Podcasts

Earlier this year we also became the first UK building society to put a podcast on our website, covering personal finance issues. The live podcasts recorded to date (available via [www.mhbs.co.uk](http://www.mhbs.co.uk)) and aptly named 'MHBS Voice', cover a number of topical financial issues including inheritance tax planning, offset mortgages, equity release and capital guaranteed accounts.

Podcasts are the latest medium of broadcasting, and are extremely popular in the media world. In simple terms, a Podcast is a file that can be downloaded online and listened to using new generation digital audio devices, more commonly known as iPods or MP3 players. The file consists of two parts, one being the audio file, which is normally an MP3 file format, and the second is a method of publishing files to the Internet. This allows online users to subscribe to a feed and receive new files automatically by subscription.

## A modern approach

The aim of MHBS Voice is to deliver personal finance information in a convivial and conversational style. The society does not use actors or fancy voice-overs; in fact the recordings have been written and delivered by the society's own staff. Guest speakers from Skipton Financial Services, Newcastle Building Society and Key Retirement Solutions - organisations recognised by the industry as experts in their field - were called in to answer those frequently asked questions.

We believe a digital world needs digital education, and short podcast modules are a great way to deliver financial awareness in a medium that will appeal to many - particularly younger - people.



The team record their first Podcast

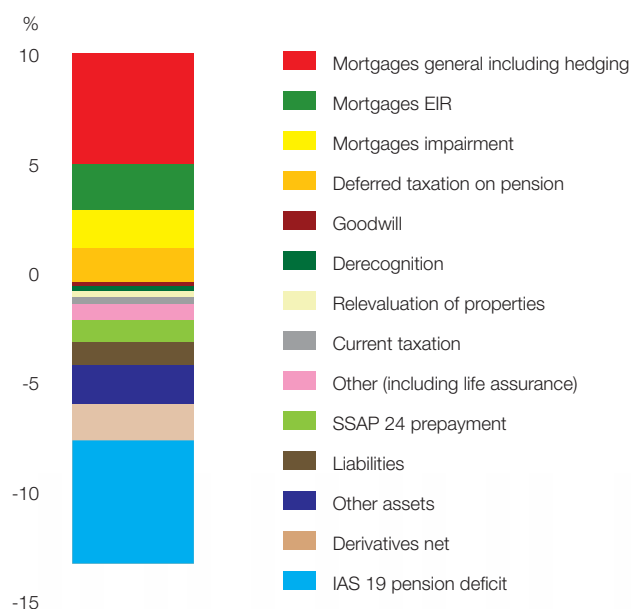
To listen to the podcasts simply log on to [www.mhbs.co.uk](http://www.mhbs.co.uk) and follow the links from the home page.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS



STEPHEN WILLIAMS, PARTNER AT DELOITTE BUILDING SOCIETY PRACTICE, ASKS “WHERE ARE WE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS?”

### Percentage change in net assets resulting from IFRS transition



### Background

*“Global comparability, improving the efficiency of capital markets, filling gaps in existing accounting frameworks...”*

These are some of the reasons that have been outlined for the adoption of International Financial Reporting Standards (IFRS) in the UK.

Unfortunately for the building societies involved, societies which had PIBS have already been forced to adopt IFRS for their reporting beginning after 1 January 2005, with comparative financial information restated for comparability.

These ‘IFRS societies’ went through significant pain and expense to change their financial reporting systems, and to ensure the robustness of their reported numbers. They also had to consider the other impacts of transition on the business; from reassessing bonus schemes which were linked to financial performance, ensuring that the required changes and the increased likelihood of volatility were effectively communicated to members, to looking at how the society hedged interest rate risk and reassessing the taxation implications of transition - to name just a few.

### Effect of transition

What was the result of these efforts? Our analysis has shown that for these IFRS societies the impact was minimal:

- Weighted average decrease of 5%\* in total reserves on implementation of IFRS at 1 January 2005;
- Non Weighted average decrease of 1.5%\* in total reserves at 1 January 2005; and
- No significant impact on the income statement, though in the past financial year greater volatility in financial results has been exhibited, with the subsequent valuation of derivatives used for economic hedging due to movements in swap rates.

\*Including the impact of IAS19 on pensions which occurred under UK GAAP at the same time.

The effect of IFRS transition for other sectors of the economy was similar, with little immediate change, but with the ever present danger of future uncontrollable volatility. This, and the associated costs of implementation, have led the UK to reconsider the benefits of UK GAAP continuing to harmonise with IFRS.

### The future?

What does this mean for other societies?

We have noted a change in the debate in relation to the introduction of IFRS. Though the expectation remains

that UK GAAP will converge with some form of IFRS over time, there has recently been a marked slow down in the convergence of UK GAAP with IFRS.

Initially it was understood that all societies would be required to adopt FRS 26 (IAS 39 – UK equivalent standard for periods ending after January 2007) but following this cooling of attitudes, convergence is now largely on hold until probably at least 2009. In our view this could easily be extended out to 2011.

In fact the debate is now around the cost vs. benefit for UK firms, including building societies, of adopting IFRS. This debate is far from over, but it is likely that for most non listed entities a third way might be introduced - ‘IAS lite’.

IAS lite is effectively IFRS, with some of the more contentious provisions around the measurement and disclosure of financial statements removed.

Though it is unclear at this time whether societies without listed debt would be able to introduce this, as it may be that Public Interest Entities are also forced to adopt full IFRS, this is certainly a debate worth following.



## RUNNING AN AGM: THE INSIDE TRACK



GILL DAVIDSON, SECRETARY AND GENERAL MANAGER AT SKIPTON BUILDING SOCIETY, REFLECTS ON THE SOCIETY'S RECENT AGM.

An AGM, whilst being an excellent way to meet your members, serves a legal function and so many of the things involved are set in stone. The importance of preparing and dispatching the AGM members pack, including the Notice of AGM, cannot be underestimated. The event itself must also meet strict rules, for instance the date of the meeting must be within four months of the end of the financial results period, so Skipton's chosen date was Tuesday 24 April.

### Deciding the date

Once that's decided, the event planning starts, with the first decision being choosing a venue and time, which can often be dictated by what suits a society's membership; we start our AGM at 6.30pm so that working members can attend and just as importantly, our own staff. However, I know that many societies choose early afternoon, which can prove more attractive to the retired population.

THE AGM IS A PRIME TIME FOR EVERY LEVEL OF EXECUTIVE TO HEAR FROM MEMBERS FACE-TO-FACE, WHICH IS INCREDIBLY VALUABLE; AND AIDS THE KNOWLEDGE AND DECISIONS OF A SUCCESSFUL BOARD.

For the venue, we use our own Head Office, for a number of reasons: it's located in our hometown of Skipton and within easy reach of our heartland; there's ample car parking; members like to see 'behind the front doors'; it's easy for staff to come to the meeting straight from their desks; and of course, there's a cost saving compared to hiring an external venue.

### Shaped by members' feedback

With regard to the meeting itself, this is somewhat shaped by members' feedback from the previous year. Some of this had been that we could make it more of an event, hence our decision to offer a light buffet and refreshments, as well as taking the opportunity to showcase the talents of the Skipton Building Society Camerata (a local orchestra sponsored by the society). One tip we've learned is to ensure we're ready to go well before the official start time, as members often arrive up to an hour before, so we have cups of tea at the ready and plenty of directors to greet them.

When delivering the necessary information on the night, we've found that having a presentation, including the all important figures, on a large television screen works well. The format is an introduction by our Chairman, John Rawlings, welcoming

members, explaining the night's proceedings and briefly giving his thoughts on Skipton's performance during the previous year. He then hands over to our Chief Executive, John Goodfellow, who goes into more detail about our financial figures, how the profit

was achieved, the performance of the Skipton Group of 17 subsidiaries and our charitable work in the many communities we support. It's then back to our Chairman to take any questions regarding subjects as varied as the gender and racial make-up of the board, disabled access at our branches, the design of the voting form, our commitment to mutuality and of course, executives' remuneration.

Delivery of the preliminary voting results is followed by the buffet and music from the Camerata, whilst final votes are counted. This is the best time to have a good discussion with members, who appreciate the chance to speak to board members and executives in person. After delivering the final results, accompanied visually on the screen, the meeting is closed, with an invitation to members to join us again next year.

### Aids the decisions of a successful board

As my first AGM, following my appointment as Secretary last Autumn, I am proud to see our members so supportive of our activities. Reading *The Mail on Sunday* the following weekend, where our event was covered by a journalist who had joined us, I'm glad ours was less contentious than some taking place that week. Nevertheless, as I said before, the AGM is a prime time for every level of executive to hear from members face-to-face, which is incredibly valuable; and aids the knowledge and decisions of a successful board.



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