

# 2021 BUILDING SOCIETY Sector Analysis

A review of the strategic landscape for building societies



 **Building Societies**  
Association

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# Overview

Summary infographic

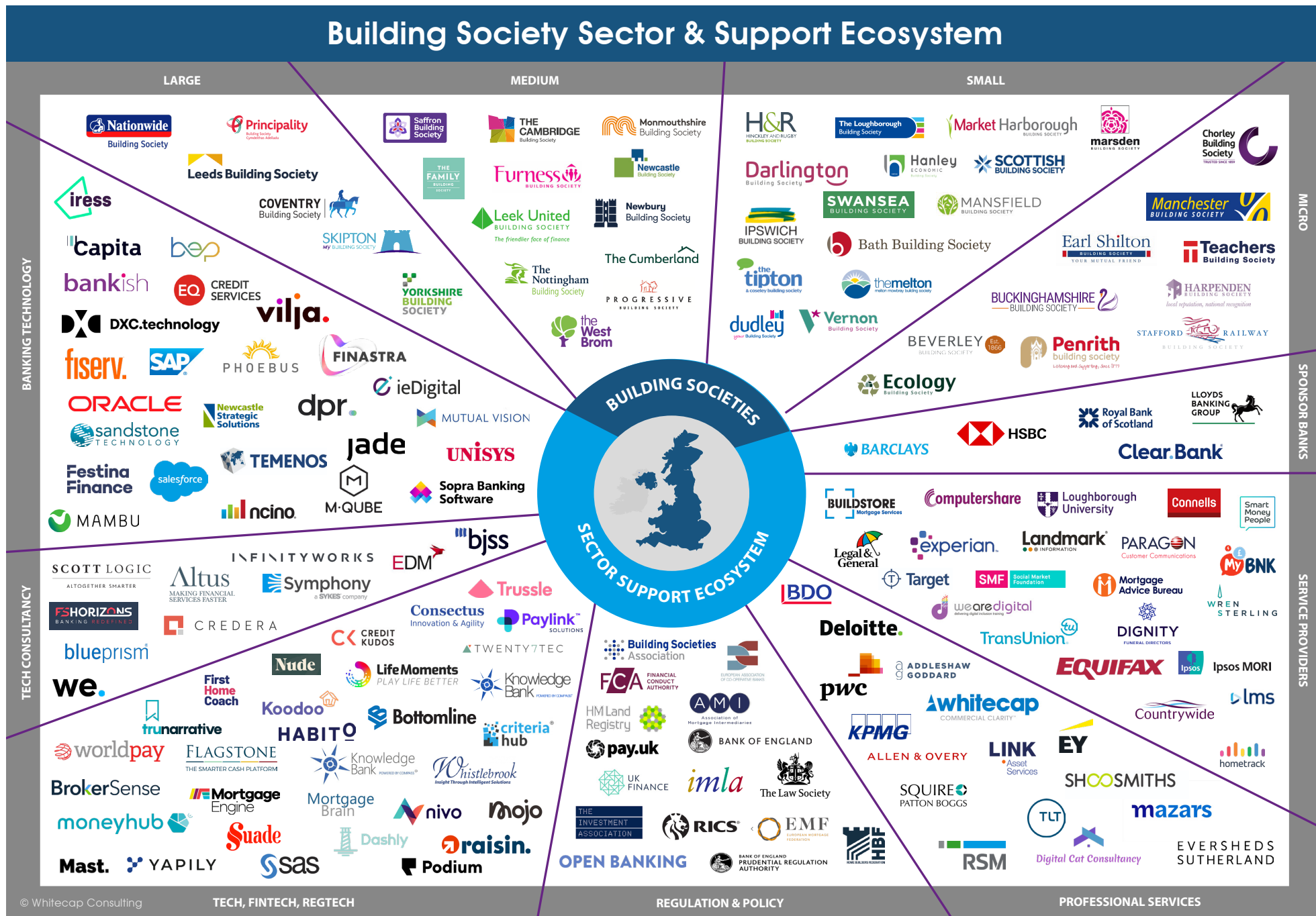
Executive summary

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## Summary Infographic





# Executive summary

**In this project, we set-out to understand the extent to which building societies perceive and utilise mutuality, regionality and technology within their business strategies. We found that the role, significance and importance of these components varies across societies.**

We have observed that mutuality influences both corporate governance and culture as well as member engagement; evidenced in operational decision making and service delivery. However, whilst fundamental to all societies, mutuality itself does not appear to be the primary source of customer-facing differentiation within the sector.

In contrast, regionality and technology appear to have greater significance and play more important roles in the business strategies and the strategic decisions of societies.

Regionality, by which we mean a focus on, and a strong sense of connection with a specific location or area, plays a leading part in the heartland of most building societies. The local branch network continues to play a major role in customer and community engagement, as well as major contribution to savings performance. Regionality is of particular importance for those societies, the minority, who are liabilities (savings) rather than asset (mortgages) led organisations, as their purpose is anchored in their 'home' community.

Technological change, and specifically digital transformation, is being experienced in all market sectors, and this is evident in building societies in both the mortgage and savings markets; however, the pace and nature of technology adoption and utilisation varies across societies. Barriers to adoption have been identified as budget and resource constraints, dependency on legacy systems, risk appetite, and a confusing technology partner landscape.

In reality, of course, the strategies that societies actually execute will in many cases be a blend of planned delivery, which may encompass aspects of all the themes noted above, and also opportunistic or reactive actions to unfolding events. Typically, the clearer a society is on its purpose and the more explicitly it has been able to prioritise and focus in alignment with that purpose, the better it is able to execute on the various strands of its strategy.

**We have grouped the key themes from our work under four headlines:**



1. Strategy & planning
2. The role of mutuality
3. Regionality & community
4. Technology & digital transformation

These themes are described on the next page, where we also highlight the implications and potential actions associated with each theme. Additionally, within the main report content, a number of key questions for building societies have been highlighted in respect of these themes.

# Key themes, implications and potential actions

Theme	Implications for future competitiveness	Potential actions
 <b>Strategy &amp; Planning</b> Whilst building societies share in a common heritage and most occupy broadly a similar space in the wider financial services market, there is divergence in respect of purpose, strategic prioritisation and commercial focus. And unlike many shareholder-owned organisations, growth, as defined by asset base, profit or enterprise value, is generally not pursued as an end in its own right.	<p><b>There is a range of proposition-led strategies from which societies can choose; but individual societies can't pursue them all, so selection and focus are critical</b></p> <p>Plans that depend on financial services sector-leading, efficient cost:income ratios, or easy access to secondary sources of capital are not viable options for the vast majority of building societies. However, there are a range of proposition-led strategies which could continue to provide the basis for sustainability and strong performance.</p> <p>These include increased regional focus; pursuing a higher proportion of specialist lending; expanding the liabilities strategy to provide a more comprehensive savings and investment offering; focusing on access via digital channels and possibly API links to other providers. Very few building societies have either the budgets or management bandwidth to be able to pursue all of these, and other options at the same time.</p>	<p><b>Prioritise and focus</b></p> <p>All societies should ensure they actively test and demonstrate clear alignment between purpose, strategic vision, and key investment and activity plans.</p> <p>Prioritisation and focus will be critical, and success is as likely to be about the effective implementation of the chosen strategy, as much as it will be about differences in strategic vision between societies.</p>
 <b>The role of mutuality</b> Mutuality is reflected in the internal governance, purpose-led strategies, operational decisions and the culture of societies, creating the potential for a genuine customer orientated approach. And whilst mutuality itself is not well understood externally by customers, its outcomes are well aligned with the increasing focus on social purpose in society in general.	<p><b>Mutuality can become point of difference with greater relevance to customers, possibly with a modernised focus on social purpose</b></p> <p>There is potential for the concept of mutuality to be 'refreshed' and modernised in the minds of current and potential customers (either at society or sector level), focusing on the consequences and tangible benefits of a mutually focused organisation.</p> <p>Building on this, and reflecting societal trends fuelled to some extent by Covid, there may be an opportunity to align and orientate mutuality to social purpose, which could help attract new customers to building societies. It is also expected that mutuality's current impact on internal culture and the employee proposition will remain a strength for the sector, playing a part in helping societies attract and retain talent.</p>	<p><b>Test, learn, refine</b></p> <p>Actively test and refine the impact of mutuality messaging, via research and proposition testing, and in particular the hypothesis that there is a virtuous circle linking mutuality, social purpose, and consumer behaviour.</p> <p>Establish whether a clearly defined social purpose can be a motivating acquisition and retention driver for a new generation of savers and borrowers.</p>

# Key themes, implications and potential actions

Theme	Implications for future competitiveness	Potential actions
 <b>Regionality &amp; Community</b> Regionality is an important feature of the sector, and can be closely linked with mutuality. This is especially for small and medium sized societies, where a strong commitment to supporting local communities is evident. This is more than CSR, and for many smaller and medium sized societies the strength of loyal savers through the branch network is a strong driver of performance.	<b>Meaningful community engagement is core to regional success, for customer engagement and branch-based savings</b>  Links to the local community, specifically what is perceived as the traditional heartland, currently support both the purpose of the society and a lower-cost source of liabilities. This is especially true for the small and micro societies who often rely on a large proportion of regional funding." This commitment to a community, generally most visibly manifested via the presence of a branch network, is expected to remain an important driver of the sector's business model and many societies are both actively considering how to make more of their branch estate and considering how to extend their physical footprint in an agile and low-cost way.  It is expected that for most societies, their region will continue to provide an important source of customers and balances, but that they will also draw in customers from beyond their heartland on both sides of their balance sheet but especially for mortgage lending.	<b>Strengthen regional relevance</b>  Development of a deliberately designed and distinctive community proposition, linked to social purpose and the broader theme of mutuality, and going beyond the utilisation of the branch network and contributions to local charities.  Use engagement with local customers (within target segments) to understand their perspective on the possible role their local building society could play as being most valuable.
 <b>Technology &amp; digital transformation</b>  As with all organisations today, building societies need to continually evolve digitally and remain relevant to current and potential customers. This is widely acknowledged across the sector and is being addressed as a near-medium term priority by many societies across both broker and savings markets.	<b>Societies need to invest for a digitally enabled future, for customer engagement, distribution and operating efficiency</b>  For most societies, the ability to compete in the mortgage market at sustainable margins is achieved by a combination of non-standard products and criteria, manual decision making, and a strong and efficient broker proposition.  In the short and medium term, societies must continue to take steps to enhance digital capabilities and data connectivity in key areas for their specific propositions. For most, this will initially involve focusing on elements of savings functionality and mortgage broker interfaces. The mortgage broker market can be more efficiently served using technology and data more effectively, but bespoke service and decision making will be retained in the short and medium term as a point of competitive advantage.  In the longer-term, societies need to ensure their technology and data management capabilities are modernised to enable more efficient ways of working; automated processes; internal efficiency improvements; data analytics and regulatory reporting; and meeting the needs of a customer base increasingly turning to digital channels.	<b>Develop the roadmap</b>  Develop a clear short, medium and long-term roadmap for digital change and data connectivity requirements based on market insight and needs. Common requirements will mean adoption of similar technology solutions will be viable, and communication (possibly collaboration) with other societies should be considered.

# Sector summary, statistics & insights

## Building Society Sector

**43** building societies

**1,383** branches

more than  
**43,000** employees

**91%** of assets and  
**90%** of members are  
accounted for by the  
largest six societies

**24%** of branches and  
**18%** of employees are  
held by the other  
37 societies

## Strategy

- 81% identify their building society as asset/ lending led; 19% as liabilities / savings led.
- 43% consider their society is pursuing a niche, national lending and regional savings strategy.
- 94% state their strategy will be maintained for the next 2-3 years.
- 30% of CEOs interviewed are undertaking activities to diversify income streams.

## Mutuality

- 70% agree that mutuality is acknowledged by members but not understood.
- 66% consider mutuality is about culture, values and social purpose.
- 33% of CEOs interviewed believe mutuality has the potential to resonate more with younger demographics.
- 93% say that mutuality affects decision making.

## Regionality

- 71% consider the branch network is a critical part of regionality.
- 90% believe community involvement is a commitment to regionality.
- 48% of CEOs see a link between regionality and mutuality with regards to keeping local branches open to serve communities
- 64% of all survey respondents agree that regionality is a critical part of the identity of the building society sector.

## Technology

- 67% identify digital transformation as the primary challenge to the sector over the next 5 years.
- Risk, legacy technology, budget and resource constraints are cited by CEOs as key barriers to adopting the latest technology.
- 46% of non-building society stakeholders feel cultural factors are a key barrier to tech adoption whereas only 12% of building societies see this as a barrier.
- 65% consider Open Banking to be an opportunity for the sector (55% of building societies, 75% of industry stakeholders).

The statistics on this page are drawn from Whitecap's CEO interviews and online survey responses from building society respondents unless otherwise stated. Building society sector data was drawn from the BSA Yearbook 2020/21.

# Summary of key findings, by research area

## Sector

- An established and stable sector containing 43 building societies of a wide range of sizes and locations across the UK.
- The six largest societies have 90% of the customers, but 24% of branches belong to the rest of the sector.
- The breadth of savings products offered is highest in larger societies, but on average smaller societies have broader mortgage product ranges.
- Covid has caused an acceleration in the use of technology, but not a fundamental change in strategy or business models.

## Strategy



- The sector is not homogenous, and societies adopt a range of different strategies and business models.
- Growth is not always viewed as a primary indicator of success in the sector.
- The need to evolve digitally and remain relevant to current and potential customers of all ages is acknowledged as a priority, but not necessarily an immediate one.
- Communication and relationships between societies are strong, but collaboration on joint initiatives is rare.

## Mutuality



- Mutuality is primarily a concept that influences decision making and internal culture rather than a key customer facing proposition.
- The purpose-led approach reflected by mutual status means the decision-making process of societies is more considered and long-term than that of other shareholder-driven financial organisations.
- The ethos that underpins mutuality is believed to be well aligned with the increasing focus on ethics, sustainability and purpose in society in general.
- Actions and contributions to regional and social communities during the pandemic have reflected a commitment to mutuality.

## Regionality



- Regionality is important to all societies, but especially for the small and medium organisations, and is seen as a key commitment to local communities.
- The local branch network continues to play an important role for customer engagement, especially for savings, and brand profile, and the repurposing of branches towards a 'community hub' proposition is seen as a logical and desirable development by some societies.
- A focus on regionality frequently manifests itself as local community involvement aligned to the specific needs of the region.
- Some building societies offer specific products or pricing options that are limited to their heartlands.

## Technology



- Societies acknowledge a requirement to enhance digital capability to meet customer needs and deliver operational efficiencies.
- Approaches to modernisation range from augmenting existing systems to the complete replacement of core banking systems.
- Many societies aspire to adopt an API driven approach to deliver modern tech solutions alongside legacy core banking platforms.
- The highly competitive technology and FinTech supplier / partner market is challenging for societies to navigate but is recognised as a source of new ways to deliver a modern customer experience.



# Summary of key findings, by research area

## Mortgages



- Most societies have chosen to compete in underserved niches to enable mortgage lending at acceptable margins.
- There is a significant reliance on the broker market for new mortgage lending, leading to a requirement to align with the evolving technology requirements of this market.
- Manual underwriting is a key USP in the mortgage proposition, and one that will be retained as the mortgage lending and servicing processes benefit from increased efficiency, driven by technology.
- The opportunities of tech developments such as APIs and process automation are being actively explored by building societies.

## Savings



- Societies are enjoying strong savings performance and do not currently face significant issues attracting new deposits.
- The importance of financial resilience and the benefits of having savings have been highlighted during the pandemic.
- The requirement to provide online savings propositions is acknowledged and being acted upon by societies.
- However, there is the potential that digital channels will drive commoditisation of the savings market, fuelling tactical customer switching, representing a threat.

## Key challenges

- The imperative to remain relevant to their members is front of mind for CEOs of building societies.
- Societies need to continue to protect their margins in light of rising costs, particularly in terms of regulatory compliance.
- Successfully navigating the requirement for digital transformation is a key challenge societies must address.
- Attracting and retaining high quality and appropriately skilled employees can be an issue for many societies.

## Statistical analysis



- There is no consistent strong relationship between the broader size of society, financial performance, and breadth of product range categories across the sector.
- On average, the largest building societies are the strongest performing segment within the industry.
- In relative terms, some small and medium sized societies demonstrate stronger performance than the strongest performing large societies.
- Micro and small sized societies have broader specialist niche product ranges than the medium and larger societies.
- There appear to be positive relationships between net interest margin, profit over mean assets and the breadth of product range.

## Online survey findings

- Niche lending and regional savings strategies are the most prominent among building society respondents, with the majority of societies identifying as primarily being lending led, rather than savings led.
- Broad agreement that mutuality and regionality are significant for building societies, across building society and external organisation participants.
- Building societies are focused on improving intermediary facing digital functionality in their mortgage propositions.
- Open Banking is seen as an opportunity by building societies.
- Budget and legacy technology are the primary barriers to technology adoption.

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## Whitecap Consulting

1 Aire Street, Leeds LS1 4PR

Tel: 0113 834 3133

Email: [info@whitecapconsulting.co.uk](mailto:info@whitecapconsulting.co.uk)

[www.whitecapconsulting.co.uk](http://www.whitecapconsulting.co.uk)



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