

BSA Annual Conference – 18 May 2016

Opening address

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Check against delivery

WELCOME

Good morning and welcome to Gateshead

Home of the MetroCentre, which can proudly boast to be being the 4th largest shopping centre in the whole of the European Union.

At least until 23rd June.

Home also to the Angel of the North, Britain's largest sculpture.

They do things big up here.

Exactly why we felt that the 2016 BSA Conference should come to the iconic Sage Gateshead.

The first time we have been here in the North-East since the BSA Annual Meeting of 1906 in Newcastle.

Gateshead, Newcastle and the whole of the North-East are a very special part of the country for me.

Not just because we have two great building societies up here in the Newcastle and the Darlington.

But because both my wife and I spent three very happy years at university just a few miles down the road at Durham.

And our elder daughter graduated from Durham last year.

Our younger daughter is just completing her second year there.

Pity our son, who has yet to make his university choice!

A TRUSTED PART OF THE BANKING SECTOR

As a nation, we are not great talking about our heart-felt emotions, our passions, our feelings.

We're British and it makes us uncomfortable.

Even uneasy.

We tend to start fidgeting, avoiding eye contact, looking at the floor.

Today I want to talk about an important emotion; one which also has an objective, rational side to it.

Trust

It's the theme that underlies much of this year's Conference programme.

We are living at a time when trust is in very short supply.

Whether in international relations, domestic politics, taxation or banking.

A lack of trust causes us to close down relationships.

Become suspicious.

Even insular.

It affects much of what Trevor Williams will talk about later this morning.

Before we get to that, I want to talk about why the building society movement runs against the grain of suspicion and mistrust.

Why we stand out as a trusted part of the financial services sector.

I will explore some of the associated challenges and opportunities, perhaps best summed up by the American children's author, Gerald Morris:

"There is never a reason to trust someone. If there's a reason, then it's not trust"

What does this mean for us?

How does the fundamentally different corporate purpose of building societies and financial mutuals give us opportunities?

The opportunity to create a dynamic future which sees growth built around our longstanding and evident commitment to outstanding member and customer service.

Just how longstanding is emphasised by some of the other notable anniversaries that we mark in 2016.

180 years ago, in 1836, saw the first Building Societies Act in the UK.

The Newbury and Darlington Building Societies can both trace their roots back to 1856.

In 1866 they were joined by the Beverley.

And in 1896 by National Counties.

More recently by Teachers in 1966.

And in 1986 by No1 Copperpot Credit Union, our newest member.

FUNDAMENTALLY DIFFERENT PURPOSE

Many of you may be familiar with the term inter-generational equity.

Usually referred to as the current generation consuming the world's resources at the expense of future generations.

Building societies are about building long term and sustainable businesses for the benefit of our children and our grandchildren as well as the current generation.

About an approach that creates inter-generational assets through good stewardship.

Benefitting society.

As Dick Jenkins, here, often puts it:

“A home for your savings and savings for your home”.

Many of you will know that I am a strong believer that the fundamentally different purpose of building societies in delivering value to members over the long term rather than chasing the next quarter's results or obsessing over ROE or IPO valuations should provide us with sustainable competitive advantage over the shareholder owned banks.

The evidence is there.

The independent work that Cass Business School has done for us to assess the relative performance of banks and building societies over the past 15 years provides tangible evidence that:

- *Building societies provide a better deal for consumers*
- *Are better capitalised than the banks*
- *Have more stable earnings*
- *More stable asset growth*
- *As efficient operations*
- *And present a lower failure risk*

These results have been further developed by Dr Barbara Casu and our own Andrew Gall and will soon be published as a book with the descriptive and snappy title “Building Societies in the Financial Services Industry”.

Essential summer holiday reading.

So in the context of past performance, the question I want to pose for all of us is how we build on our great traditions?

Our long and trusted service to communities.

Our long term lower risk stable business models.

How do we take building societies on the next stage of their journey as dynamic, growing, vital parts of a truly diverse UK financial services landscape as we head towards the third decade of the 21st century?

SKILL, ENERGY and INTEGRITY

Alongside the great privilege we have of being able to run our societies consistently for the long term comes one of the greatest challenges.

How we do it continuously year in and year out with energy and determination.

It takes a particular sort of individual and a particular board outlook to balance vigour and restraint.

To keep our businesses constantly on their toes.

Alert to the risks as well as to the opportunities, while steadily growing year on year.

This is one of the underlying themes of our continuing work on excellent and distinctive governance in building societies.

In tomorrow's session we will be exploring what really makes a successful mutual board tick.

And how that compares and contrasts with the experience of successful corporate boards.

We will be welcoming some international perspectives to add to the debate, from the Netherlands and the United States.

BRANCH INNOVATION]

Whilst branch footfall continues to trend down – and the main banks accelerate their withdrawal from the high streets of so many communities - research continues to tell us that the public likes to see building society branches in their local towns.

But the role of the branch is changing.

They are becoming less transactional.

But their presence reinforces brand strength, gives reassurance, provides opportunities for face to face service.]

Yesterday, I was delighted to open the new signature branch of the Newcastle Building Society at Portland House in the centre of Newcastle. This branch will serve as one of two new Advice Centres, extending opening into the evenings during the week and being open at weekends.

In our session later today on the branch of the future, we will be exploring how we transform the traditional customer and member experience to exceed the expectations and demands of current and future generations.

How we continue to maintain that important physical presence in our communities in ways that contribute positively to the long term futures of our businesses.

TALENT DEVELOPMENT

More important even than branches are the great people who work in our societies.

The people who create the customer experiences, who grow and nurture consumer trust.

Who dedicate their lives to our building societies and our members.

In March we ran a feature in our quarterly magazine, Society Matters about just some of the longest serving members of staff from across the sector

Many of them with well over thirty years inspiring service chose to highlight their reasons for staying as their customers, their colleagues and the way their society does business.

Tomorrow we are going to hear from some of the future leaders of the sector

From the first cohort of our students at Loughborough University School of Business and Economics who are now well on their way to achieving their MScs in Leadership and Management for Financial Mutuals.

It has been a real privilege – let's be honest I have been properly spoilt – to have been able to join the students at Loughborough for parts of the programme.

To share their enthusiasm and commitment

To learn from them and with them.

And hear how what they learn in the classroom is already being transferred back into their societies.

The Loughborough team are with us on the platform tomorrow and in the Exhibition Hall again this year.

The application window for our second cohort opens today and closes on 15 July. We have indications of 14 students already, with the absolute maximum set at 26.

So you may need to get your skates on.

We all know how important individual underwriting of mortgage applications is to the sector.

It is often referred to as one of our USPs.

Last year, in short succession, a number of CEOs told me that they were concerned about the long term sustainability of their vastly experienced underwriting teams.

Too many were vastly experienced and nearing retirement and not enough were coming through the ranks to succeed them.

And, to quote, "the banks don't train them like they used to".

This month the BSA launched the first of two workshops in mortgage underwriting, in collaboration with the Chartered Insurance Institute.

I am delighted to say that both two-day events sold out!

These initiatives – helping to grow our future leaders; and helping to develop the mortgage underwriting skills that are so vital to your future success – are just two examples of how I

believe a forward looking trade association should provide practical support to its members' businesses.

GENUINE CUSTOMER SERVICE EXCELLENCE

Why is it that the UK's 44 building societies stand out so clearly from the rest of the banking industry when it comes to customer service?

Put simply, it is about the trust you engender through your approach to running a business.

Measures such as "I can trust my provider to act in my best interest" are explicit.

Implicit measures around whether customers feel that they have been treated fairly are just as important.

All leading to the overall recommendation to friends and family.

This is the evidence which sums up what we mean when we talk about mutuality as the source of our competitive advantage.

Because we are customer owned we genuinely have the customer-owner, our members at the heart of our businesses.

At the heart of our board decision making.

PLAYING TO OUR STRENGTHS / TAKING MARKET SHARE

Since 2012 we have seen the building society sector growing in confidence.

Taking market share.

Playing to its strengths

Despite the tsunami of new legislation and regulation that has dominated our lives.

All at the same time as the competitive landscape in UK banking changes with the emergence of the new and challenger banks.

With the ring-fencing of retail banks coming in 2019

And with new players who are not even part of the regulated banking sector.

I am firmly of the view that our relentless focus on customers as members will become more important than ever.

As competition intensifies in retail banking, the bar on customer service is going to go up and keep going up.

That is excellent news.

And sets us all the challenge of continually raising our own games to maintain and increase the clear blue water in customer service that our dedicated society staff have worked so hard to create.

I'd like to suggest two areas where we can focus on raising our own games.

And in doing so both improve our members' experiences and contribute positively to our financial performance.

Firstly, combining genuine great customer service with excellence in operational delivery.

A number of societies are already running continuous improvement and first time quality programmes.

And with good reason.

In 2012 PwC quoted research which showed at least 40% of costs in financial services businesses are generated by wasteful activities that add no value to the end customer.

We are all customers.

We all know what it is to receive outstanding service.

We also all know how we react when service or processes fall short of what we expect.

Correcting mistakes, manual intervention when automated processes don't quite work detracts from customer happiness and add significantly to our costs.

Secondly, if we genuinely believe in long term businesses, what are our life-long member strategies?

How are we thinking about our members of the future?

What are the equivalent stories for today of how our parents or grandparents took us down to our local building society as children to open our first account?

ANTICIPATING THE NEEDS OF SOCIETY

I think we already have a lot of pieces of the jigsaw, but perhaps not all put together.

Do we think hard enough about how our junior savers' accounts,

Our financial education programmes,

Our community involvement,

Contribute or combine into the building of life long relationships.

Supported by the Building Societies Trust, we have recently been working with MyBnk to explore the contribution that the sector currently makes and can make in the future to financial education.

Improving people's financial capability through financial education is a natural fit with societies' core business and purpose.

Many building societies are already applying expertise and energy through various financial education initiatives.

The study reveals a strong appetite to do more.

Towards the other end of life's spectrum, our continuing theme on lending to older borrowers addresses one of the UK's largest societal issues of the 21st century.

I am delighted that, we are today publishing comprehensive consumer guidance for older borrowers.

The building society movement has led the way in raising the issues facing older borrowers.

And continues to lead the way in meeting their needs.

Since we published our interim report last November, 27 societies have conducted reviews of their maximum age limits.

Four have decided to remove them altogether.

And with these reviews we can say that over half of building societies will today lend to 80, 85 or beyond.

Alongside these important developments the BSA and our members have also been leading the way in outstanding provision and support for vulnerable customers.

We were pleased to be active participants in the Financial Services Vulnerability Taskforce chaired by Joanna Elson, CEO of the Money Advice Trust.

We support the nine high level principles set out in the Taskforce's report.

I was delighted to see so many of our members at our recent Vulnerable Customers seminar, to hear first-hand about the intensive programmes of support for customers with cancer, dementia and sight loss being developed by Nationwide and Yorkshire Building Societies.

And by their willingness to share their expertise and experiences on a collaborative basis with the rest of the sector. Trusting in each other.

A DYNAMIC and GROWING FUTURE

2015 was another year of strong financial performance across the sector, another year with much to celebrate.

In 2015 building societies approved £57.8 billion in new lending on 395,300 new mortgages, of which a third were to first time buyers.

With a natural market share based on outstanding loans of 20%, the sector took 26% of the new mortgage market last year.

Demand for self and custom build mortgages continued to increase – 23 of the 25 providers in the market were building societies.

Savers continued to find rates challenging.

And building societies continued to support their loyal members with competitive front book rates and market leading back book rates.

We saw another year of strong profitability, adding further strength to capital reserves

Creating further capacity to invest in successful, dynamic growing futures.

Above all, perhaps, we have started to see a real shift in perceptions about the vital importance of building societies and financial mutuals as part of a truly competitive and resilient 21st century UK banking and financial services sector.

The most tangible change is in the law with the new Bank of England and Financial Services Act, containing a BSA sponsored amendment that strengthens our regulators' competition objectives, requiring them to have specific regard to difference business forms, mutuality in particular.

We are immensely grateful to the members of the House of Lords, led by Lord Naseby, who gave strong cross-party support to our campaign to achieve this advance.

Of course there is still much to do, but I am more hopeful that our long term vision for the future of a corporately diverse UK financial services sector is beginning to gain traction.

APPROPRIATE AND PROPORTIONATE REGULATION

This time last year I said how much we welcomed Lord Hill's initiative in the European Commission to review the cumulative burden of new legislation and regulation introduced since 2008.

Much of it in haste.

We continue to support that initiative both directly and through our participation in the European Association of Co-operative Banks.

And we encourage our own politicians, officials and regulators in turn to review the cumulative burden of new measures in the UK.

In taking this agenda forward both in the UK and internationally, I think it really important that we continue to emphasise the difference between proportionality, based on size and complexity of business, and appropriateness – seeking equivalent legislation and regulation that works with, not against the grain of mutual and co-operative businesses.

Requiring central clearing of swaps for non-systemic players seems completely disproportionate.

In the UK, including building societies in the scope of the 8% Corporation Tax Surcharge still seems both disproportionate and inappropriate.

Recent research by the BSA found that for larger building societies the estimated cost of compliance staff implementing financial regulation currently stands at about £45 per million of assets.

For smaller societies the same cost is nearer £450 per million.

There is clearly still some way to go.

And very good reasons why the building society movement and the largest credit unions should continue to benefit from having a strong, active trade association working solely in their interests.

CLOSING COMMENTS

It's wonderful to see so many friends and colleagues here today from the UK's building societies and credit unions, from our associates, sponsors and regulators, from the media, and other delegates from here in the UK and overseas.

As we take in the programme over the next couple of days, perhaps we can all continue to explore and reflect on what it is to be a trusted part of the financial services sector, how precious that commodity is, and what it really means to build our businesses as inter-generational assets.

I hope you find the next couple of days enjoyable, stimulating, inspiring – and for those of you not familiar with the North East, that you fall in love with this part of the country just as I did when I first came here over 30 years ago.

Thank you