

# Engaging conversations

Member engagement  
at building societies

May 2015

 **Building Societies  
Association**





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# Foreword

One ongoing consequence of the financial crisis is that the financial services sector remains at the centre of questions about for what, or for whom, businesses are being run<sup>1</sup>.

As the economy recovered from the financial crisis the impetus to develop a corporate environment where businesses give greater consideration to their role in society grew.

This *corporate social contract* cannot be explicitly defined, nor is it static. Therefore, to ensure the stewardship of organisations is appropriate to fulfil this contract over the long term, financial institutions need to engage in conversations about the outcomes society wants, and learn to interpret and anticipate what these demands will be in the future.

Building societies are owned by their saving and borrowing members, not shareholders. Many building societies have come to appreciate that effectively engaging these owners, who are also their customers, can help them to understand changes in the market, helping to connect the building society to its fundamental purpose of supporting homebuyers and savers. For many years, including prior to the latest financial crisis, they have developed their approach to engaging members as owners and as customers of the business. In many ways these two relationships are indivisible.

As member owned organisations, member engagement is crucial to holding building society executives and boards to account. This has always been, and remains challenging, despite action on the part of societies. But with a keen cohort of members/customers that are actively engaged it can be so much more; it can bolster the competitive advantage of building societies relative to firms with other ownership structures by giving them deeper insight into the needs of customers. If these aspects of member engagement are addressed successfully it will result in a better run building society for the benefit of members, staff, the communities they serve, and the financial services sector.

This, our fifth report into member engagement at building societies since 2003, addresses the following questions:

- What is effective member engagement?
- What is the impact of effective member engagement on how a building society is run?
- What constitutes a building society member engagement strategy today?
- How has this changed since our last report in 2010<sup>2</sup>?
- In particular, how have new technologies affected member engagement?

There is a significant opportunity for building societies to leverage the strengths of their unique ownership structure. This report demonstrates how building societies are investing in opportunities to engage with their membership both as owners and customers and the rewards to stakeholders that are being realised from doing so.



Robin Fieth  
Chief Executive  
Building Societies Association



# 1. Why engage with members?

Building society Chief Executives understand the importance of member engagement.

A BSA survey shows that 90% of responding building societies (Figure 1) said member engagement is very important to fulfilling their responsibility as a customer-owned organisation. Interestingly, a large proportion of Chief Executives who responded said that engaged members also fed into strategic decisions, with 57% saying member engagement was very important for this and 29% saying it was quite important.

At all of the societies that responded to our survey, responsibility for member engagement ultimately lay with a member of the board. At almost three fifths of societies (57%) the Chief Executive was responsible. Another Executive Director was responsible at a further quarter (24%). At the remainder it was either the Chairman (14%) or another Non-Executive Director (5%) (Figure 2). There is regular reporting to the board on member engagement measures and activities. For example, Scottish Building Society has a member engagement dashboard that goes to the board on a quarterly basis and at Stafford Railway Building Society this forms part of a Balanced Scorecard approach to reporting.

How important is member engagement to the following...

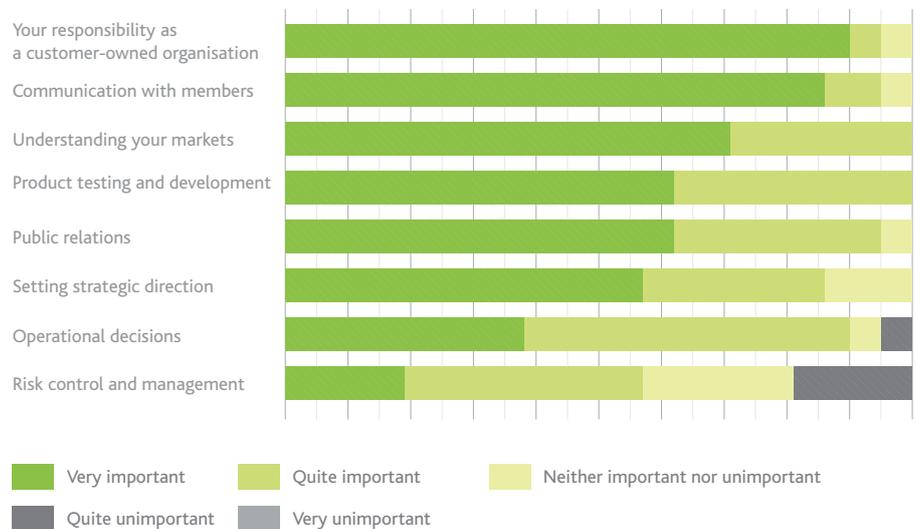


Figure 1 – Based on 22 responses out of a total of 44 building societies, representing 73% of the sector based on total assets.

Who is ultimately responsible for member engagement at your society?

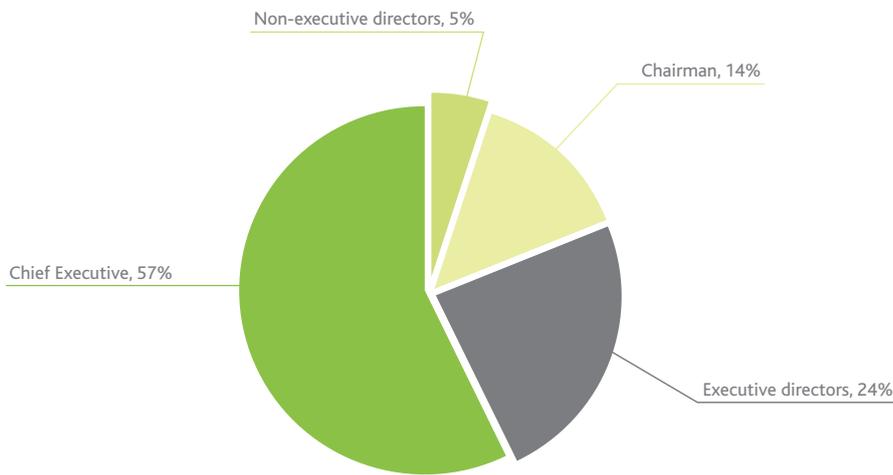


Figure 2 – Based on 22 responses out of a total of 44 building societies, representing 73% of the sector based on total assets.

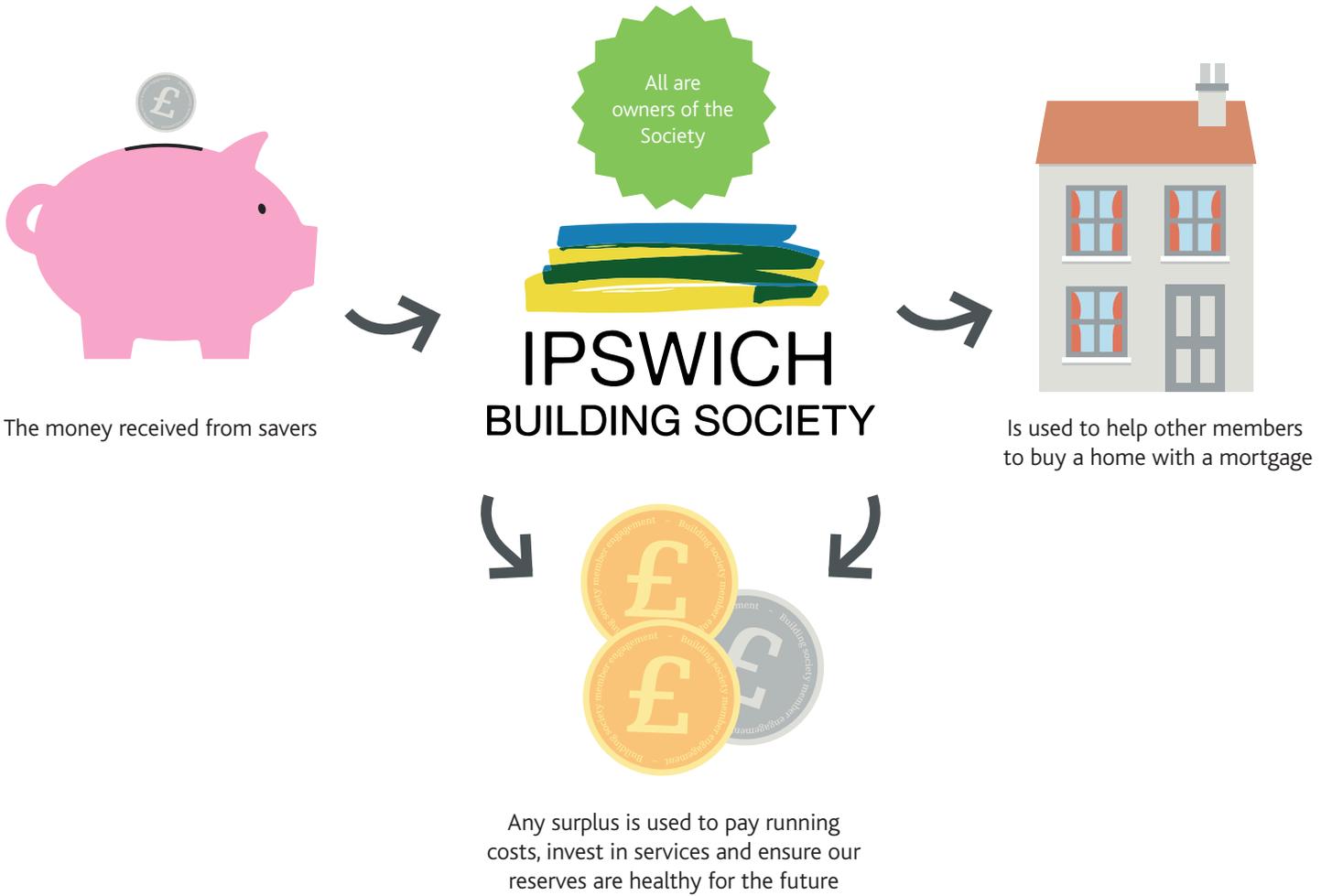
Banks also focus on engagement with their customers, but engagement at building societies is different because they are owned by their customers – the members. This gives customers the direct right to participate in the governance of their society. Membership rights include voting in the election of Directors and on other resolutions. They can also attend Annual General Meetings, stand for election, support a member resolution, and request a Special General Meeting.

### Hanley Economic Building Society

Hanley Economic Building Society reports that many members say the level of engagement is far higher than they are accustomed to elsewhere, and as a result they have a real sense of being valued as a customer.

## Ipswich Building Society's explanation of its ownership structure

### How do we work?



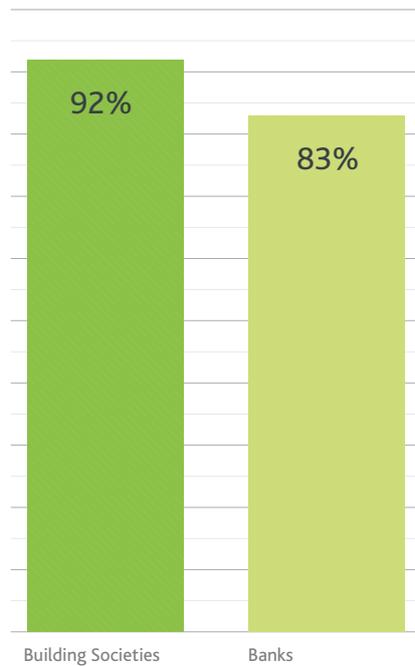
## Member engagement after the recession

The reputation of building societies did not suffer as badly from the global financial crisis as those banks which were involved in cases of bad practice.

Since the crisis ended banks have been focusing on rebuilding their reputations. Building societies have been able to continue the focus on members. During a time when the reputation of the financial services sector is low, this can produce real competitive advantages.

Over three quarters (76%) of societies that responded to the BSA survey had increased resources committed to member engagement over the last two years. None had reduced them (Figure 4). A similar proportion (77%) have indicated that they will be increasing resources over the coming two years. A number of societies have recently established, or will soon be establishing, new departments focused on customer experience, including member engagement.

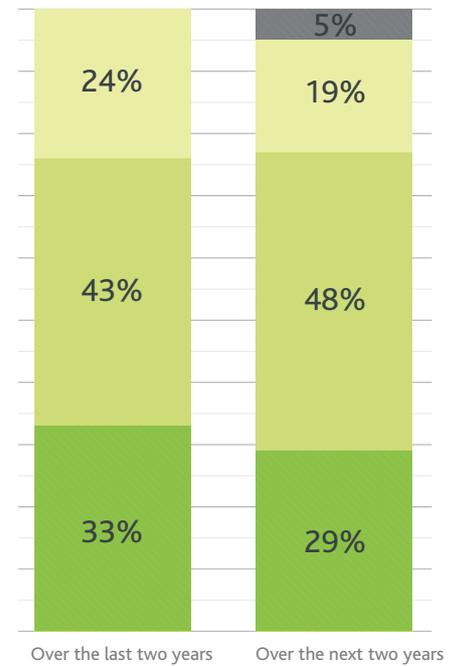
I can trust my provider to act in my best interests (% agreeing)



Survey by Canadian Consumer for the BSA\*

Figure 3

How have resources committed to member engagement changed over the last two years and how will they change over the next two years?



■ Increased a lot    ■ Increased a little  
■ Decreased a little    ■ Decreased a lot  
■ Stayed the same

Figure 4

Although the range of member engagement practices are similar to those in place at the time of the last survey in 2010, the responses to our survey show that member engagement is now much more important.

This is shown in figure 5. Across each dimension member engagement is seen as more important now than it was in 2010.

The largest shift in Chief Executive opinion compared to five years ago relates to setting strategic direction. Whereas 57% said that member engagement was very important to strategic setting in the latest survey, just 16% said this in 2010. This indicates a greater appreciation for the role that engaged members can play in helping a building society to differentiate itself from the competition.

Newcastle Building Society note that their attitude to member engagement has not changed, but their approach has. They have been more adaptable in implementing new services, have adopted new products based on member feedback and gained new advocates through strengthened links with their local community.

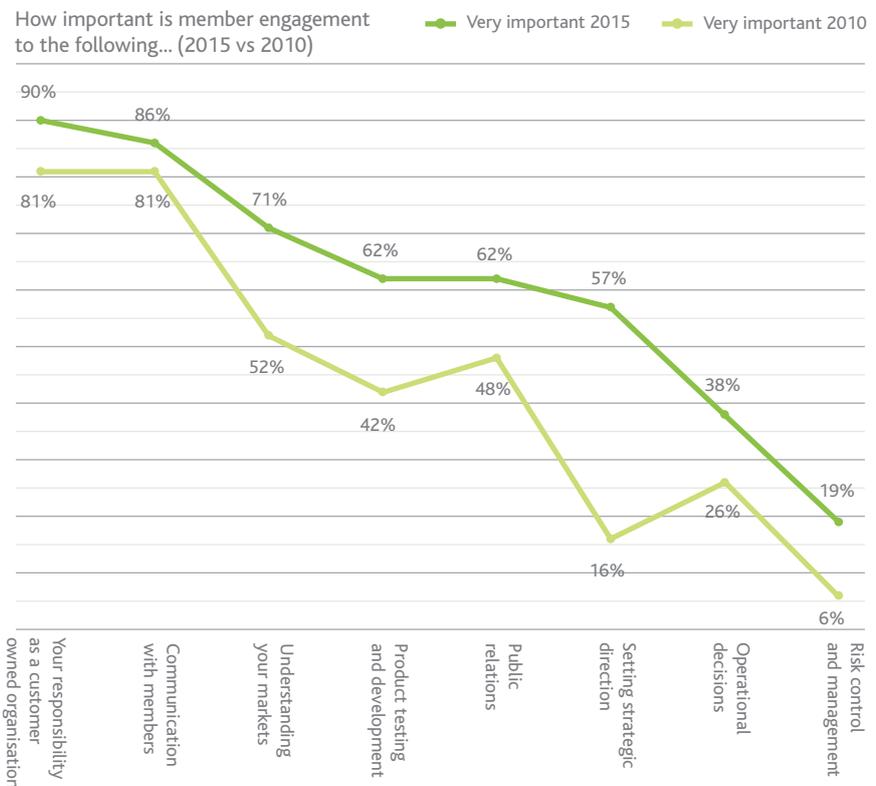


Figure 5

## Competitive advantage from mutuality

Global banking markets have entered a new era following the financial crisis. All firms are facing increased regulation and the associated costs. Customer perceptions of the financial service sector are still low, and ethical standards are under scrutiny by customers and the wider community. Consumer needs and lifestyles are also changing, and so are the ways they do business with their financial services provider. This has mostly been driven by technological advancement, in particular web and mobile based services.

There has been great debate within the building society sector on how the customer ownership model can be made more relevant for consumers today. Many societies have conducted research into the views of members and non-members to understand how they can leverage the difference their ownership structure makes. Mutuality itself is often not the main pull for consumers, so societies need to demonstrate how their ownership can result in better value, including pricing, service and fairer treatment. But building societies' superior performance is not a forgone conclusion.

Several banks are now focusing on customer service, traditionally a stand out characteristic of building societies. Mutuals may also be disadvantaged as they are not able to raise external capital like publicly listed banks, which could hamper their ability to rapidly grow lending or invest in technologies.

Whilst the current environment does bring challenge for the sector, building societies can capitalise on their differences to banks and use this to gain competitive advantage. The mutual model favours long term relationships with members compared to shorter term relationships that banks have with their shareholders. This focus on the longer term allows building societies to sacrifice some short-term returns to deliver industry leading service, particularly as pressure grows on banks to increase returns to shareholders<sup>3</sup>.

By investing in engagement with their members now, societies can pinpoint areas that mean the most to their members and begin to strengthen them.

A member engagement strategy that fits with other elements of a society's offering is likely to be more successful. In recent years Skipton Building Society has increased its focus on member engagement as it developed its community programme. The objective has been to create a greater sense of belonging and deeper relationship with customers. While increased engagement does not by itself achieve this, improving the quality of service delivery and product offering alongside has been very successful in terms of customer ratings.

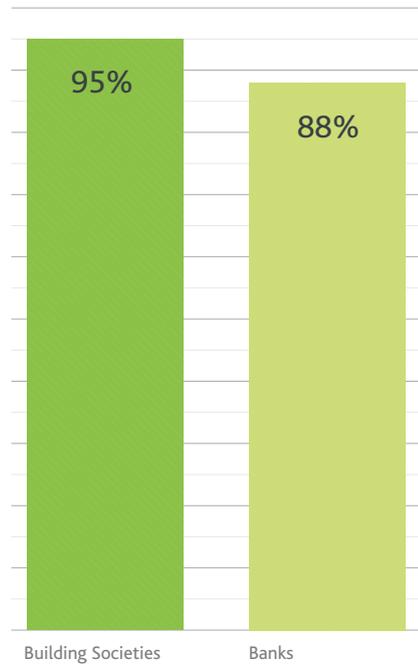
## Darlington Building Society

Darlington building society has engaged in multiple conversations with its members, staff and non-members as part of a brand refresh. A quarter of members asked, considered the opportunity to participate in decisions affecting the operation of the society to be very important, but not all translated this view into action.

Factors like loyalty products, better service, no shareholders and providing support to local communities and causes were seen as some of the tangible benefits of a building society.

Despite the rise of the internet in financial services, the local branch was felt to have an important role and is a determinant in the choice of financial services provider. There was strong opposition to the replacement of humans by machines, which has happened at some of the big banks. Face to face contact or the opportunity for it was considered crucial.

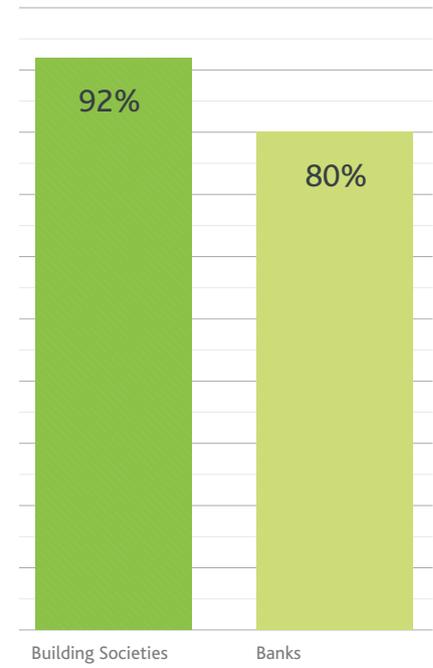
I feel as though my provider treats me fairly as a customer (% agreeing)



Survey by Canadean Consumer for the BSA\*

Figure 6

My provider offers competitive rates (% agreeing)



Survey by Canadean Consumer for the BSA\*

Figure 7

## Leveraging the competitive advantage of mutuals

A number of international strategic consultancies have analysed what member ownership can mean in terms of competitive advantage<sup>4</sup>. Although they looked at cooperative financial institutions internationally, these studies suggest that closeness to customers can give member-owned organisations the edge if they use it as the basis of their response to current challenges. The findings from our survey of building society chief executives suggests that many see member engagement as playing a similarly important role in setting the objectives for their building society.

### McKinsey – 2012

#### Change is opportunity – Cooperative banks on the cusp of a new era

A new phase of low growth and tougher competition in banking can create opportunities for cooperative banks to fulfil their mission.

Invest in key dimensions of their promise to members while the big banks are distracted by restructuring.

Re-assess the branch network to preserve proximity while remaining profitable: either shrink the network or find new roles for branches.

Use technology to deepen relationships with members and respond to their needs

Invest in member relationships via loyalty products and creating opportunities to engage with members.

Collaborate with other cooperatives to guard against unintended consequences from regulatory reform.

Optimise balance sheets by developing the opportunities for members to invest in mutual capital instruments.

Assess alternative growth opportunities related to the current member base that could better match members' interests while providing adequate return on capital.

### Bain & Company – 2014

#### Member Experience – Unlocking the Cooperative Competitive Advantage

Cooperatives are in a unique position to be member advocacy and loyalty leaders – a powerful source of competitive advantage.

To lead in member advocacy and experience cooperatives must not only put the member at the centre of their mission, but also build the "operating model" that supports a continuous focus on improving the member experience. Success requires front line

### Oliver Wyman – 2014

#### Cooperative Banking – Leveraging the cooperative difference to adapt to a new environment

Cooperative banks should meet technological and regulatory challenges by preserving and building on their distinctive characteristics. They can do this in three main ways;

Manage financial constraints to continue supporting local economies.

Leverage their roots to emphasize the cooperative difference: Membership is the defining characteristic of cooperative banks. They should try to increase the portion of customers who are members and increase the engagement of members in setting and delivering their guiding principles and business practices.

Use technology to rejuvenate the cooperative relationship; to complement and revitalise physical branches, enhancing proximity, trust and the overall banking relationship. They can also use technology to improve the involvement of members in the bank's life.



**all in**

*Better for  
everyone*

### All In at Ipswich Building Society

Ipswich Building Society has become the first building society to package and brand its membership.

All In is how Ipswich makes the mutual difference real – the difference between being a customer and being a member, or buying a product and having a share.

The different aspects of All In combine to make being a member feel real. They also help keep the society in great shape, and contribute to a stronger community for everyone.

All In is making membership mean more. From having a say in how the society is run and helping to improve products and services, to finding new ways to support those who need their help. All In allows members to share in the society's success.

All In allows Ipswich to showcase why being a member of a building society is different to being a customer at a bank. The society has lifted the lid of how they operate, clearly demonstrating how members own the business. They have a dedicated 'members lounge' on its website where members can find a wealth of information about their society including upcoming society and community events.

All In has delivered instant success increased turnout at their AGM threefold in 2014. This was achieved by rebranding their AGM as a member event of which part of it was the Meeting.

## The impact of new technology

The rapid advancement in technology is changing how people establish and maintain relationships. This is having a profound impact on how financial service providers interact with their customers. It is also increasing customer expectations of the level of service provided.

Technology is bringing new opportunities for building societies to engage and deepen relationships with their members, and to reach those who were previously disengaged. This covers everything from how accounts are opened and administered, to how customer service teams deal with feedback and complaints, to how a society forges links with its local community.

The increasing use of technology also brings challenges and risks. One significant challenge is to ensure that technology does not distance the society from its members. It is crucial to ensure that any change improves the experience and service received by members. There are also more specific issues, such as legal requirements around the promotion of financial products using social media channels.



### Mobile Money

In 2014 Cumberland Building Society became one of the first current account providers in the UK to launch a peer to peer mobile payments service. The Pay2Mobile app allows members to send money to another person's Cumberland current account using just their mobile phone and phone number without the need to share account details.

Cumberland was one of six institutions to take part in the launch of the national mobile payment service Paym which has the potential to link up every bank account in the country using a mobile number.

Cumberland realise they have a responsibility to their members to continually enhance their services and respond to how customers wish to interact and engage with them. Cumberland, which already has internet and mobile banking and offers business current accounts, say that being at the forefront of banking technology is one example of them fulfilling this responsibility.

## 2. Member engagement and corporate governance

Corporate governance encompasses the rules, practices and processes by which a firm is directed. Successful governance balances the interests of owners and managers, together with those of other stakeholders in the firm. These include customers, staff, and the community in which a building society operates. In contrast to shareholder-owned banks, voting rights at building societies are non-transferable and cannot be concentrated.

If an institution is underperforming, members of building societies and shareholders at banks, have two main courses of action available to them. These are *exit* and *voice*<sup>5</sup>.

*Exit* is available to both shareholders and members. Shareholders of a bank can sell a shareholding and relinquish their ownership rights. Members of a building society can close a savings or mortgage account. This *exit* discipline may in fact be stronger at building societies because when a member leaves there is a reduction in assets, whereas when a shareholder sells shares on the stockmarket there is no such reduction, just a transfer of ownership.

*Voice* is also available in both ownership structures, where members and shareholders can exercise their voting rights to influence policy and change management. Yet, concerns about how effective and active shareholders were in the run up to the financial crisis led to the Government instigating the Kay Review into equity markets<sup>6</sup>.

Two sources of external discipline – the competitive constraints in product markets and the regulatory regime – apply to building societies in the same way that they do to banks. Listed companies also face the threat of a hostile takeover if they underperform, whilst building societies do not face this external discipline. Therefore at building societies more focus is placed on internal mechanisms of accountability. Building societies can encourage members to use their voice, and engage in the corporate governance of their society. This helps align the interests of management, staff and members.

### Annual General Meetings

One important way for members to actively exercise control of their society is by participating at the Annual General Meeting (AGM). At this meeting all eligible members are entitled to cast a vote to elect directors to the board and to vote on other resolutions.

Measuring attendance is one straightforward way of gauging how engaged building society members are, and what role they are playing in the governance of their society. In 2014 turnout averaged 11.8% of eligible members.

It has proved challenging for building societies to raise voter turnout because some members may not understand the relevance or importance of their role as a voting member. However, the relatively low voter turnout rate could also indicate that members are generally content with how their society is being run. This is illustrated by the fact that voter turnout reached its peak at the height of the financial crisis. During this time members were concerned that their society, and their deposits, might be at risk. However, as it became clear that there was little or no risk to their money, voter turnout fell at subsequent AGMs. Lower turnout may also reflect the various other opportunities that are now available to raise issues throughout the year outside of the AGM.

This does not mean member turnout is unimportant to building societies. On the contrary, they understand how vital it is for their members to exercise their rights and are making concerted

**Ipswich Building Society:**

'By helping members understand their status as owners of the business we can increase their engagement in the Society, bringing direct benefits to them and continual improvement to us.'

efforts to improve turnout. They review AGM packs and communications every year to make it easier for members to understand and vote. They engage in marketing of the AGM in branches, online and via email. Ecology Building Society invites members to submit questions to directors online in advance of the AGM, with answers posted on their website after the event. And many societies make a charitable donation for every vote cast.

## Using technology to bridge the generation gap in AGM turnout

Many building societies have found that it is usually members with longer relationships that vote at the AGM. Some younger members may not understand the relevance of the AGM and participating in the voting process.

By using technology to modernise their democratic processes building societies can reach out to those who are now using email and other web services as their primary means of communication. One of the most successful tools used to increase member voting at the AGM is the ability to vote over the internet. Approximately 90% of societies offer their members the option of voting using the internet. At these societies, 25% of votes were cast online. The percentage of votes cast online is likely to grow as more building societies adopt web based services and more customers begin to feel comfortable transacting online.

## Building society membership rights

- Take part and vote at the society's AGM
- Ask questions of the board and make comments on the society's business at the AGM
- Put forward resolutions to be discussed and voted on at the AGM
- Ask for the society to organise a Special General Meeting in order to put forward a valid resolution
- Nominate candidates for the board
- Stand for election as a director themselves
- Entitled to receive information including rules and memorandum, the annual summary financial statement, detailed annual report and accounts, and a notice of the AGM

## Do all members have the same rights?

One member has one vote, no matter how much money they have invested or borrowed.

Most people taking out a mortgage or opening a savings account become members and therefore have the rights mentioned above.

Saving members with less than £100 in their account, borrowing members with a mortgage of less than £100, and members under the age of 18 have restricted rights.

Some investors have deposit accounts. They are not members and have no membership rights.

Furthermore, some safeguards are in place to prevent an individual member pushing through a resolution to suit their own agenda but which may not be in the interests of the membership in general.

For example, a member resolution may need be backed by 500 other members, though this is out of a total membership which can be in the hundreds of thousands, and in some cases millions

## Yorkshire Building Society

Yorkshire Building Society identifies levels of voter turnout as a key confidence indicator of its members. This is why it has invested in its AGM communications. Based on feedback from members, Yorkshire has restructured their AGM pack to make it quicker and easier to digest, and reduced the technical jargon which can be difficult for people to understand. They have also increased staff education on the AGM process to encourage more conversations with members.

## Appointment of Directors

The appointment of Directors to the Board is a fundamental means by which members exercise control over management of the society. Members appoint independent Non-Executive Directors with the appropriate skills and expertise to the board to represent their interests. The Directors bring an independent voice to the board and are there to challenge the decisions made by Executive Directors and senior management of the society. Non-Executive Directors must meet certain requirements set out by the regulators to ensure they are fit and proper for the role. They must fully understand the business of the society and have sufficient relevant working experience, although this does not necessarily need to be in financial services. The majority of Directors do have a background in accounting, finance, or banking but there are also Directors with experience in law, survey and valuation, human resources, and general management. Societies often also look for applicants showing an understanding of and appreciation for the mutual ownership model or links with the local community.

The majority of building societies allow members to nominate Independent Directors to their boards, and stand to be a Director themselves, but this rarely occurs. The management team at Ecology Building Society has been challenged by their membership on why there is not a wider choice of Director candidates. It was explained to members that they are able to nominate a candidate, but this has not yet resulted in any nominations from their members.

It is particularly important for Non-Executive Directors to communicate with members. Ecology Building Society has made a more official link between the Board and its members by giving one Non-Executive Director the special responsibility to act as an advocate for members and ensure the Board considers the views of the membership in all its decisions.

It is important that building society boards are representative of their membership, so they are becoming increasingly gender diverse. In 2014, of the 385 building society directors, 18% (68) were female. This is up from 15% in 2013. However, FTSE 100 companies lead the way with an increase to 21% female directors, following a surge after the Davies Report<sup>7</sup>. 11% (5) of societies have no female representation on their board, which is significant reduction from 26% (12) last year. In the FTSE 100, just two companies have no women on their board.

## Directors' remuneration

Directors' remuneration has become a more contentious issue since the financial crisis and the spotlight on the distribution of wealth in the country. Inappropriate remuneration policies have been identified as a contributory factor behind the financial crisis, and the then FSA was the first major financial regulator to respond to this issue with the introduction of a remuneration code. The aim of this code is to bring about fundamental changes in firms' approaches to remuneration to help avoid future crises.

From October 2013 shareholders of listed companies were given a binding vote on a resolution to approve the directors' remuneration policy. This policy sets out how the company proposes to pay directors, including every element of remuneration that a director will be entitled to and how it supports the company's long-term strategy and performance. The policy also includes details of the company's proposed approach to recruitment and loss of office payments. Companies must put the remuneration policy to a shareholder resolution at least every three years. If a company wishes to make any changes to the remuneration policy it needs to put the new policy to shareholders for approval at a general meeting.

It is not compulsory for building societies to put their remuneration policy to a vote of the members. However, an increasing number are choosing to produce a separate remuneration policy report, and all building societies hold an advisory vote of their members on the remuneration policy, irrespective of whether or not it is presented separately from their annual report and accounts.

West Brom Building Society is one of many societies that now present a separate Remuneration Policy and Remuneration Report. The society believes that this change has allowed greater transparency and allowed them to present information in a way that is easier to understand. It was noted that at their 2014 AGM there were fewer questions than usual regarding directors' remuneration, which may suggest that the information published in this format had covered many member queries.

All building societies voluntarily put their board remuneration package to a member vote at the AGM, and over the last five years this has been approved on average by over 90% of voting members (Figure 8).

### Linking remuneration to member engagement

Some building societies link their member engagement objectives directly to the remuneration received by their directors. At the majority of societies there is some element of member engagement or customer service measure that is used in calculating rewards for directors and other members of staff. At Nottingham Building Society all staff have an element of their variable pay reward linked to delivery of pre-agreed customer satisfaction scores. This means that everyone from Chief Executive to customer adviser are aligned behind the same objectives and values, which in turn aligns the society's culture with the best interests of their members.

**Nottingham Building Society**  
All staff have an element of their variable pay reward linked to delivery of pre-agreed customer satisfaction scores. This means that everyone from Chief Executive to customer adviser are aligned behind the same objectives and values.

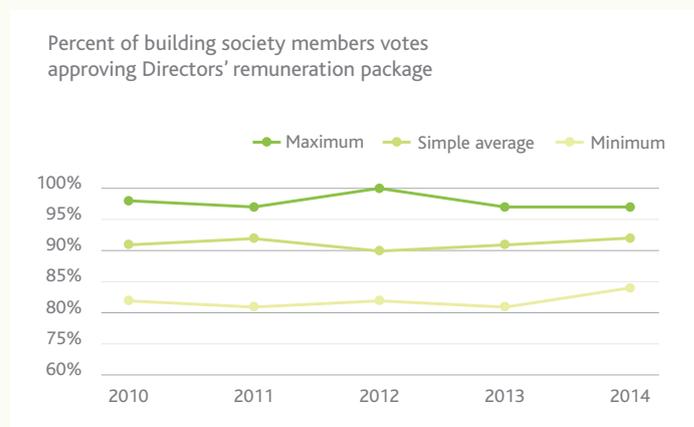


Figure 8

## 3. Communicating with members

Compared to most individual shareholders of a publicly quoted bank, communications between a building society and its members tend to be more interactive, consultative, and occur more often outside of the AGM.

This can include alternative ways to hold the management to account, such as through member panels, forums and talkback events. Building societies are increasingly using technology to broaden the range of communication with members.

Many provide newsletters or magazines to their members. A newsletter is often sent with the AGM pack which provides customers with insights into the society's current performance, events and news from the year past, and information on what members can expect from the year ahead. Some societies provide more frequent newsletters.

Newcastle Building Society distributes a bi-monthly e-newsletter which includes items such as top financial tips, community update, key product information, and legislative or regulatory changes. It also invites members to give feedback to the society. This type of communication, which combines both useful financial information and society updates in a readable and informal tone, is a powerful way to engage members.

Building societies',  
communication  
informal  
direct  
consultative  
two-way  
interactive  
frequent

## Social media

The potential reach of social media is huge, and around two thirds of building societies now use it to interact with their members. This gives them the ability to communicate in a personable, timely and efficient way. This is typically achieved by using Facebook or Twitter. Building societies are finding it easier to engage with younger consumers online, but how they optimise their online presence varies.

Monmouthshire Building Society is using Facebook to maintain its profile as a friendly, customer-focused financial institution. Facebook allows the society to increase its engagement with members and allows members to digest information when and where they want. Customer queries ranging from product information requests to the benefits of being a mutual organisation are often handled via Facebook.



Nationwide Building Society now operates its Twitter channel 24 hours a day, seven days a week, giving members the opportunity to get in touch at their convenience. The channel is friendly, informative, and the first of its kind to operate 24/7 in the UK.

Social media has enabled Market Harborough Building Society to connect more closely with its local community, something it would not be able to afford to do through more traditional models. They use social media to communicate events, local activities and connect with the wider community.

Nottingham Building Society uses its social media channels to communicate about charitable activities and volunteer work as well as profile the range of local sponsorship activities the society is involved with. It is also used as a means to inform and educate on topics like the mortgage application process in the form of short videos. Saving tips, for example, are submitted daily by members and turned into cartoons, upping the levels of engagement and interaction.

Since committing to social media, Nottingham has seen significant increases in its reach, making members and potential members aware of its activities. The Society has over 11,000 'likes' on its Facebook page. Recent videos have been viewed thousands of times and individual updates reach around 3,000 people on average.



Nationwide's digital watch app



As well as using social media as a means to communicate with their digitally-savvy members, Ecology Building Society uses Twitter and Facebook as a means to lobby and campaign on environmental matters. This has the benefit of building affinity with members, many of whom are passionate about these issues. By broadening the conversation beyond products and services the society can build deeper relationships with its members.

## More advanced website features

Websites have traditionally been used as a source of information, but the continued advancement in web technology is making their use ever more powerful. Information provision and management of accounts remain the primary uses of most building society websites, but new technology is allowing the content to be customised to its users, making it more relevant and engaging. For example the West Brom Building Society's website filters out irrelevant mortgage products displayed on-screen depending on a person's borrowing requirements. This helps keep the user engaged with the content and less likely to exit the website before finding the information they need.

Nationwide is at the forefront of banking technology. At the end of 2014 it was the first UK financial services provider to bring real-time balance access to Android smartwatches. Nationwide explains that providing customers with a variety of ways to manage their money, whenever and however they want is a priority. Giving members who have the technology to check their balance on their watch provides Nationwide with even more ways for members to interact with them.

To provide a joined up approach to their communications, some building societies have introduced an online tool that allows users to request a call-back from a customer service representative in a single click.

## In-branch engagement

Building societies traditionally have a strong branch network which helps cement their presence on the high street. However, with technology making it easier for consumers to administer their financial affairs online, access to a branch is becoming less important to some consumers. Yet, there are still many people who prefer to transact face-to-face. Many societies feel that this is still the best way to get to know their members. If building societies want to maintain personal contact, and want the branch network to remain relevant and financially justifiable, they have to create new reasons for members to visit them, and new uses for branches.



Rather than consolidating the branch network, many building societies are choosing to invest in them, promoting a wide range of in-branch events for their members and the wider community. Some of these are relatively informal, for example Newcastle Building Society holds a number of coffee mornings where staff chat with members on a range of topics. Some societies have developed community spaces within their branches. This includes exhibiting local artwork, offering space to charity and volunteer groups and providing educational activities.

Investment in branches is diverse, ranging from rebranding to modernising facilities. Both ensure that banking experiences are user-friendly and as enjoyable as possible.

**Nottingham Building Society:** 'In branch we offer access to independent expert advice for estate planning, financial planning and whole of market mortgage sourcing. These are areas we know are increasingly relevant, important and not easily accessed through many other providers'.

**West Brom Building Society:** 'We use digital screens to promote key products and services, but the content is tailored to each branch location. This means we can put some personality behind the campaign – local customers see references to the staff and managers who work in their branches. Similarly the screens can promote any events specific to a local branch, such as workshops, seminars or fundraising activities'.

**Newcastle Building Society:** 'We host a variety of branch-related events throughout the year, such as history walks and tea and coffee mornings. They are informal, but also enable staff to engage with members on a regular basis and form meaningful relationships'.

## In-branch technology

The branch network remains a vital tool for building societies to engage with their members. Principality Building Society is using technology to customise in-branch information depending on its location. This allows them to promote local events such as workshops, seminars and fundraising activities, making information more relevant to members in specific communities.

Nationwide Building Society has launched 'Nationwide Now' a service that allows mortgage customers to contact its administrative office via in-branch video link. This is the first of its kind in Europe and is currently available in 166 branches. Customer feedback has been very positive, and Nationwide plans to expand this service to around 400 branches. This is a prime example of utilising technology to bring the member closer to the society and to receive a more personal experience.



Nationwide Now

## Member panels

Running member panels is one method used by building societies to gain in depth feedback from members. These panels are usually made up of longer term members that take an active interest in how the society is run.

There are two types of panels used by building societies. The first is a group comprised of a small number of members, perhaps no more than 15 people. Typically the group will meet in person on a regular basis, and a senior member of the society's management team will often attend. At some societies, such as Hinckley & Rugby, the views of the member panel are reviewed by the whole Board.

This type of panel allows societies to get detailed feedback on issues such as product development, brand values, policy issues and marketing. Some societies have asked their panel to sign a non-disclosure agreement which allows societies to share confidential information on new products and innovative ideas.

These panels and forums are more than just talking shops – they are a valuable consultation device that is less formal than the governance checks set out in a society's constitution. Societies, where panels have been successful, describe how they have a wide influence on corporate culture. With business decisions being influenced by the expected reaction of the member panel.

The second type of panel comprises a large group of members, and is now typically conducted online. Web based surveys have made conducting this online more effective in terms of cost, turnaround time and reach. There is a growing adoption of internet use amongst one of building societies' core demographics – the older generation, and therefore an increased demand for communication and engagement online. This larger panel is typically open to all members who wish to take part and can therefore consist of thousands of participants.

Scottish Building Society has recently introduced an online member panel and send out a maximum of four short surveys a year to canvas views on product development, marketing communications and charitable initiatives. The response rate has been above 80% which is far higher than average for such a survey. The society is able to achieve this high response rate by keeping surveys short and relevant to their members.

### Coventry Building Society's Member Council has made a real difference to the Society's operations.

Coventry Building Society has developed the concept of a member panel further and introduced a Members' Council which has been in operation for over seven years. The Council is provided with confidential material such as board papers, which demonstrates the trust the society has in the Council. The Council is made up of 12 members and each one is recruited to sit for a two to three year term. The existence of the Council and the need to explain decisions to them serves as a constant reminder to the management team of its responsibilities to its members and the purpose of a customer owned financial organisation.

The Council has been used to test systems such as the society's new interactive voice telephone system. The Council were able to act as callers in a test environment and report if the service had made it easier for members to access services. The feedback was that there were a number of areas for improvement, and so the society was able to make changes before the system went live.

Managers from across the Society actively seek out the Council when they are considering major projects. It has become a recognised business tool within the Society.

### Skipton Building Society: getting members involved.

Skipton Building Society has carried out over 30 pieces of research with its panel since it launched. This is a very cost effective and efficient way of carrying out research, and has enabled the society to get much more feedback from its customers than it may otherwise have been able to. Results have fed into the development of overall strategy, propositions, specific products and services, and communications. The member panel has given information which has contributed to the development of the society's strategy over the last 18 months, including providing feedback on the importance of rewarding member loyalty. This has recently led to the development of a loyalty savings account.

Overall, having these initiatives in place has enabled the society to be much more customer-focused, and to feed customer views into a much wider range of projects.

It has been very useful for the society to have a group of very engaged customers who have a good understanding of the organisation and its strategy to give feedback as plans develop. The panel has enabled the society to have valuable two-way communication with these members, with key stakeholders within the society getting the opportunity to be directly involved with the discussions, and to hear from customers. This also gives members the opportunity to get involved and feel that they are making a contribution to the way that Skipton Building Society operates. This is valued highly by the panel.

Nottingham achieves a typical response rate of 50% from its online member panel. This is a high rate for an online panel, and demonstrates that panel members are interested in engaging with the society and keen to provide feedback.

Over the past year the society has covered numerous topics, including;

- Member reaction to a change in the distribution of its mortgage offerings
- Clarity of communications and messaging
- Feedback on sponsorship programmes and the society's community strategy
- Feedback on the society's insurance proposition
- Feedback on complaints handling

The output from the panel informs the society's product governance and conduct risk management and are taken into consideration when working through new product proposals or customer service developments.

## Roadshows

Member roadshows or 'Meet the Director' sessions are popular events hosted by building societies where the public can meet the management team or the directors of the board, including the CEO. Some societies host these across their branch network, others hire interesting venues in their locality. These events give members a chance to be updated on developments and have an opportunity to ask questions.

For example, Yorkshire holds a regular Member Question Time as part of its member engagement programme. In 2014 the society invited 6,000 members to *Member Question Time* events. These provide an opportunity for members to find out how the society is looking after their interests direct from senior management, and for the Society to find out what really matters to members.

West Brom is clear that its Members' ViewPoint events are not sales pitches, but an opportunity for members to pose questions to the people running the society in an informal, relaxed environment. The society finds the face-to-face interaction particularly effective for understanding what members think.



West Brom Members' ViewPoint

## Questionnaires and surveys

Understanding members is central to a member owned organisation, and shape how it operates. By using surveys and questionnaires, building societies are able to obtain a deeper understanding of their members' needs. This helps shape all aspects of the organisation from top level strategy, testing products and services, to helping improve customer service levels. This method allows societies to get both quantitative and qualitative results that can be fed back to management and front line staff to improve the customer experience. For example, Leek United Building Society uses an AGM questionnaire which has provided helpful insight into members' views and requests.

Some societies run regular surveys, whereas others use them on a more ad-hoc basis when there is a particular issue they want to address. Some of the larger building societies run a monthly survey, usually conducted by a third party on their behalf. West Brom Building Society conducts both regular structured surveys and ad-hoc surveys that reach around 5,000 members every year. Yorkshire Building Society reaches out to 30,000 customers every year to understand how they perceive the society and how the society can improve its products and customer service.

Societies also target customers to get specific insight. West Brom Building Society asks new mortgage customers to answer a questionnaire on completion of their mortgage. They also speak to customers in more difficult circumstances, for example those who have fallen into arrears, to find out how satisfied they are with the way their situation is being handled.

This type of research allows building societies to reach all member demographics from those who use branch services to those who only interact online. This allows all staff who interact with members to get feedback on how well they are meeting their customers' requirements.

## Principality Building Society

Principality Building Society has a dedicated Customer Insight team that is responsible for representing the 'voice of the customer'. It provides insight that helps to identify areas for improvement and develop customer strategies that increase member value. The Society generates this insight through a number of different methods, including primary and secondary research, and analysis of feedback received from members. This is used to recognise behavioural patterns to try and anticipate members' future needs.

## Customer feedback

All businesses should take customer feedback and complaints very seriously, especially a customer-owned institution such as a building society. Responding to customers and making sure they are happy with the service that is being provided is a fundamental part of engaging with members. If a customer feels their feedback or comments are not being listened to it can quickly make them feel disenchanted with their provider.

Most building societies have processes in place to capture feedback and make this available to staff right across the business. Many also publish the results on their websites. There are numerous channels through which feedback is received from members. These range from casual comments made to staff in the branch to formal questionnaires. Some societies such as Stafford Railway Building Society will respond to each individual letter or email with a message from either a manager or the Chief Executive. West Brom has automated 'instant action alerts' that are triggered by negative feedback, leading to these being investigated and the customer being called back straight away.

The Mansfield Building Society receives regular feedback which is collated and distributed back to senior management on a monthly basis. Individual feedback from customers, both positive and negative, is assessed by managers and any action required is then implemented. It is not just about products. For example, Scottish Building Society surveys its members

about their views of the AGM process and member communications.

Social media has also opened up new channels for societies to receive feedback. Through the use of channels like Twitter and Facebook building societies can capture comments and feedback, in real-time, online. Monmouthshire Building Society offers a swift response to all comments and questions posted on its Facebook page and actively monitors all responses to make sure that members are satisfied.

My provider provides a good customer service (% agreeing)

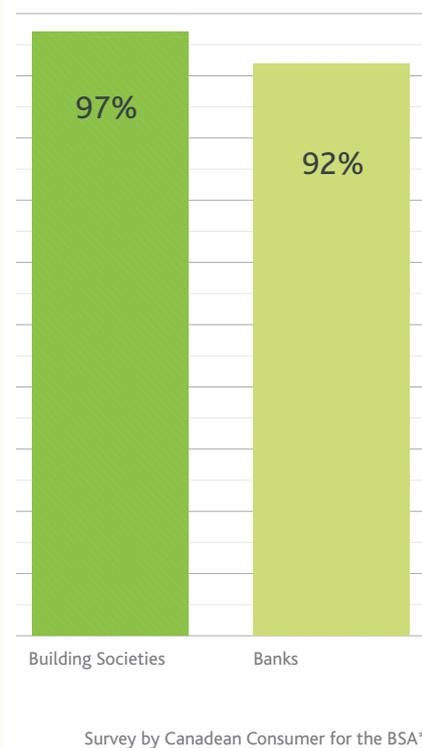


Figure 9

## More meaningful feedback

Technology is also allowing societies to process feedback faster and more efficiently than ever before. Some societies have introduced new technology that manages the feedback they receive from members on the telephone. It is also allowing societies to analyse feedback in new ways, providing more meaningful information to staff.

Principality Building Society is using technology to improve the performance of their staff and the customer service experience. In 2014 it launched a new feedback tool that allows staff to receive immediate feedback from its customers on the service they are providing. Customers have responded very well to the system, and Principality is receiving a high response rate and a high quality of feedback. The feedback received from customers is being used to make improvements across the distribution network to improve customer experience.

West Brom Building Society has a 'Customer Champion' in every department who is used to cascade key messages to colleagues and challenge actions they see as not being fully in line with customer interests.

Building societies continue to outperform banks in the customer service arena. Consumer research carried out by the BSA shows that in March 2015 97% of building society members agreed that their provider provides good customer service compared to 92% of bank customers (Figure 9).

## Community involvement

Community involvement has always been a focus for building societies, with many societies striving to be more than just a customer-centred financial service provider; they want to make a real difference to the communities they operate in.

Building society members are often part of the communities where their society is based, and so care deeply about the activities their society is involved in.

Community activity takes on a variety of forms depending on the size and operational reach of the firm. Many focus on the local communities in which they operate. For example Coventry Building Society allocates a local community partner to each of its branches. The branch team helps raise funds and awareness for their partner as well as providing direct support to them where necessary. This helps to make their charitable giving more meaningful for local members and deepens their level of engagement with the society.

### Nationwide Building Society says

'We want our members to feel that we're their Society and that there are meaningful ways in which they can get involved and influence what we're doing to support their communities.'

Involving themselves in community work allows societies to engage with their members in two ways. Firstly it gives them an opportunity to open conversations with their members about issues and causes that have real importance to them. Community projects are often discussed with member panels or in online surveys to find out what causes are close to members' hearts.

Via Nottingham Building Society's online panel, members voted on how they would like the society's sponsorship activities to be divided. Many said they wanted efforts to be focussed on charities, followed by the elderly, young people and local businesses. Nottingham has used this feedback to help develop their community and charity work.

Secondly, the activities themselves allow societies to interact with their members and forge new relationships. The fact that the building society is looking beyond its product range can help to develop closer relationships with members. Many societies encourage staff to take part in community days together with their members which gives the opportunity for staff to get to know the people they serve.

## Bath Building Society

Bath Building Society has been part of the local community since 1904 and is keen to support local, independent businesses that ensure Bath is a unique, vibrant place to live and visit.

This year Bath launched The Bath Reward Card, in partnership with the Bath Independent Guest House Association, to support local, independent businesses in the area. The Bath Reward Card is a unique discount card, and currently has over 70 vendors taking part in the scheme.



The Hanley Economic supports the local Douglas Macmillan hospice with donations and helping hands. The society has also established an affiliated savings account for members where the society donates a proportion of the total balances held each year.

## 4. Loyalty products

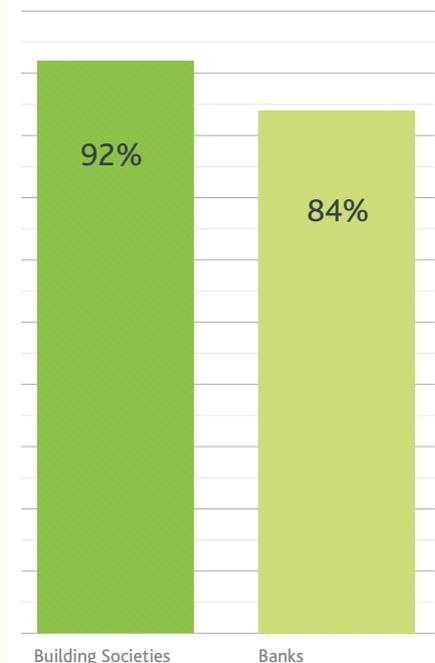
One way some societies are rewarding their members is with the use of loyalty products.

Members who have been with the society for certain period of time, or meet other set criteria are rewarded with a better interest rate. This has been particularly attractive to savers in the current low interest rate environment. For example, Monmouthshire Building Society launched a Members' Loyalty ISA at its 2014 AGM with an attractive interest rate.

Nationwide Building Society operates a Loyalty Saver account with tiered rates of interest based on the duration of continuous membership of the society. Loyal mortgage customers are also offered a discounted rate on remortgaging. Mansfield Building Society offers a range of enhanced products available only to existing members of varying lengths of membership. Loyalty products can help to encourage a longer term relationship, and many building societies have found these types of products as popular, if not more popular, than savings accounts that offer bonus rates that end after an initial period.

Other societies have opted not to offer loyalty products, or have experimented with them and are now phasing them out. This is for a variety of reasons, but primarily because they want to have a simple and uncomplicated approach to their product range and to offer the best value to all members at all times no matter how long they have been with the society.

My provider provides good value for money (% agreeing)



Survey by Canadean Consumer for the BSA\*

Figure 10

# 5. Assessing member engagement performance

Assessing how engaged a building society's members are is a difficult task. Levels of engagement can change quickly as new members join, attitudes towards financial service providers change, technology develops and customer expectations of their providers adjust.

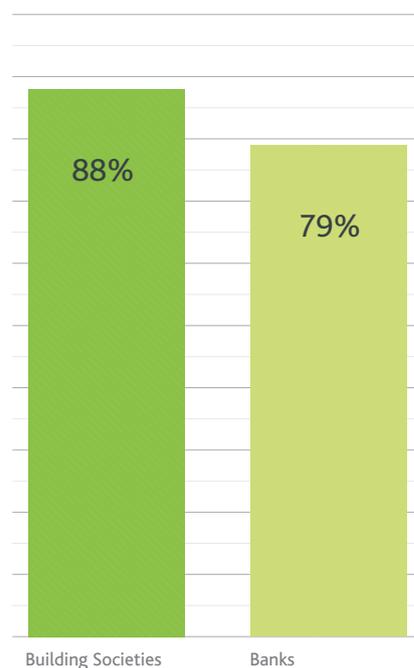
Some societies measure participation levels as a proxy to gauge how well they are engaging their members. This may be done by recording the response rates to questionnaires and surveys, number of newsletters opened when sent via email, and click through rates on certain pages of the society's website. Others track customer satisfaction and Net Promoter Scores. Scottish Building Society runs a specific Customer Survey that is designed to measure the effectiveness of member engagement activities over time.

Coventry Building Society takes into consideration the amount of activity, the number of members that interact

with them, and the quality of ideas generated as a results of these interactions. In order to combine these different metrics the society is in the early stages of creating an 'engagement index' so they can easily track how well they are performing.

Twice a year Ipswich Building Society plans to ask members if they feel like a member rather than just a customer. This will give the society an idea of the level of understanding of mutuality within their membership. It will also let them track how effectively they are conveying the message of mutuality and the privileges of membership to their customers.

My provider makes me feel as though my business is valuable to them (% agreeing)



My provider treats me as an individual (% agreeing)

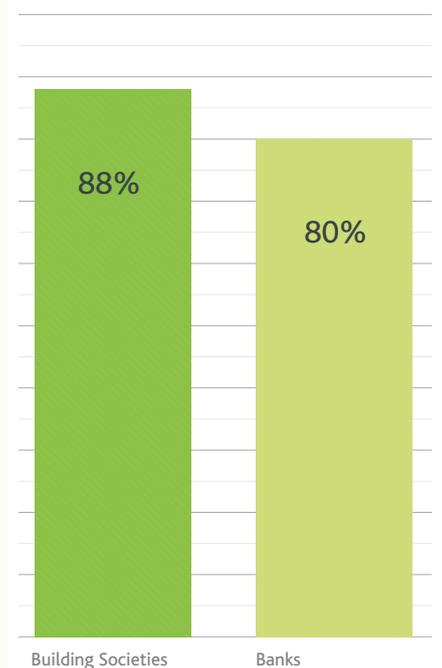


Figure 11 and Figure 12 – Building society members are more likely to say that they feel valued by their provider, and more likely to say they are treated like an individual.

## 6. Effective member engagement

Building societies face a number of challenges to effectively engage their members as owners of their society.

Many consumers want only to have a customer relationship, interacting simply to open or close accounts, or when something goes wrong. A significant reason behind this is that people are increasingly 'time poor'. This is not, however, true of all members. Some are strong fundamental supporters of mutual ownership, and others have more time to engage.

Consumer apathy towards financial services as a whole is a further challenge. Some consumers do not believe financial service firms offer much to society in return for the profits they generate, and therefore see little appeal in engaging. Building societies endeavour to be different, but without member engagement it is more difficult for customers to see these differences.

There are also geographical restrictions for some societies. The internet has made this geographical gap smaller, and societies can now easily contact members who live outside their core geographic operating area. However these members may still feel removed from the society, and be less inclined to engage.

Effective member engagement means both entitling and inviting a building society's savers and borrowers to participate in the organisation. This is not to say that every member has to be an active participant, although they should be able to if they wish. Societies may aim to move more members towards the top of the engagement pyramid (Figure 13).

This movement may not be most effectively achieved by 'advertising' membership itself. Instead the challenge for building societies is to demonstrate the advantages in terms of tangible factors like their approach to doing business; value for money; quality products; social responsibility; service levels and convenience that can flow from the long-term, lower risk approach that in turn can flow from customer-ownership. These advantages can attract new members as well as help build the loyalty of existing members.

Carefully designed communications, together with community activities that help to deepen the relationship with members, can together demonstrate that being a member means something and that they are free to contribute to the future direction of the building society that they own.

## Member engagement hierachy

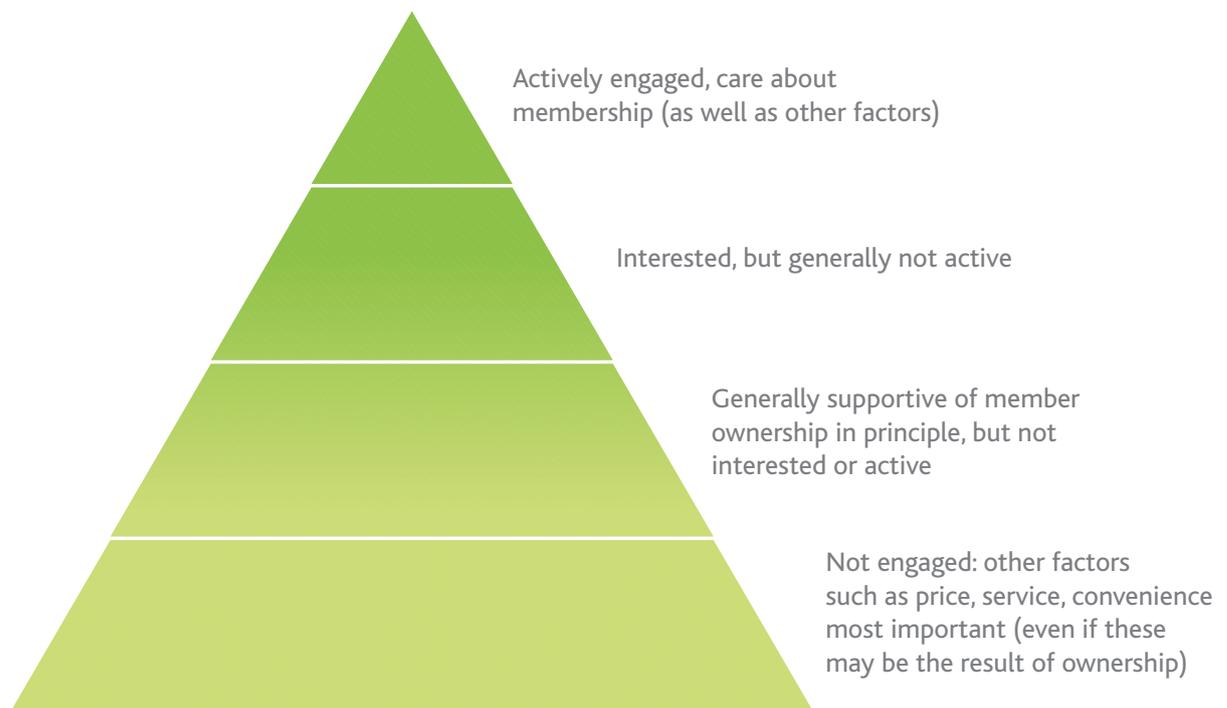


Figure 13

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