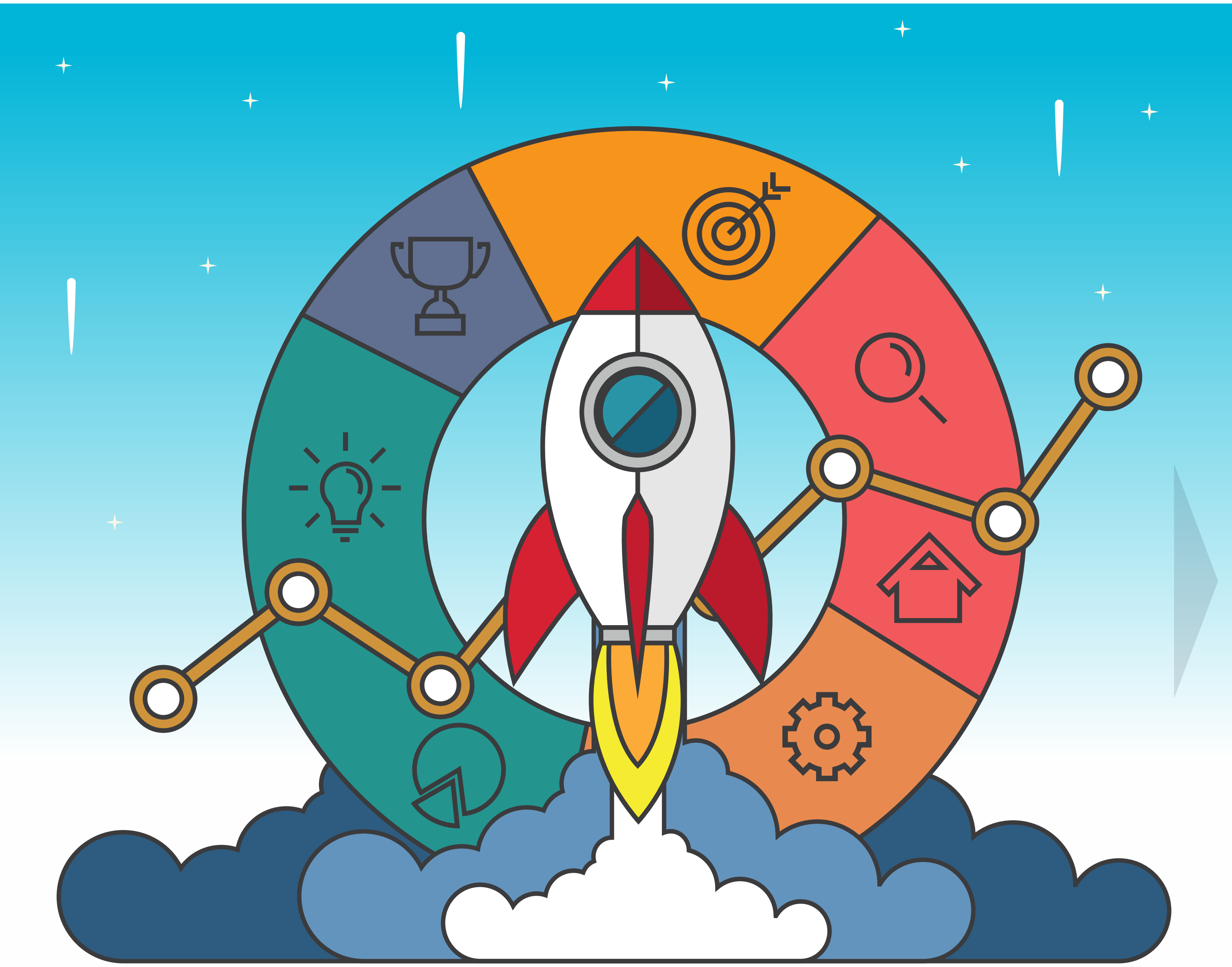
Building Societies Association

No. 49 | Autumn 2018

SOCIETY matters



Innovation taking off with a blast

How are building societies leading change?

contents

Society Matters is a publication of the Building Societies Association – ISSN 1756-5928.

The views expressed by authors in this magazine are not necessarily those of the BSA.

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Designed by: Whatever Design Ltd.
www.whateverdesign.co.uk

Printed by: Trident Printing,
www.tridentprinting.co.uk

Hello and welcome to the autumn edition of Society Matters

...and how refreshing to be able to say what a glorious summer we enjoyed this year! As the temperatures soared so did our country's patriotism as football almost came home and England finished in a respectable place 'D' in the World Cup.

While people enjoyed their holidays, building societies worked through the summer months to help consumers get better deals and right-fit products. There was a cross-industry voluntary commitment between lenders to help 'mortgage prisoners' – borrowers stuck on reversion rates – to find alternative products.

The BSA celebrated 10 years of Property Tracker: the quarterly housing sentiment survey. Results revealed that raising a deposit for a home continues to be the biggest barrier to home ownership – and has been every quarter for the last eight years. With house prices and the cost of living on the up, and with savings rates and wage growth remaining comparatively low, it is not difficult to see why people are struggling.

With this in mind, the BSA commissioned a report into intergenerational lending, to help identify how the 'Bank of Mum and Dad' – one of the nation's top-ten unofficial lenders - might be better facilitated by building societies to help their children get onto the property ladder. More of that on P8.

You might notice three themes as you flick through the pages: 'housing for all', 'savings for life' and 'for people, not shareholders'. Building societies specialise in these areas, and the BSA

aims to focus more than ever on these themes as we approach our 150th year in 2019.

Finally, we look for some words of wisdom and thoughts for the future from some of our sector's longest-serving leaders, as a number of chief executives retire. Head to P15 for this.

So as the leaves turn golden and we add pumpkin spice to everything in sight, I wish you a wonderfully cosy autumn.

See you in the winter edition – look out for it mid-December!

AMY HARLAND
Society Matters Editor

What have pharmaceuticals and chocolate got to do with building societies?

I don't know about you, but I tend to have a mountainous pile of all the things I want to read, but may not quite have made it onto the critical list. And so they sit there in the study at home making me feel slightly guilty from time to time. Sometimes I even feel sufficiently guilty to dip into the pile!

*By **ROBIN FIETH**, BSA Chief Executive*

Over the summer, partly prompted by the launch of the new UK Corporate Governance Code from the Financial Reporting Council (FRC), and partly by the press reporting of the ongoing campaign by Edward Bramson and his vehicle, Sherborne Investors, to persuade or cajole the board of Barclays into focusing on maximising short term shareholder return, I did indeed dip into the reading pile. I pulled out an excellent set of articles from the May-June 2017 edition of Harvard Business Review casting a spotlight on managing businesses for the long term.

Which is of course right at the heart of what we talk about in terms of the intergenerational nature of the building society model.

I have personally long held reservations about the FRC's Stewardship Code. What may have worked well in a past when shareholdings were direct and shareholders were by and large in for the long term, appears increasingly untenable in an age when more and more shareholdings are in passive funds and there is a whole segment of the market interested only in short term shareholder value maximisation and realisation.

Professor Colin Mayer, who spoke so eloquently at the 2016 BSA Conference in Gateshead, explores the dynamics of shifting shareholder bases in his 2013 book, Firm Commitment, using the case study of the take over of Cadbury by the US confectionery, food and beverage company, Kraft. As the loyalty of long-term investors was severely tested by an increasing share price providing an opportunity to sell part of their shareholdings as a precaution against the bid from Kraft failing, the balance of shareholder influence tipped towards short term activists and the Board felt its obligation change from bid-defence to achieving maximum value from the sale of the business.

A similar situation is described by Joseph Bower and Lynn Paine in their Harvard Business Review article using the case study of the pharmaceutical business, Allergan. They go on to challenge strongly the whole model of shareholder value maximisation originally proposed by Milton Friedman in 1970 and taken forward in Michael Jensen and William Mickling in their 1976 article, "Theory of the Firm".

The fundamental challenge is not a new one. Shareholders in a corporation are the owners of shares, not of the company. They do not have the traditional incentives of owners to exercise care in managing the business. They are not accountable as owners for the company's activities. In short, outside wholly owned and owner-managed businesses, the concept of shareholders owning the business rather than the shares in the business is rife with moral hazard.

What has this got to do with building societies, credit unions and, indeed, the broader co-operative and mutual economy? Well, the better model proposed by Bower and Payne sounds to me remarkably like a well-run co-operative or mutual business, although they don't quite reach that conclusion, remaining fixed in the world of shareholder owned corporations.

To quote, "A better model ... would have at its core the health of the enterprise rather than near-term returns to its shareholders. Such a model would start by recognizing that corporations are independent entities endowed by law with the potential for indefinite life. With the right leadership, they can be managed to serve markets and society over long periods of time." Sound familiar to you too?

Closely related are questions about the nature and ownership of reserves. The Third Co-operative Principle adopted by the International Co-operative Alliance in 1995, and based on the guiding principles originally defined by the Rochdale Pioneers, talks about co-operative members allocating surpluses for developing their co-operative, setting up reserves (at least part of which would be indivisible) and benefiting members in proportion to their transactions with the co-operative. In other words, members receive their dividend but have no right to a share in the capital growth and accumulated reserves of the co-operative business. There is a direct read across to members of mutuals in the way we talk about stewardship – treating the accumulated assets of the building society or credit union as an endowment, to be applied and developed for the benefit of current and future generations of members.

The travesty of de-mutualisation is that this principle is set aside so that current members can take the endowment for themselves at the expense of future generations. It is clearly arguable that many short term and activist shareholders have the same intent.

> *"...the better model proposed by Bower and Payne sounds to me remarkably like a well-run co-operative or mutual business..."*

Which brings me to some discussions we have been having in political and government circles about how a real focus on the role of business in society (and the societal purpose of business) is vital to building and re-building public trust in the finance sector and more widely. We will be continuing that debate into the autumn, both at the party conferences and at the BSA's Perspectives debate on Trust in the Digital Age with the Lord Mayor of London, the Prime Minister's Fintech Ambassador and others on 6 November.

Close to many of our hearts is the role that regulation plays in driving the direction of business. Earlier in the summer, the Finance Innovation Lab published its report, The Regulatory Compass: towards a purpose-driven approach to financial regulation, which argues that the financial system should not be judged only on how efficient it is on turning money into more money, but also on the social, economic and environmental impacts of that money. The report calls for purpose-driven regulation that seeks to nurture those businesses and governance models with the greatest potential to deliver positive social value and align the financial system with its social purpose. As the report recognises, "regulators might reasonably argue that is not their job to decide the purposes of the businesses they regulate. It is the job of politicians to ensure regulation is promoting the social outcomes that the public want to see".

For me, all of this points to why the BSA's campaigning strategy of seeking to position building societies and financial mutuals at the heart of the future of UK financial service is so important. And why, in the current febrile political environment, there is a real opportunity to build and promote the case for a different purpose, a social purpose for business. Exciting times ahead!

Next steps:

You can follow Robin on Twitter ***@bsaceo***

For more information on the BSA's "Perspectives: Trust in the digital age" event visit: ***bsa.org.uk/trust***

Third party support:

Formalising support from friends or family in vulnerable times

We all have times in our lives when things get complicated and we look for help from other people to guide us through. Customers can sometimes need help too, and it is good customer service to help them bring in a third party to support them with their finances if they want one.

By ***JAMES O'SULLIVAN****, Policy Adviser, BSA*

"Third party support" is often associated with the formal statutory options for delegating authority to another person to take control of a customer's financial affairs when they no longer have the mental capacity to do so themselves, such as a Lasting Power of Attorney. It is important to encourage planning ahead in the event of diminishing mental capacity so that customers know that people they trust will be looking after them should it happen.

But it's not just about reassurance in the event of losing mental capacity. Sometimes customers want to bring in a friend or family member to support them in running particular aspects of their finances. They are perfectly mentally capable and don't want to hand over control of their affairs but just want some extra help: The UK's ageing population, uncertain economic conditions, increasing serious health conditions and the increasingly complex world of financial services has created an environment in which a growing number of consumers are looking to friends or family for assistance with running their finances. For example, customers who:

- Are housebound and want someone else to collect money, shop and pay bills on their behalf
- Have failing eyesight or hearing and need help with reading or telephone calls
- Live with fluctuating mental health so want someone to help make spending decisions on bad days
- Are not financially confident and want someone to advise on big financial decisions
- Face time in hospital with a long recovery period and want someone to make deposits, withdrawals and answer correspondence on their behalf

> *"Support arrangements can be put in place relatively quickly, but it is easier if the customer and their chosen supporter plan ahead rather than waiting until an emergency occurs."*

The best help a building society can offer is to recognise and formalise such arrangements. Setting up a recognised support arrangement provides peace of mind for the customer. It can also make a supporter feel more comfortable about helping, and banish any concerns they may have that they may be taking advantage. A recognised third party support arrangement can make it easier to spot inappropriate behaviour on an account, protecting the customer and their money in the rare eventuality of a third party abusing their position.

Support arrangements can be put in place relatively quickly, but it is easier if the customer and their chosen supporter plan ahead rather than waiting until an emergency occurs.

Building societies already have processes for account holders to authorise third parties to make withdrawals from their account, or receive account information. There are clear rules about what information the society will give to a third party where there is no third party arrangement in place. But, these can be difficult for the customer to find out about unless they know specifically what to ask for.

As a result, the BSA has published a consumer leaflet. 'Need support with your finances from a friend or family member? Here's how' it provides customers and their families with the information they need and encourages them to talk to their building society about third party support.

Next steps:

You can download the BSA third party support brochure, or order copies at: ***bsa.org.uk/3PS***

SOCIETY matters
savings for life

When only innovation will do: Saving in a low-rate environment

How are building societies innovating in today's challenging savings environment? Three Societies share their approach...

By ***BRIAN MORRIS****, Head of Savings Policy, BSA*

With the 10 year anniversary of the banking crash being marked this autumn, the plight of savers over this period of exceptionally low interest rates, introduced in response to the crisis, has tended to be overlooked. Even after two increases in the past year, the Bank Rate stands at only 0.75%, meaning value for savers is hard to find. Building society savers outnumber borrowers in a ratio of 7 to 1 and the building society model relies on savers' cash to fund lending for house purchases. It is a very simple model, one which has endured since the 18th century and remains as strong as ever. Societies have reacted to the low interest rate environment by balancing the needs of savers and borrowers and seeking to protect the interests of both. Building societies understand cash savings and the intrinsic virtue of thrift in promoting financial resilience is visceral to societies

Independent research by Savings Champion In July 2018 found that 73% of building society accounts paid a rate of interest above the Bank Rate, compared to 54% of competitor accounts. Similar data from Savings Champion for 2017 and 2016 shows that this has been a consistent position – for 6 years and more. Collectively, in 2017, savers with a building society account earned £775 million more in interest than they would have done if they had an account with a big bank or a range of other financial institutions. For the first half of 2018 by the same measure, an additional £460 million interest has been earned by building society savers.

The image of building societies as traditional branch-based entities still largely holds true as they have generally held on to their branch networks, providing the face-to-face service many of their members value. But they have also embraced innovation. The three examples showcased here are indicative of our sector's appetite to ring the changes to the benefit of consumers, actively encouraging people to embrace a savings habit that will engender financial resilience and equip them to better deal with the planned and unplanned costs of living and helping to build longer-term wealth.

Nationwide Building Society, technology to promote healthy saving habits

"There is no denying the last decade has been tough for savers, but despite the low rate environment, people still want the reassurance of having money put aside. In a society where people want ease and convenience, technology is important in encouraging people to adopt a savings culture.

Today, around two thirds of our savings accounts are opened online and for those with an existing relationship with the Society the process has been made even easier. From within our Online Bank and Mobile Banking App, savers can open an account with just two clicks meaning the account can be opened and visible for them to start saving in a matter of seconds.

The Society now has more than 1.7m subscribers to its SavingWatch service, which texts and/or emails savers when their rate is changed or when we launch a new account that may offer them a higher rate of interest. Most people now have smart phones and the majority of our digitally active members now access their accounts on our Mobile Banking App, meaning once they receive a SavingsWatch alert they can review their savings even if they are on their commute to work.

One of the big focuses for Nationwide at the moment is Open Banking and the use of API's to develop tailored products and services for its members. While the Open Banking legislation currently looks at current account data, this could still benefit savers struggling to put money aside by using their data to show how they could make savings - particularly beneficial for first-time buyers trying to get on the housing ladder."

Yorkshire Building Society, save-as-you-earn scheme

"Saving is hard – we get it. Even those earning a 'good wage' can find there are so many barriers which can stop them putting money aside every month. That's why we partnered with fintech firm Salary Finance.

We wanted to empower ordinary people to take control of their finances. They choose an amount of money that is deducted from their salary before it hits their current account which is then saved in an online easy-access YBS account. We know there is a need for this. According to research from YBS Share Plans, more than one-third of savers in workplace SAYE schemes had no other form of savings.

There are no catches – the money can be withdrawn at any time, the amount can be varied and there are no fees. It is all managed online by the account holder.

Our partnership aims to address the needs of the 16.8m people in the UK that the Money Advice Service found had less than £100 in savings. It's a simple and easy way of building up a financial buffer in case the washing machine breaks or the car fails its MOT.

Saving can sometimes be seen as a habit for the wealthy. But we want to change that. We want to encourage people into a lifelong savings habit, to take control of their money and reduce the financial turmoil that an unexpected bill can cause."

Skipton Building Society, the Lifetime ISA (LISA)

"Skipton Building Society was founded in 1853 by people who had a clear purpose in mind. They wanted to help members have homes and to provide a safe place for their savings so that they could plan for their life ahead. And that founding purpose remains unchanged today.

Described by David Cutter - Skipton's Group Chief Executive - as the 'forgotten victims of the credit crunch', savers in particular have had a tough few years. It's been equally challenging for younger people to raise a big enough deposit to get on the property ladder. And that's why Skipton chose to provide the UK's first Cash Lifetime ISA.

Since 6 June 2017, over 112,000 people have opened a Cash Lifetime ISA with Skipton, with a collective balance of over £500million. There isn't a one size fits all approach to saving, but the Cash Lifetime ISA is answering the needs of a new generation of savers. The product, together with its 25% government bonus feature, provides a much needed cash injection for first time buyers saving towards the significant milestone of getting the keys to their first home."

Next steps:

The latest independent research from Savings Champion reveals building societies continue to provide the best savings rates: ***bsa.org.uk/SavingsChampion***

By ANDREW GALL, Chief Economist, BSA

Shifting barriers

The BSA's quarterly Property Tracker Survey has now been running for over ten years, revealing how consumer sentiment in the housing market has shifted.

In June 2008, when the first Property Tracker survey took place, house prices were falling, unemployment was beginning to rise as the recession began and the Bank Rate was at 5.0%. We were still to experience the worst of the financial crisis.

People taking part in the first Property Tracker survey were therefore likely to say it wasn't a good time to buy property. The main factors stopping people from buying then were the ability to afford the repayments and access to mortgage finance. Altogether, 74% of people thought house prices would fall in the subsequent 12 months, and they did, by 9% according to Nationwide's index.

Just a few months later, at the end of 2008 more people agreed than disagreed that it was a good time to buy property in the UK. This position lasted for several years, but in mid-2017 reversed again as economic uncertainty mounted.

The crisis is now well behind us, but the effects are still evident. Interest rates remain very low compared to historical levels, which has meant that affording the repayments is now not the number one barrier. But low rates have supported house price growth, with the result that raising the initial deposit has been seen as the greatest barrier since late 2010.

Jumping back to the present day, 70% of people taking the Property Tracker survey

in June 2018 agreed to some extent that the difficulty young people have in getting onto the housing ladder is one of the biggest problems in Britain today.

Despite the challenge, most people do still aspire to become homeowners, including those in younger age groups. When asked in June this year, 82% of those aged under 35 years old who expressed an opinion said they hoped to be homeowners in ten years' time.

Given the challenges, it is no surprise that support has emerged to help people to achieve these aspirations. Various products ranging from guarantor mortgages to shared ownership schemes have been offered by lenders. It is well known that family members who are able to support younger generations to buy often do so, and the Government's Help to Buy schemes were introduced to address the challenge of raising a deposit, though some have questioned if the scheme is now working as it should.

The BSA has commissioned research, to be published later this year, into how the support for first-time buyers might develop in the future, and what lenders and Government might need to do to deliver it. Building societies have accounted for 46% of the growth in outstanding mortgages since the crisis, and have played a key role in supporting first-time buyers, with over 30% of loans to first time buyers last year coming from a building society.

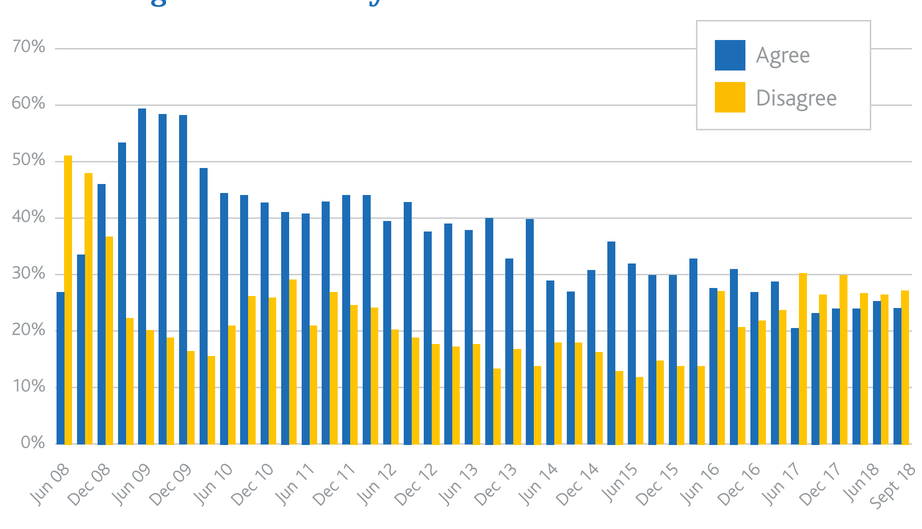
Societies therefore have a keen interest in exploring how they can continue to help first-time buyers overcome the barriers to home ownership on a sustainable basis, through the cycles in the housing market.

The report commissioned by the BSA will be published in November.

Next steps:

Property Tracker is based on a survey run by YouGov for the BSA. See ***bsa.org.uk/PropertyTracker*** *for more details.*

"Now is a good time to buy"



Operational failures: how Societies can prepare

By LAWRENCE POMEROY, Director, FS Consulting, KPMG

As an adviser, one of the most common questions I get asked is "What are you most talking to other clients about?" At the moment I can unequivocally say "operational resilience".

There are compelling reasons why operational resilience has rapidly shot to the top of board agendas across financial services.

In part, it is due to recent high profile technology issues, supply chain failures and cyber threats suffered by several financial services institutions. This has stressed the need for firms to consider their operational resilience in order to protect the UK financial system, and in a Society's case, their members.

The issue has also rocketed up the regulatory agenda. Operational resilience features heavily in both PRA and FCA business plans and, more recently, both regulators with the Bank of England (BoE) issued a discussion paper on the topic inviting input.

Whilst only a discussion paper at this stage, make no mistake, it is a strong signal of intent that firms need to take action.

So what is operational resilience? The BoE defines it as the ability of firms and the financial system as a whole to absorb and adapt to shocks, rather than contribute to them. It is a more strategic, macro level concept that sits above and goes beyond traditional operational risk and recovery capabilities. The question is, "How would your firm's products and services be maintained, within reasonable tolerances, regardless of the cause of disruption?" It challenges the very knitting and fabric of an organisation.

Importantly, this does not only relate to the larger more systemic banks and building societies: In conversations with the regulator, it is clear they see this as applicable to Societies of all sizes, especially given the potential customer impact of operational failure. The discussion paper very deliberately uses a small bank or building society as a case study.

So what do firms need to do?

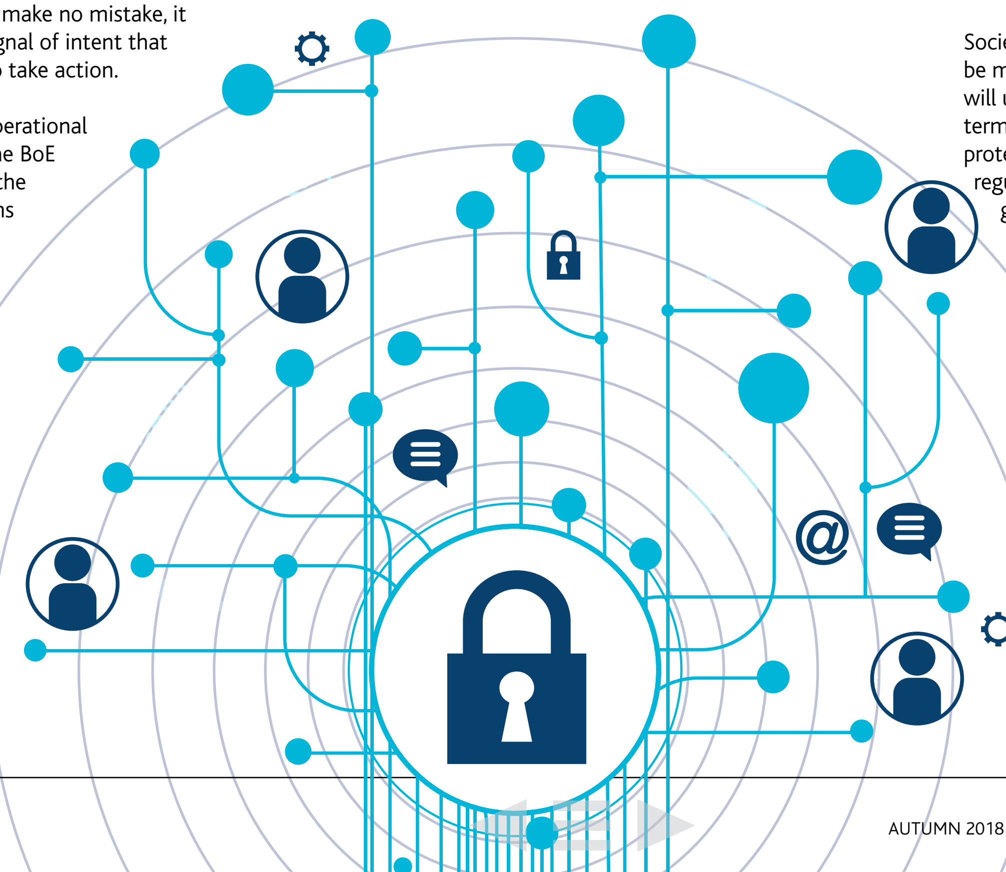
Primarily, societies need a shift in mind-set to accept that disruption is inevitable given the hostile cyber environment and scale of technology change impacting the industry. Firms have to plan for when, not if, operational failures happen.

Secondly, operational resilience needs to become a Board level issue. The regulator will want reassurance that the Board is taking this seriously, and that the top of the firm is holding itself accountable for risk assessments and management. How is the firm setting, monitoring and testing specific impact tolerances on key business services? This should no longer be considered an IT issue that is dealt with in the boiler room.

Every aspect of end-to-end business services, from staff to third party suppliers, needs examining through an 'operational resilience' lens, protecting financial stability and consumers when the worst happens. A Society should map its most important business services, the systems and processes that support these services and their vulnerabilities. This will enable firms to assess their maturity and identify required actions to respond quickly and effectively should those services be impacted, and set and monitor clear tolerance levels for these business services.

In a world of increasingly complex and inter-connected business models, the commercial and strategic benefits of a truly resilient organisation are clear, protecting your brand and reputation in the event of disruption, and minimising regulatory scrutiny.

Societies that are perceived to be more operationally resilient will ultimately derive longer term competitive advantage and protect their members. The UK regulator is at the forefront of global thinking on this issue, so firms need to be too.



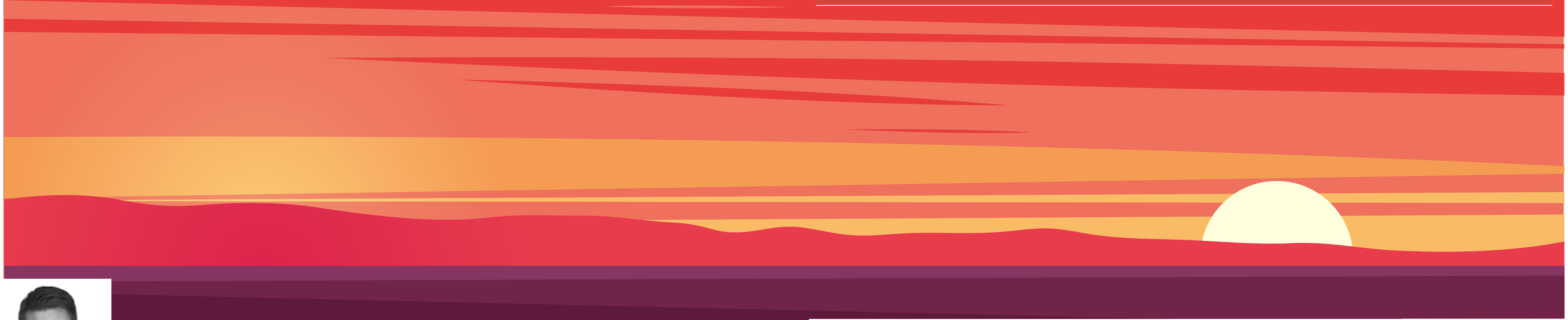
Next steps:

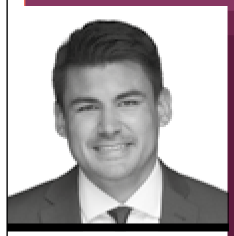
For more information please contact ***Lawrence. Pomeroy @KPMG.co.uk***

SOCIETY matters
housing for all

A RIO summer:

New option helps older borrowers 'ride into the sunset' and enjoy retirement





By ***CHARLIE BLAGBROUGH****,*
Policy Adviser, BSA

The UK has been experiencing a RIO summer, and I'm not referring to the relentless Brazil-like July heatwave. Rather, I'm talking about the range of retirement interest-only (RIO) mortgage propositions that building societies have brought to market over the past couple of months.

RIO mortgages are a product that should play the natural strengths of building societies: a high degree of careful manual underwriting and relentless focus on customer need.

Showing the interest within the sector, twenty-seven building societies attended a roundtable with the FCA architects of the rule changes earlier in the year. It would therefore be safe to assume that a number of societies may be busy readying products for the market.

During the roundtable, it became clear that societies are keen to think through what extra consumer protections these products might need. Affordability for the life of the loan and for joint borrowers, potential customer vulnerability and interest-rate risk, were all highlighted as key areas.

What has been interesting to see in the new RIO propositions is the different maximum loan-to-value (LTV) ratios on offer. Of course, societies focused in different parts of the country with different housing markets will take a view on the level of house prices needed to provide a buffer against any potential losses in the future.

As we have seen in the recent headlines around the 'No Negative Equity Guarantee' in the lifetime mortgage space, however, mortgages without a term can have a long tail, and judgements about house prices become crucial in prudential risk management. Of course, the first line of defence against possible future arrears is something that building societies excel at – good underwriting at the point of sale.

> *"The same borrower at age 60 could, these days, theoretically qualify for a repayment, standard interest-only, RIO or lifetime mortgage. Where does such a borrower go given that most mortgage advisers specialise in either standard mortgage advice or equity release?*

Another key protection is the advice process. Things can get complicated in what is becoming known as the 'Later Life Lending' space. The same borrower at age 60 could, these days, theoretically qualify for a repayment, standard interest-only, RIO or lifetime mortgage. Where does such a borrower go given that most mortgage advisers specialise in either standard mortgage advice or equity release?

The FCA has aimed to address this point by requiring disclosure "that a lifetime mortgage may be available and more appropriate for the customer' in the Mortgage Conduct of Business (MCOB) rules. While this is fine, we might expect that the next question many borrowers will ask is, "what is a lifetime mortgage?"

This is why the BSA is working with the Chartered Insurance Institute (CII) to put together a course for mortgage advisers on 'lending in later life' – so that advisers can feel comfortable describing the whole range of products on the market, but without straying into regulated advice in areas they are not qualified in. The first session in October is fully booker, but another is pencilled in for January.

Of course, some Societies may choose not to advise on RIO mortgages at all and work entirely through intermediaries. That is also an option, and why it will be so interesting to see over the coming months how Societies approach the huge potential of the RIO mortgage market.

Here are just a couple of examples of how our sector is responding to the increasing demand for Later Life Lending.

Next steps:

For more information on the Later Life Lending course by the BSA and CII, contact ***Charlie.Blagbrough@bsa.org.uk***

Penrith Building Society

Financial inclusion is a key driver at the Penrith Building Society. Having removed the maximum age for borrowers from their lending policy at the beginning of the year, they had essentially begun preparations for the anticipated changes in March this year. Forward planning, coupled with some agile policy and IT adjustments, meant that entry into the RIO market was swift.

Over the course of the last couple of years, the Penrith had identified the issues faced by older borrowers and welcomed the FCA's changes concerning how loans to individuals in this group can now be arranged.
Prior to the changes, a number of mature borrowers, who were regularly being contacted by their existing lenders regarding their expiring mortgage term, approached the Penrith. These borrowers often feared losing their homes as they were not in a position to repay their mortgages in full, but they had more than adequate means to maintain monthly interest-only payments. Based on this experience, the Penrith felt compelled to support these borrowers and drove forward their RIO policy.

The Penrith explains: "To date, appeal has been good – with intermediaries and direct applicants alike supporting our approach. We do, deliberately differ a little from the market as we have taken the decision at this time, to allow 'RIO' to be arranged on any product from our residential mortgage range. Additionally, for direct applicants, we have also appointed a specialist in taxation and benefits to provide advice where required and ensure that the mortgage loan is in the individuals' best interests.

"We anticipate a steady demand for this type of repayment method. Whilst not for everyone, it is certainly pleasing to have additional options for older borrowers and we will continue to support our members with their mortgage needs – whatever their age."

Scottish Building Society

With over a decade of specialist experience in the Later Life Lending market with its interest-only Lifetime Mortgage, Scottish Building Society added a RIO mortgage to its range in July this year.

Paul Alexander, the Society's Head of Business Development commented "As with our Lifetime Mortgage, Retirement Interest-only mortgages offer a solution for those with maturing interest-only mortgages and no suitable repayment vehicle.

"This new product has also generated enquiries from customers who are over 60 and looking to free up a cash lump sum for a variety of purposes. Helping family members onto the property ladder, funding home improvements or simply making the most of their retirement are all popular reasons.'

Case study

John Morgan and his wife Linda Anne were facing a dilemma when it became apparent that they would be unable to repay the mortgage on their Dumfries home because of a shortfall in their endowment policies.

"This is a problem facing many pensioners and it is only going to get worse for future generations," said Mr Morgan, a retired accountant.

After discussing their options with their family they turned to Scottish Building Society for help. They agreed to borrow 35% of the value of their townhouse with an interest-only mortgage. It meant they could eradicate the debt with their previous lender and pay interest only on the loan, the equivalent of an affordable rent, for the rest of their lives.

"It was an excellent solution for us and gives us both stability and flexibility. When we die the original loan will be repaid out of the proceeds of the sale of our property, with the remainder passed on to our children."

Tackling the housing crisis head-on: Housing for all

By *PETER HUGHES*, *Managing Director of Principality Commercial*

There are huge ambitions for Cardiff as a capital city with major investment into large business districts. However, as is the case across all the UK's growing cities, we have to ensure there is housing, in particular good quality affordable homes, to supplement the demand and address the current shortfall.

This September saw the first tenants move into affordable rental homes at the £100 million urban village development known as The Mill, which Principality Building Society helped to fund.

The long held vision of creating an attractive yet affordable environment in one of Europe's youngest capital cities will soon become reality for hundreds of people.

The scale of the project is huge – one of the biggest projects of its kind in the UK, and it is by far the largest development Principality has ever been part of, and one we're proud to be involved with.

Of the 800 homes to be developed at The Mill, half will be allocated for affordable rental, with 358 homes for open market sale. The developer Lovells have already won a National FTB award for the quality of this scheme. Principality's commercial lending division were involved in the original design phase of the company structure, funded – alongside Welsh Government – the initial infrastructure phase (remediation, roads, sewers and services) and provided construction finance for the first 100 rented homes at The Mill.

The project will also bridge the institutional phase with the confidence that there is income being generated from the rentals – to be collected by Cadwyn Housing Association as managing agent. This "pillar to post" approach has been truly innovative. In truth, with more than £20m needing to be spent before a single brick could be laid many house builders could have shied away from this opportunity.

> *"What we have demonstrated as a collective is how government and businesses can work across different sectors to achieve a common goal."*

As anyone who has been involved with planning applications will know, enormous projects such as this one requires the patience of Job, the ability to toil like Sisyphus and the resilience of Rocky Balboa. The key to success has undoubtedly been working in partnership. Initially, the project started as a collaboration between Principality, Tirion Homes and Welsh Government, subsequent to which housing developers Lovells and Cadwyn have become major partners.

What we have demonstrated as a collective is how government and businesses can work across different sectors to achieve a common goal. Our focus has been to invest directly into Welsh communities, while bringing together local businesses to work collaboratively.

The next step of the funding phase will be to draw in long-term institutional money from investors who likewise share our confidence in the future prospects for Cardiff. We at Principality will continue to explore ways we can drive the housing agenda, having committed a further £50m to housing associations last year.

This has been a challenging and ambitious project but evidences the differences regional building societies can make in their communities where the scale of local investment and development of affordable housing is entirely consistent with the principles of mutuality.

Next steps:

A video of The Mill project can be found here: ***www.youtube.com/watch?v=9dcI548jAnU***

Managing the wellbeing of a multigenerational workforce

By *HELEN SMITH*, *Commercial Director, Benenden Health*

At Benenden Health, we're focused on helping employers to support the health and wellbeing of their employees.

Demographic change is having a profound effect on the UK labour market and will continue to do so in coming decades[1]. It is not unusual today for an organisation to have five different generations working together.

Research shows that focusing on wellbeing and flexibility helps to improve employee satisfaction[2]. While different generations have common concerns, it is crucial to manage the wellbeing of each generation effectively. The challenge is understanding that one generation's needs may not be the same as another's.

Benenden Health worked with Jane Abraham, health and wellbeing specialist and Managing Director of Flourish Workplace Ltd, to create a useful guide on managing the wellbeing needs of a multigenerational workforce.

The five generations and their wellbeing needs

The Silent Generation: age 72+
Born into the Great Depression and WWII, some concerns for this generation are musculoskeletal conditions, heart conditions, visual or hearing impairment and bereavement.

Possible wellbeing initiatives:

- Health assessments to identify possible health risks
- Optimise ergonomic set-up of workstations
- Offer discounted sight/ hearing tests
- Provide access to bereavement counselling or Employee Assistance Programmes

Baby Boomers: age 54-71
This generation are in the period of life where health concerns most often develop. They may be less active than younger generations. Suicide rates are highest amongst this generation.

Possible wellbeing initiatives:

- Encourage exercise through gym membership or cycle-to-work schemes
- Offer access to GP and psychological wellbeing helplines
- Promote healthy eating
- Provide regular health assessments to identify risks

Generation X: age 38-53
Status-hungry and hardworking, Gen-X may expect employment perks to match. They're generally happy and active but suffer with health issues related to age, such as weight gain, chronic disease, and menopause. Caring for children as well as elderly parents can add strain.

Possible wellbeing initiatives:

- GP 24/7 services to allow flexible, remote access to GPs so employees don't have to take time out for appointments
- Offer flexible working or financial help to aid with childcare or the care of elderly family members
- Offer support and advice on care options from external services

Millennials: age 23-37
Millennials are generally concerned about work flexibility and personal wellbeing than financial benefits. Obesity, sleep deprivation and mental health issues concern this generation.

Possible wellbeing initiatives:

- Run workshops on how to improve sleep patterns
- Provide access to a mental health helpline
- Consider allowing flexible or compressed hours, or remote working

Generation Z: age 18-22
True digital natives. Growing up in the recession, seeing the shrinking middle class and widening income gap has resulted in this generation often seeking stability. They are more conscious of mental health than any previous generation.

Possible wellbeing initiatives:

- Explore digital solutions to wellbeing, physical activity and nutrition, such as health apps
- Provide mindfulness sessions, resilience training and access to counselling
- Offer financial mentoring on budgeting, debt and pensions

Successful wellbeing programmes recognise the specific needs and expectations of today's ever-changing workforce. Failure to implement a fit-for-workforce wellbeing programme can negatively impact the health, engagement and productivity of your employees.

Next steps:

To download the full guide visit ***www.benenden.co.uk/bsamultigen***

1. https://www.cipd.co.uk/knowledge/work/trends/ageing-workforce-report
2. https://www.ncbi.nlm.nih.gov/pubmed/22013632

Landing into retirement: farewell CEOs

The building society sector is shaped and distinguished by the experience and knowledge of its employees. Therefore it is with sadness that we bid farewell to some of the sector's longest-serving and most senior employees, as a number of Chief Executives enter a new chapter in their lives: retirement. Below they share their journeys so far and hopes for the future of our sector.

In their own words...

Amyn Fazal, Penrith Building Society

"I remember the interview when I went for my first job (with Nationwide) forty years ago as if it happened yesterday. I was asked why I wanted to enter the world of commerce and I replied that I saw the role more as helping people to buy their first home. It's a goal that I have held on to all my working life in the three building societies I worked for; Nationwide, the Furness and latterly the Penrith where I was CEO for seven years.

There have been many changes. Deregulation led to many societies becoming banks and then disappearing. Technology has led to the transformation of how people transact and our sector has responded well. The incessant rise in house prices has put the dream of home ownership beyond many people.

I have been very lucky to work in the sector and help so many to fulfil their dreams. I will continue to champion the interests of those who are keen to get a foot on the housing ladder and I believe our sector has a duty to lobby for this group.

Penrith Building Society has strong staff and a visionary executive team and Board. Together they continue to focus and hone the right strategy to navigate the evolving complexities of the financial services sector. The whole sector is responding strongly and continues to set the agenda in retail financial services."

Chris White, Hinckley & Rugby Building Society

"When I retire in 2019 I will have been with Hinckley & Rugby for almost 30 years – the last ten as the Society's eighth chief executive in its 153 years. The Society is now run in a far more sophisticated and risk aware way than it was in 1989, but fundamentally the business model remains.

From the moment I joined the sector I heard representatives of larger institutions say scale was all important. However, here Hinckley & Rugby remains whilst many bigger organisations are long gone.

I believe the sector has rediscovered what being mutual is all about, after briefly losing its way in the 1990s. It is my generation's society chief executives whose legacy is the multiplicity of mutuals to have steered a course through and beyond the financial crisis.

Our societies genuinely take the long-term view and act in our members' interests while maintaining good relationships with the regulators.

There is no reason why building societies of all sizes can't flourish – so long as they do what they know is right and embrace new technology whilst serving members face to face through branches and agencies.

It has been an honour to serve and I have loved every minute."

Kevin Wilson, Leek United Building Society

"I joined Leek United in 1994 as Financial Services Manager with 10 years' experience in financial services sales management. In 1998, I became Sales Director and appointed to the Society's Board. Then in June 2005, I took over as Chief Executive.

Changes in the mortgage market and the regulatory demands on the industry as a whole have intensified year on year; and of course, the continued development of online banking poses its own challenges. As a 'traditional building society', the key is balancing technology development with face-to-face service - for which members have always held us in the highest regard.

Like many, the credit crunch and the financial crisis was one of the most challenging times in my career; we learned a lot about the business and about ourselves, but I'm pleased to say we came out of it strong: testament to the resilience of our business model.

In terms of achievements and legacy, a recent highlight was seeing Leek United break through the £1 billion barrier for group assets in 2017, the Society is in a stronger position than ever before. However, one of the most important things for me personally, is helping to build a 'learning culture' at the Society and seeing people develop into business leaders.

I would like to think that the Society continues to grow and thrive. We have got to where we are without compromising our reputation for providing outstanding service to our members. Our people and our products provide a compelling business case for long term success." Kevin will retire at the end of 2018.

Dick Jenkins, Bath Building Society

"When I retired earlier this year, I did so with 11 and 14 years' experience at Bristol and West, and Bath Building Society respectively.

The growth of regulation continues to be one of the biggest challenges across the whole financial services industry. However, with no paradigm shift yet in the mortgage and savings industries over that period, it has been a story of evolution - particularly in the adoption of technology. I have experienced two recessions, both different in nature which temporarily knocked the market off course, but have come to see the cycle of steady growth, boom, bust and reform as a pattern in our industry that is likely to happen repeatedly.

During my time there, Bath became a prime (but by no means only) example of how a building society can be a small-scale niche provider in a market increasingly dominated by much bigger impersonal players. We proved that whilst there are many obstacles to small players surviving and prospering, it can be done - with a clear strategy, a good team and a customer-focussed culture. I am particularly proud of Bath's pioneering lending innovations in recent years, such as the Buy for Uni Mortgage.

Looking ahead, I am still keen to contribute to the sector and to mutuality and my role as a NED at Buckinghamshire Building Society allows that. I remain, as I always have been, a passionate advocate for the sector and the diversity and values that building societies bring to the wider market. I'd love us to get to the point where new building societies can emerge."

Peter Hill, Leeds Building Society

"I have worked in financial services for 39 years of which 17 have been with Leeds Building Society. I have been CEO since 2011.

I am pleased that the wholesale reductions in the number of societies, predicted by some, have not come to pass. My personal view is that this is as a result of three factors:

- A significant improvement in governance across the building society sector
- The relatively benign competitive environment and favourable funding conditions
- Many societies executing more distinct and sustainable business models particularly focusing on their original purposes of helping people to save and have the home they want

During my time as CEO we have grown strongly, restored profitability and created more secure and resilient foundations for the future. In anticipation of more challenging times ahead we have developed a strategy based on identifying customer segments around which we can build and defend a distinct set of propositions.

I believe we have entered a new era in the evolution of our industry. Fintech, and in particular open banking is disrupting at pace. This brings threats and opportunities, which I believe societies need to understand and address." Peter will retire in February 2019.

Dates for your diary

Knowledge sharing and educational events for building societies, wider mutual organisations and beyond.

Register to attend the below events at **bsa.org.uk/events**

Crisis PR in the digital age

16 October 2018, London

The reputation of your society or credit union is one of your major assets. Your reputation affects whether you retain existing members and recruit new ones. When an issue arises or a crisis hits, and there have been plenty in the news recently, the way that you as communicators handle it can make the difference between enhancing your society's reputation and losing it. Social media adds an extra dimension, in how far and how fast stories spread.

This programme is specifically geared towards anyone with external communication responsibilities within their organisation, whether it is a full time role, a part time responsibility as part of a portfolio role or just as part of a crisis management team.

Open to: BSA members and associates

Cost: £575 per delegate (VAT exempt)

Perspectives: Trust in the digital age

6 November 2018, Science Gallery London

The World generally and financial services in particular are becoming ever more digital, meeting consumer expectations for convenience and to reduce costs. Established players and new-start Fintechs are offering a range of potentially exciting solutions. But with all the benefits of the digital revolution come very real challenges, not least whether it is trusted by users and society more broadly. Trust in the digital age has been in the news almost daily of late but, what does it mean for businesses on a digital journey and for consumers?

We discuss this multi-faceted topic with a panel of experts with a range of perspectives. Followed by networking, food and drink.

Confirmed speakers:

- The Rt Hon Charles Bowman, Lord Mayor of London
- Alastair Lukies CBE, CEO Pollinated, Founding Partner Motive and the Prime Minister's Business Ambassador, Fintech

More panel members to be announced

Who should attend?
Building society senior leaders, whose businesses are on or are contemplating a digital journey. Organisations that work with and support building societies. Regulators, parliamentarians and those with a general interest in the development of digital.
Cost:

BSA members & associates: £60 + VAT

Non-member organisations: £90 + VAT

Conduct 2018 – Your people

15 November 2018, London

With so much focus on culture and accountability, the importance to good conduct of staff at all levels is a key regulatory area of focus. This final seminar in the series examines how employment law and practice aligns with the SM&CR rules, how the SM&CR arrangements are working at a practical 'people' level, the management and reporting of conduct breach, 'reasonable steps' for senior managers, the place of indemnity and insurance, and the link between culture and conduct.

Open to: BSA members and associates

Cost: £350 per delegate (VAT exempt)

Arrears & Possessions

20 November 2018, London

This seminar will explore effective ways to embed an arrears and forbearance process which ensures, taking account of the FCA's expectations, that you have the tools and techniques to deliver consistently fair outcomes for your customers, based on their individual circumstances.

Through listening to industry expert speakers and engaging in discussions with your peers in the industry, you will go away with the knowledge and tools to help you develop a proactive and forward-looking strategy within your business which effectively engages borrowers in financial difficulty.

Open to: BSA members/associates only

Cost: £350 per delegate (VAT exempt)

Introduction for new NEDs

4 December 2018, London

Part of our NEDs week This programme delivers an intensive introduction for new directors to the business, board and regulatory environments. It also facilitates an exchange of ideas with industry peers through interactive sessions and informal networking.

This event is part of our NEDS' week. A programme of three days of bespoke NED content.

Open to: BSA members only

Cost: £350 per delegate (VAT exempt)

Includes course documentation, lunch and refreshments.

Next steps:

The BSA events programme is regularly updated – for full listings please visit ***bsa.org.uk/events***