LISTENING TO MEMBERS

THE BUILDING SOCIETY SECTOR EXPERIENCE

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Introduction

As mutual organisations, building societies are collectively owned by their members. As such they do not have to pay dividends to shareholders and so can offer better rates of interest on mortgages and savings. The earliest building societies can be traced back to the industrial revolution, when they were set up as small local organisations whose members pooled funds to allow them to purchase land and build houses. The first known building society was formed in 1775 in Birmingham and like most early societies was 'terminating', meaning the business was closed after all of its members had been housed.

This changed when societies started accepting deposits from individuals who had no desire to borrow to buy a home, but simply wished to invest their money. No longer terminating, these formed the basis of the 'permanent' societies we know today.

There are 63 building societies in the U.K., with assets of over £230 billion. They employ over 40,000 staff who work across the country in head offices and around 2,100 branches, serving more than 15 million savers and over two and a half million borrowers.

Building societies currently account for 18% of all outstanding residential mortgages. On the savings side, building societies hold about 18% of all personal deposits.

The 1990s

The sector faced its own threat in the guise of so-called carpetbaggers in the 1990s. The demutualisations that occurred then led to a sustained attack on the sector as a whole. With one possible exception, these conversions were all director led. However, the conversions created an expectation among the public that easy money could be made by forcing building societies to abandon their mutual status. This was something of a wake-up call. It became clear that societies had not been engaging with their members as much as they should have, but were now asking those members to vote against candidates who wished to demutualise the institution in return for a a short-term windfall.

This caused societies to thoroughly review how they communicated and more importantly involved members in the society, its products, services and its organisation.

The sector is much more stable than it was during the spate of demutualisations in the late 1990s. All 63 members of The Building Societies Association are committed to retaining their mutual status and thanks to the campaigns run during the height of carpetbagger activity, far more people are now aware of the benefits of mutuality. However, societies still face challenges year on year, which are resoundingly defeated. For instance at the 2003 Annual General Meeting (AGM) of the Britannia Building Society, there was a turn out of more than 25% and over 90% of its members voted for the existing pro-mutual board. This represents the engagement in the process of over 338,000 people and was the society’s largest turnout in an uncontested election.

However, carpetbaggers are getting more sophisticated in the way they approach the issue of attempting to force a society into demutualising. Some have reinvented themselves as democrats; they say they no longer want to demutualise but rather uphold good corporate
governance and make societies more democratically accountable. The evidence does not suggest that this is genuine. For instance, in 2003 a candidate seeking election to a building society board on a good corporate governance ticket also ran the “carpetbagger.com” website.

**Where the sector is now**

Building societies have spent considerable time, effort and money in recent years striving to increase the level of member participation in the affairs of the society, especially voting, which is a fundamental part of the democratic process. However, this can sometimes be a tall order in terms of just where in people’s priorities voting in a building society’s AGM lies. One society recently undertook a survey which revealed that AGM voting ranked many places lower in members’ priorities than voting for ‘Man of the Match’ on TV football.

This puts in context the remarkable success some societies have achieved in the arena of member communication and participation.

In 2002, a report on corporate social responsibility for The Building Societies Association found that 70% of societies have systems in place to ensure members can share their views. For almost a third of societies this constitutes formal policy and approaches range from feedback cards to newsletters to member forums.

The Mansfield Building Society is one of many societies (others include the Cambridge, Cheshire, Dunfermline and Leek United) which produces a member newsletter. It says “In addition to encouraging members to attend the AGM, or exercise their right to vote by completing a proxy voting form, we also use the letter to tell members about our products, services and new initiatives. Also, we include a ‘community corner’ in which we set out the names of various local charities and community events supported by us”

**AGM voting**

In 1996 Britannia Building Society only had 19,000 out of a potential 1.2 million members voting at their AGM. By 2003, as noted above, the society had increased member turnout to over 338,000. This was achieved by consistently campaigning throughout the year, giving as much information as possible in the most “member friendly” way they could, including making the voter packs easier to understand, extensive advertising as to the benefits of mutuality and donating 10p per vote cast to local and national charities. Other societies that encourage AGM voting by making a donation to charity for each vote cast include the Leek United and the Derbyshire.

Other novel ways of encouraging members to participate in AGMs include the Ipswich Building Society’s practice of inviting a local celebrity to speak. This has boosted AGM attendance from a handful of members to the 150 who attended this year’s event. Other societies hold informal meetings after their AGMs so that members can question members of the board in a more relaxed atmosphere after the formalities of the AGM are completed. Market Harborough Building Society will be introducing similar arrangements in 2005. The Dunfermline Building Society has been so successful in attracting members to its AGM that it has now reached the stage where it can no longer accommodate the meeting at its head office. For 2005 it is looking for a new venue.

The Britannia Building Society has a dedicated phone line for members who wish to listen to the AGM, as do many other societies. Most societies also provide reply paid envelopes, publish the results of their votes on their internet sites and appoint independent scrutineers.
The Derbyshire is one of several societies that ensure all members can have full access to the information, by making the AGM pack available in large print and Braille, and signing the AGM for members with hearing difficulties.

**New technology**

New technology has started to play its part too. Nationwide Building Society was the first financial services organisation in the UK to webcast its AGM and has done so for the last four years. Other societies such as the Newcastle Building Society also broadcast their AGM live on the Internet.

In 2002, Nationwide Building Society hosted its first online members forum with Chief Executive, Philip Williamson, answering e-mailed questions online in real time. This was very well received. This was not only a first for Nationwide, but again, also a first for a financial services institution. Yorkshire Building Society held a similar event in 2003, attracting 180 questions from members. It plans to repeat the exercise later this year. This kind of communication allows the society to come into contact with people who may not wish to attend an evening meeting, either because of their lifestyle or because it is not a forum in which they would feel comfortable raising an issue. In short it is immediate, accessible, less intimidating and, for some, more convenient.

Societies are also looking at the introduction of electronic voting for their AGMs, as well as the ability to submit AGM questions online, which again would attract a new audience and make voting more convenient for those who use e-mail and the internet. The necessary changes to the law to allow internet voting were passed by Parliament in 2003.

**Roadshows and Face-To-Face Communication**

Building societies also use more traditional forms of engagement with members such as roadshow meetings with Chief Executives, member magazines and written questionnaires. The Cheshire, Dunfermline, Nationwide, Norwich & Peterborough, Yorkshire, Portman, Newbury and West Bromwich Building Societies (among others) all hold regular members’ meetings. There is an ongoing commitment to such meetings in the sector, for instance since 2001 Yorkshire Building Society has held 26 such meetings, and estimates that around 225,000 of its members have been invited to attend, representing about 12.5% of the society’s total membership.

Dunfermline Building Society has continued a series of member evenings begun some five years ago. It aims to visit 25% of branch areas each year, giving members the opportunity to question, face-to-face, the chief executive and sales & marketing director. As a direct result of suggestions made by members at these events, various changes have been made to branch layouts and several new products have been introduced. Many other societies are also thinking of introducing member meetings.

Societies recognise that attending a member forum of a building society may not always be the first choice for an evening out, so they have been creative in the way that they put these sessions together. For instance the Cheshire Building Society combine a members forum with its Chairman and CEO with a free tour of a local place of interest as diverse as historic houses, Bolton Wanderers Football Club and the Jodrell Bank observatory, with the meeting concluding with a viewing of the Cheshire night sky. Britannia runs a programme with the half dozen football clubs with which it has affinity accounts. This gives senior building society staff the opportunity to talk to members and provides members with the incentive to attend.
Following an evening with the Norwich & Peterborough Building Society, Peter Stowesand, a N&P member, commented: “It gave me an insight into how the society operates and its plans for the future. It was good to put a face to the name of chief executive Matthew Bullock. I came out of the meeting feeling that Norwich & Peterborough really cares.”

**Member Panels**

Some schemes such the Yorkshire Building Society member panel have really taken off. In 2001 they decided to establish a member panel whom they could involve in every aspect of the society. The response was overwhelming and they now have a regular panel of over 5,000 members. Members are contacted either by post or phone a maximum of twelve times a year about issues which affect them. The society is able to tailor its communications with the panel to maximise the usefulness of its communications. So, for example, any young homeowners on the panel will not be asked about equity release in retirement as it is probably not a matter at the front of their minds. The feedback from the Yorkshire is that there is a genuine appetite for engagement among its members; people want to be involved and have jumped at the chance to do so. The challenge is in finding the appropriate way to involve members, and demonstrating that the engagement has some tangible outcome.

West Bromwich Building Society recently announced the setting up of its member panel. The panel will initially be comprised of 1,000 of the society’s members and will be consulted on a range of matters relating to the management of the society and the products and services it offers.

The Saffron Walden Herts & Essex Building Society asked its members in a questionnaire if they would be willing to be involved in a members’ panel. The panel would meet regularly with representatives of the society board to give immediate feedback on current and proposed activity. More than 500 positive responses were received. Initial meetings have been warmly received by attendees, who have shown a great deal of interest in the concept of the panel. The meetings have already led to a lively discussion on issues affecting the society.

The Hanley Economic Building Society set up a customer forum in 2003. This meets quarterly with the chief executive and non-executive directors to discuss key developments in the society. The forum members can – in an informal setting – raise and debate a range of issues of their own choosing. The forum is comprised of 15 to 20 members who will serve a two-year term and then be replaced by new members. The society hopes the forum will provide a source for candidates for non-executive directors as vacancies arise in the future.

Britannia Building Society has established a members’ council. This was chosen at random from their membership base, and is chaired by one of their non-executive directors. The panel meets quarterly, for a whole day and sets its own agenda. For instance, last year the board presented its five-year corporate plan to the panel and received plenty of feedback. This enables the society to be accountable and allows members to be involved.

Susan Harrison, a member of the Britannia members’ council, commented on her participation, saying “It’s obvious this building society is taking the trouble to listen to customers. If nothing else, the meetings have confirmed my view that Britannia is an organisation I can trust.”

In response to a questionnaire given by The Mansfield Building Society to all its new members, 13% expressed an interest in participating in a members’ forum. The Mansfield now plans to go ahead and hold the first meeting of its members’ forum by early 2005.
The Furness Building Society places posters in its branches encouraging members to tell the society’s chief executive, Rob Cairns, what they think about its products and services. The scheme has proved popular with members. The Cheshire Building Society has a similar scheme.

The Cheshire, West Bromwich and Yorkshire are among building societies that conduct regular surveys of member satisfaction. The Cheshire and Yorkshire surveys are monthly. 6,000 members of the Yorkshire Building Society receive a questionnaire each month. Feedback from these has indicated satisfaction levels among members of 90%. Any suggestions for change arising from the questionnaire responses are passed to the relevant part of the society to be actioned.

**Member-nominated Directors**

In 2001 the Derbyshire Building Society offered its members the opportunity to put themselves or another member forward for appointment as a non-executive director. This was to give members greater opportunity to influence the direction of the society and to promote members’ interests at board level. In February 2002 Sophie Snell was appointed as a member nominated director. Since then the Derbyshire’s website has offered customers the facility to contact her directly via the telephone or e-mail allowing them to raise queries or concerns. Sophie also makes regular branch visits and chairs the customer service committee, which meets quarterly to discuss her findings and other customer service related issues.

Hinckley and Rugby Building Society seeks recommendations from its members when vacancies for non-executive directors arise. A number of directors elected to the society’s board were recommended by members in this way.

**Community Involvement**

Most building societies in the UK are regional organisations which still have their head offices in those areas where they were established. Even those which have a greater geographical spread engage locally with their members. The regional strength of building societies means that they are not homogenous, and do not have a “one size fits all” attitude, unlike many banks and other large corporates. This in turn means that they can be much more responsive to meeting the needs of their own local communities - being part of the fabric of those communities.

Commitment to the local community extends beyond financial or “in kind” support, to the use of local suppliers and engagement with local councils, development groups and schools.

Community involvement is also a way building societies are developing member engagement. For instance, the Barnsley Building Society runs a charitable donation scheme called “Pride in your Community”. A panel of interested members is assembled each year. This panel is exclusively member constituted and does not have any director from the society sitting on it. All members of the society can then nominate an individual or a group who have assisted in keeping their communities together. The distributing panel then decides which local groups should be awarded with between £250 and £500 from a total pot of £10,000. Therefore it is the members of the society who decide how the money the society is donating on their behalf, should be spent.

The Dunfermline Building Society has a full time community relations manager, who is charged to work with the society’s sponsored organisations and branches, with educational establishments and with local organisations and groups, to develop its community involvement.
During 2003, the Coventry Building Society’s ‘TLC in the Community’ programme supported 174 separate initiatives, whilst 369 charities received financial or other support from the society or its staff, with a third of its employees having been involved in or associated with a community activity.

The Derbyshire Building Society has a strong focus on the community within its operating area, focusing on groups that represent urban and rural re-generation, and the creation of social inclusion.

The Cheshire Building Society recently received the ‘Big Tick’ from Business in the Community in acknowledgement of its support for local charities and other good causes. The Hanley Economic Building Society has a community involvement programme which ranges from patronage of the local chamber of commerce to sponsorship of the city of Hanley’s citizen of the year award. In celebration of the Hanley’s 150th anniversary, it has teamed up with two local children’s charities to which it is on course to donate £10,000 by the end of this year.

The Progressive Building Society has a community awards scheme, under which its members may nominate, for a financial award, an organisation working for the benefit of the local community.

Yorkshire Building Society is one of many societies which have charitable foundations. Since its inception in 1999, £1.5million has been donated by the Yorkshire’s charitable foundation to 2,200 causes. 75% of donations were nominated by members.

The Coventry Building Society Charitable Foundation has, since its launch in 1998, donated more than £300,000 to registered charities operating within the Society’s branch territory. Like the Yorkshire, the applications from such charities are assessed by a group of independent trustees.

The Newbury Building Society is working with West Berks Education Business Partnership to bring schools and business together to help young people adapt to adult and working life. Currently it is running a series of 1.5 day workshops where groups of 16 and 17 year olds set up their own business, produce a business and marketing plan and give a presentation to a judging panel to find a winning group from the area.

Coventry Building Society has been supportive of partnership initiatives launched by Coventry City Council aimed at stimulating economic activity in the region and thereby assisting the communities where most of the society’s members live and work. The society’s chief executive, Martin Ritchley, chairs one of the partnership companies, CV One Limited. In addition to managing an annual budget in excess of £5 million, the company has been successful in generating additional funding from grants and the private sector. The success of the initiative has been such that it is being emulated both within the United Kingdom and elsewhere in the world.

The Furness Building Society supports school savings schemes and has launched a new affinity scheme aimed at raising awareness of financial issues among school children. The Leek United Building Society operates savings schemes within local schools and other initiatives which promote money management skills.

The West Bromwich Building Society operates in an area with a high percentage of people from ethnic minorities and realised that many members did not have English as their first language. This deterred members from coming into a branch or opening accounts, as communication
would be difficult. To address this, the society has positively encouraged members of the local community to apply for jobs in branches, to ensure that these other languages were represented. This has helped potential members to feel more comfortable about coming into the branch, thus providing an improved service for the local community and for potentially excluded customers.

In 2003 the Universal Building Society won an award for its artist in residence scheme, under which a local artist worked with local schools, helping them with arts projects and developing the society’s links with communities where it has branch offices. This year it plans an ambitious project working with Seven Stories, the national charity for children’s literature in which they will be sponsoring an outreach programme to develop children’s interest in books and reading.

The staff of the Cambridge Building Society are encouraged to support their local community networks. In 2003 the society’s staff donated over 2,100 hours of their own time to help worthwhile causes. The society is introducing a scheme under which it will match the hours donated by staff with cash donations to local charities.

**Corporate Governance**

Another area where societies have extended engagement is in the boardroom. Corporate governance is becoming more and more important, especially in the post Enron world and societies are addressing the issue of how to involve members at board level. Grass roots representation is important, as it means that societies not only have members’ input at the top level, but it is also a signal to all members that their interests are represented. Societies such as the Derbyshire, the Yorkshire, the Nationwide, the Cheshire, Cambridge, Leek United and the Norwich & Peterborough (and many others) have all advertised for non-executive board members to dispel any illusions that appointments are made at the 19th hole. Similarly, the Market Harborough Building Society will, as part of next year’s AGM mailing, be inviting members to register their interest in becoming a non-executive director.

The Norwich & Peterborough Building Society advertised in East Anglia for two non-executive board members, specifically looking for people with local knowledge in order to become more closely involved in their communities. As a result two local people were appointed and members now have a dedicated phone line if they feel there are any enquiries their two local non-executive directors can help with. Accessibility and appropriate representation for local communities to have their voice heard is vital to the engagement process.

**Disclosure of Directors’ Remuneration**

Major steps are being taken by building societies to improve transparency in respect of directors’ remuneration. In 2002 38 societies, in all covering more than 95% of the total membership of all societies, put details of their remuneration policies in their summary financial statement, rather than in only their much less widely read annual reports. This year 18 societies have voluntarily asked their membership to participate in an advisory vote on directors’ remuneration policy at their AGM, accounting for over 90% of all building society members. Several more societies are expected to hold such votes next year. Neither of these initiatives were required by legislation.

**Measurement**

Communication of course is two way - not just pushing messages out, but also listening to what you are being told and acting on this. In other words it is about engagement.
For instance in 2003 the Nationwide Building Society had over 150,000 items of feedback direct from members which led to over 200 service improvements. Identifying issues has led to an 18.7% reduction in complaints. Member feedback has also played its part in the launch of new products and the charitable donation strategy implemented by the Saffron Walden Herts & Essex Building Society.

At the Britannia Building Society member’s panel, issues such as improving service at the call centre, keeping members better informed of interest rates changes and changing the opening hours of some branches to better meet local needs have all been raised. Action has been taken as a result of the feedback, which is then communicated back to members.

Market research also plays its part in feedback and improvement. For instance in 2003, Nationwide Building Society conducted 74,000 hours (surveys, group discussions, and individual interviews) with 207,000 people. In addition, over 1,500 people have participated in Nationwide’s Usability Centre, which encourages people to think aloud whilst being observed engaging in a variety of tasks from completing forms to using the internet site, to make things easier for members.

The Dunfermline Building Society holds member evenings around Scotland and has recently introduced member information afternoons; the Dunfermline’s executive team regularly telephone randomly-chosen members and establish in a fairly short conversation, how the member feels about various aspects of the society; The Dunfermline also commissions mystery shopper exercises, carried out by leading market research companies, by personal visits to branches and through telephone calls to Dunfermline Direct.

The Building Societies Association

As the trade body representing all building societies in the UK, the BSA is playing an active role in encouraging greater member participation and spreading examples of best practice.

Communication with members cannot be sectioned off into neat categories. People read newsletters, talk to branch staff and also receive communication direct from their society. Therefore the Association currently runs a PR Forum, an Internal Communications Forum (for communication to staff) and a Member Communication Forum. These allow practitioners from across the sector to come together and network, discuss current issues - practicalities and difficulties - and share best practice, thus facilitating greater member engagement in the sector.

The Association encourages building societies to adopt standards of best practice in corporate governance and has developed guidance on the Combined Code on Corporate Governance to help societies to apply similar standards to those which apply to listed companies. Also, the BSA encourages societies to conduct advisory votes of their members on directors’ remuneration, as well as providing details of such remuneration in their summary financial statements. In addition, the BSA commissioned the first pan-sector research, report and conference on corporate social responsibility activity undertaken by building societies.

Conclusion

The building society sector has realised that it is not enough for societies to go out and ask for members to support them against carpetbaggers once a year. They are now proactively engaged in communicating to members why mutuality delivers more benefits than plcs, but also listen and are responsive to the feedback they receive from members. There is little evidence that such time and effort is being put into the area of customer communication by the banking sector.
This can be attributed to the different organisational structures. Building societies recognise that mutuality means more than just their structure, but informs the relationship they have with their members. Participation and engagement is key to connecting with those members and the evidence from the sector shows that members are keen to reciprocate this contact.