Building Societies Association

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SOCIETY matters

# The changing world

## contents



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# Hello and welcome to the Winter edition of Society Matters

Hello and welcome to the Winter edition of Society Matters. If you're like me, you'll be ready for the upcoming Christmas break, a chance to stop, pause and reflect on the year past and the year to come. I hope some of this edition's articles will help you do just that as they focus on the external landscape and the challenges and questions facing our sector.

In this edition of the magazine BSA CEO, Robin Fieth, kicks off by talking about the mutual model. He discusses the role it plays in responding to the ever changing external environment and considers how to balance the immediate with the long-term.

Alexandre Crépault, Commercial Strategy Manager at Climate X, writes about the challenges climate change poses for the housing market, while Gareth Griffiths, CEO of the Ecology, tells us about meeting members and the issues on his desk after his first six months as chief executive. These include achieving net zero and adaptation. Paul Broadhead, Head of Mortgages and Housing at the BSA, shares his views on green issues in the housing space.

Tom Slade, Financial Futures & Innovation Lead at Deloitte, shares research about how Gen Z (10-25 year olds) engage with money and what that means for the future of financial services, while Alex Russell, Associate Director at Ipsos Corporate Reputation, writes about the importance of ESG for the sector and the challenges in meeting external expectations. He also discusses the requirement that words are supported by actions and how that impacts reputation.

David Morris, Chief Commercial Officer at Yorkshire Building Society (YBS), shares his thoughts on the mortgage market turmoil after the September 'mini-budget' and outlines how YBS reacted to the constantly changing situation. This is followed by Roger Houghton, from Paragon DCX, sharing his thoughts on how to prepare for the forthcoming Consumer Duty. Last, but certainly not least, we have the Money Advice and Pensions Service talking about their Nation of Savers strategy. This links nicely with UK Savings Week in September this year - and hot off the press I can share the dates for 2023 which will be **18-24 September!**

***KATE CREAGH***
*Guest Editor*

# Mutual responsibility for current and future generations

By **ROBIN FIETH**,
BSA Chief Executive

Robin Fieth, BSA CEO, talks about how leaders steward mutuals and how they can help their members now.

We have been talking about the resilience of the building society and mutual model for so long now, as we have faced into crisis after crisis since 2008. The hiatus in the swap markets caused by September's maximum impact "mini-budget" and the resultant turmoil in the mortgage market is just the latest example. And with rampant inflation (at least by recent standards here in the UK), sky high energy prices and the prospect of a protracted recession, the outlook is not looking any less challenging, despite the latest government's proper focus on restoring trust and stability.

Amid all of that, the sun made a rare appearance on Remembrance Sunday in our small local town as crowds gathered around the war memorial to pay renewed tribute to the 64 young men (including five from the same family) from a community of no more than 3,000 who gave their lives for our freedom in the two world wars of the last century. I am sure many of us were thinking too about the huge sacrifices being made by the people of Ukraine today, defending their country and, ultimately, our freedom.

Making the most of the sunshine later the same day with a ride through some of the beautiful Oxfordshire countryside, I got wondering what those 64 young men would have made of the world we live in today and whether, in the words of the Remembrance service, we are worthy of the sacrifice they made?

What has that got to do with the themes covered in this edition of Society Matters and how we face into the challenges that UK building societies and credit unions will have to deal with in the coming weeks, months and years? In a sense it's the ultimate stewardship question. We are clear that the responsibility of mutual boards and executive teams is to pass their businesses on to future generations in a better state than they inherited them. We also talk about that responsibility for the endowment we inherited from previous generations. Perhaps the laying down of life for our freedom is the ultimate endowment and the fundamental point of our stewardship responsibility.

This may all sound a bit evangelical. It is. Evangelical about continually making the case for financial mutuals being at the heart of the future of UK financial services. Evangelical about mutuals as purpose driven businesses meeting the needs of their members and communities now and into the future.

So in the immediate term, doing all that we can to help our members though the tough months ahead, whether they are struggling to pay their mortgages or worried about their lack of savings. We have all been saying to borrowers for a number of years that, if they are worried about paying their mortgages, they should contact their lenders early, before they start missing payments. Making that call requires real courage. Responding quickly (no hour long waits with remote voices telling you how important your call is to us) is not enough. Thanking them for their call and saying goodbye is absolutely not sufficient. Our response must be compassionate, helpful and above all encouraging – we want those members going away knowing they have done the right thing, and unafraid to continue the conversation. From the data, we probably also know that a member who is concerned about their mortgage, is also likely to have other financial concerns, be that Council Tax or utility arrears, credit card debts, overdrafts or other loans. If our members need more general debt advice, how easy can we make it for them to access the support given by Step Change or National Debtline for example. Some of the great case studies I have come across involve the building society making an instant referral and booking the first appointment for them.

By all accounts, the first UK Savings week in September was a great success and we have laid a sound foundation for that campaign to grow substantially in the years to come. Right now, though, we have the problem that over a quarter of households have no savings to fall back on. In terms of societal purpose, we need to do all we can to encourage the savings habit among that large group, a fair proportion of whom will be able to put some funds aside, even in the current climate.

I am intrinsically attracted by the idea of workplace savings through payroll deduction, but the evidence to date suggests that getting cut-through at any scale outside the credit union sector is proving really difficult. Is it that employers just don't get why it is in their interests? Is it that they are too busy fire-fighting to consider the positive impacts of financial well-being on employee mental health and productivity? Are we making it too complicated? Too difficult to implement? Or are we still so awash with liquidity that the prospect of hundreds or thousands of small value regular savings accounts is just seen as commercially unviable? The numbers have to add up, but are we being driven too much by the numbers and not enough by our purpose? What are we missing? Do we need government support? And if so what does that looks like?

> *"So as we turn the page towards another new year, let's also reflect on the words of Apollo 13 astronaut, Jim Lovell, that to be real leaders, we need to be the people who make our futures happen, not sit back and regret the futures others might make for us"*

And what of the longer term? With so much on the immediate board agenda, how do we keep our heads raised towards the more distant horizon? Many societies are well advanced with their systems transformation programmes. Many are rightly proud of their new branch and head office environments. And of their increasingly integrated community programmes. What of the Net Zero transition, where we are still critically waiting on the government to make some big decisions, such as the future of the natural gas grid? What of future generations of talented and diverse teams? And future generations of members in a world where the digital future looks increasingly likely to be driven by machine learning or even genuine artificial intelligence?

At a recent BSA team offsite session, one of our contributors quoted Google's futurologist, Ray Kurzweil: "never in human history has the pace of change been so fast, and never will it be this slow again." So as we turn the page towards another new year, let's also reflect on the words of Apollo 13 astronaut, Jim Lovell, that to be real leaders, we need to be the people who make our futures happen, not sit back and regret the futures others might make for us. Happy Christmas!

# People, planet, prosperity: delivering results for a greener future

*By **GARETH GRIFFITHS**, Chief Executive, Ecology Building Society*

## Gareth Griffiths, CEO of the Ecology Building Society, tells us about the key issues on his radar

In the face of the escalating climate crisis, I recognise that Ecology's mission has never been so urgent. My first months as CEO have revealed the true passion and dedication of the Society's members and colleagues, and the opportunities to extend and intensify the impact of our work, ensuring that we build on our inspiring history to deliver positive change through values-led lending.

As we approach the end of the year and my first six months as CEO of Ecology, it is a real time of renewal and reappraisal. During recent weeks I've been out 'on the road' meeting members at a series of regional events, giving me an opportunity to listen to members' views and share my vision for Ecology's future as I take the helm following Paul Ellis' 27-year tenure. Ecology has always been distinguished by the incredible passion and involvement of its members and, over the course of the meet ups, it became evident just what a strong base of support the Society has from which to grow.

Never has Ecology's purpose and mission been more relevant than now. As we look to the longer-term implications of the climate crises, I can't help but think we are in the foothills of what is going to be an epic climb, the true magnitude of which is yet to emerge. While many unknowns lie ahead, it is essential to me that we are robustly equipped to support our members in the adaptation for and transition to a net-zero future, and that we can continue to grow Ecology's positive impact in a manner that remains true to our mission.

More immediately, I am excited to be recruiting for several key roles that will be significant in delivering Ecology's ambitious 2030 strategy, the framework for which was informed by a consultation with nearly 800 of our members. We have recently recruited a new Head of Products and Marketing who will be joining in the New Year and brings previous experience in the sector as well as a start-up. Continuing to focus on ensuring that we innovate great products around real member needs is something we are working hard to bring to life. As well as a new Chief Financial Officer, I am also currently recruiting for a Head of Sustainability, which, for an organisation committed to delivering to the highest ecological standards and agitating for positive change, is a crucial appointment.

I am grateful to have been welcomed by a supportive Board who are keen to embark upon the next phase of the Society's journey. Fundamental to my role is to establish the direction, rhythm and routine for the culture that is needed at Ecology to continue to deliver top class results for our members as well as identifying our strategic areas for investment. Over the coming months, I will be leading the management team and the Board through a process that will enable us to better understand how each of these areas delivers against our triple bottom line: people, planet, prosperity. Colleagues have also undertaken a bottom-up continuous improvement programme, generating 120 innovative ideas, which, along with the broader strategic investments, will contribute to a detailed plan that will be crystallised ahead of next year's AGM.

Having used this time to gather members' views and get to know Ecology's fantastic team, I'm now looking ahead to put the insights I've gained into action as we continue to lead the way on Climate Risk and meet the requirements of the new Consumer Duty and Operational Resilience regimes, while ensuring we continue to support colleagues and members, particularly those who are most vulnerable, through what could be a very challenging winter.

### Next steps:

*To find out more about the Ecology visit* ***www.ecology.co.uk***

# The housing market and

By ***ALEXANDRE CRÉPAULT***, *Commercial Strategy Manager, Climate X*

With the unusual weather in the UK this year as a result of climate change, Alexandre Crepault, Commercial Strategy Manager at Climate X, explains the different ways this can impact the housing market.

As time goes by, the global warming picture looks grimmer and planning for climate resilience is the only way to safeguard your business. Let's dig deeper into the UK housing situation, providing exclusive data on how and where disasters may impact building societies.

## UK-wide climate change physical risks

Many often think of tropical areas as the primary target of climate change. Unfortunately, that's a misconception. In fact, there's strong evidence that climate change is also causing extreme weather events in the UK.

For instance, climate-induced floods increased by 100% over the last 40 years. The root cause of flood is extreme precipitation (i.e., more than 50 mm/day), and an increase in flood risk occurs after an extended wet period. That's because the soil becomes water-logged, and any excess rainfall will travel over the surface. Research suggests that extreme daily rainfall will increase exponentially in the UK because of human-made carbon emissions released into the atmosphere. The research notes that leveraging high-resolution (12 Km) regional models was key to spotting this trend, which lower-resolution climate risk assessment tools did not pick up. The UK Met Office backs up the importance of using more granular climate risk models. Through utilising a 1.5-km grid spacing, they predicted that flash floods could become five times more frequent by the end of the century.

> *"Regarding floods, South Yorkshire is one of the most exposed areas in the UK. In November 2019, 82 mm of rain fell."*

The hazardous combination of heavy rain and super strong winds also gives rise to storms. While these typically happen in tropical regions, they're now coming into fashion in the UK too. Last February, Storm Eunice damaged hundreds of buildings across the country. And things are not getting any better. As the Atlantic Ocean warms up, high-resolution (circa 25 km) global climate risk models suggest we'll see more severe cyclones in Western Europe. Also, British coastlines won't escape sea level rise, which could cause people to abandon their homes. This could be a bitter reality in a North Wales town in 20 years. Floods, storms, and sea level rise have a key element in common: water. Ironically, this vital substance can be lethal for buildings. Think of steel corrosion in reinforced concrete, for instance.

But water is not the only threat you should watch out for. Heat can be as detrimental to structures built on clay substrates. And that's because of a phenomenon called subsidence. When switching from wet to dry conditions, clay rapidly swells and shrinks. This erratic behaviour could cause walls to crack and foundations to sink. Some estimates indicate subsidence will affect ca. 11% of British properties by 2070.

On the other hand, as heat waves become more frequent, many buildings may experience this issue. The UK Met Office assessed the effect of climate change on the likelihood of having a year like 2020, which was the third warmest ever in the country. Based on their predictions, climate change will bring an abnormally warm year every other year in Britain. To give you some perspective, this would have happened every 90 years without global warming.

## Zeroing in on UK cities' climate hazards

Depending on location and design, global warming will imply local effects on your properties. For instance, the urban heat island (UHI) effect will be most relevant for buildings in the UK's four largest cities, i.e., London, Manchester, Birmingham, and Leeds. Because of the UHI effect, these overbuilt and polluting urban areas become hotter than their rural surroundings. On summer nights, when this phenomenon peaks, cities' warming rates will be around four times

higher than the global average. In London, where properties are predominantly sitting on clay, the UHI effect could potentially exacerbate subsidence, thus undermining its urban climate resilience.

Regarding floods, South Yorkshire is one of the most exposed areas in the UK. In November 2019, 82 mm of rain fell on the saturated soil in a single day after a few wet days. As a result, two rivers burst their banks, and 500 properties were flooded. When examining this event, researchers estimated that South Yorkshire's exposure to flood risk would increase in the future.

Research by Estate Agents, Emoov signalled Brighton housing with great concern. The "London on Sea" properties were deemed as the UK's most impacted by climate change. With a score of 6.2 out of 8, Brighton showed high vulnerability to storms, soaring temperatures and sea level rise. By 2100, Londoners will have to find some alternative beaches to lay on as most of the city could be underwater. However, other estimates suggest that parts of Brighton's coastline could disappear as early as 2030.

# climate change risk:

# The UK scenario

## Reducing your climate-induced financial losses

Multitudes of case studies researching the projected impacts of climate change on the UK show that you don't need to be in a tropical paradise (or inferno if you like) to be adversely affected, physically and financially.

Suppose you don't start building climate resilience into your assets and portfolios early. In that case, the physical impacts of sea level rise, subsidence, floods, wildfire, and storms will inevitably mean your properties will lose value or even become impossible to insure or sell.

**Key takeaways:**

1) While half of the projected losses are due to inland flooding, the other half is driven by coastal flooding/sea-level rise, subsidence, and wind damage – focusing on inland flooding alone will not be sufficient.

2) Misuse of climate models and data can heavily undercook losses when using climate risk data from disparate data sources up to 4 times.

3) Corporate modelling is complex – and the methodology utilised could lead to business disruption, with firms struggling to map complex networks of exposure belonging to individual counterparties to assess physical risk exposure accurately.

4) High-resolution data is a must to allow originations to utilise accurate asset-level assessments.

5) Property-linked EPC data for the UK has coverage gaps of up to 40%, but leveraging geo-coding and machine learning to feed into vulnerabilities, such as premise use, age, and wall type, can provide a robust solution.

To safeguard portfolios from extreme weather events, an asset-specific assessment of your climate change physical risks must be central to business strategy to provide a clear view of what climate-related risks you're exposed to and help build plans to mitigate risks.

The CBES (Climate Biennial Exploratory Scenario) assessment results from May 2022 highlighted the exposure to financial firms under various emission pathways spanning 30 years. They indicated several data and approach gaps with a knock-on impact on ICAAP and ORSA (Own Risk and Solvency Assessment).

Embedding climate risk into your organisation is an arduous task which will require the development of your internal capabilities to mitigate these risks and meet the ever-evolving regulations. However, there are tools and resources available that can simplify this endeavour. To learn more, drop me an email.

## Next Steps:

*To find out more information, contact Alexandre on* ***alexandre.crepault@climate-x.com***

*By* ***PAUL BROADHEAD****,*
*Head of Mortgages & Housing Policy, Building Societies Association*

# We need clarity and information to give consumers confidence to decarbonise their homes

Paul Broadhead, Head of Mortgage and Housing Policy at the Building Societies Association, looks at what homeowners are doing in terms of decarbonising their homes.

In November, tens of thousands of people, including many world leaders, congregated in Egypt to discuss climate change and the actions needed to reach international targets, such as Net Zero by 2050.

It was difficult to determine how high this was on the UK government agenda, with the new prime minister first saying he wouldn't attend, and then changing his mind and making an appearance. The Chancellor's Autumn Statement, delivered a few days later, helped to clarify the position with £6bn additional funding being made available (from 2025) to reduce the UK's energy consumption and the creation of a new Energy Efficiency taskforce.

But is this enough to encourage people to take the action that's required to achieve the lofty ambitions of carbon reduction and net zero.

Despite the huge impact soaring energy prices is having on households across the UK, new BSA research (November 2022) shows that almost half (45%) of households have not even considered making any energy efficiency improvements to their home. This is however an improvement from September 2021, when 59% said they hadn't considered any improvements.

The research also highlighted a big difference between the improvements people have considered making to their property, compared to the changes actually made. For example:

- 17% have considered the installation of solar panels, but 3% have actually installed them in the last 12 months
- 7% have considered other renewable energy sources, such as heat pumps, but less than 2% have installed them

However, half of respondents (50%) have made some energy efficiency improvements to their property in the last 12 months

- 29% have replaced lighting with low energy options, such as LED bulbs
- 14% have changed windows or doors
- 13% have improved insulation

So whilst the research shows that people are thinking about energy efficiency improvements, it's disappointing that it's still only the minority that have made any changes in their homes.

There will be a variety of reasons for this, not least the rising cost of living impacting peoples' ability to meet the initial upfront costs – 52% said this was a barrier for them. However, people also need the right tools and confidence to take much needed action, and in this respect, there is much more that government can, and should, be doing.

First and foremost, we need quicker and clearer action. Funding announcements are good, but consumers need information, such as details of the most appropriate energy efficiency improvements for their particular home, how much it is likely to cost and how much energy it might save. They also need clarity on incentives that will be provided, if any, otherwise many will hold off for fear of missing out on future funding support.

Other important actions needed include enforcing new homes to be built to the highest efficiency standards that can be reasonably expected. There's already a huge task ahead in retrofitting our existing housing stock, we need to ensure we're not adding to that by overlooking the standards on new homes.

It's also crucial that lenders are not discouraged from lending on energy-leaky homes, preventing those who want to bring them up to standard from doing so. This is potentially where the biggest energy and carbon savings can be made providing homeowners have access to funding.

Finally, Energy Performance Certificates (EPC) are currently the only way we can assess a property's energy efficiency, but we know these are not fit for purpose and are under review. This must be accelerated so we have the right tools to consider appropriate changes required for each and every home.

It will only be when practical measures and guidance are readily available that consumers' appetite for reducing energy use can be galvanised.

### Next Steps:

*To read more about the BSA's research, go to:* ***www.bsa.org.uk/media-centre/press-releases/positive-affirmation-by-government-of-commitment-t***

# How Gen Z are making and moving money in new ways

By **TOM SLADE,**
*Financial Futures & Innovation Lead, Deloitte*

Tom Slade, Deloitte's Financial Futures and Innovation Lead writes about how Gen Z interact with money and financial services.

Our last article in this publication *'Coming soon, the neo building society?'* illustrated that what building societies stand for, younger generations relate to.

This holds true for Gen Z who are leading the charge in seeking change in the world with their strong values and beliefs. They seek to build relationships with brands that reflect their values of authenticity, honesty and a desire to make the world a better place.

They are the first digitally native generation, now between 10 and 25 years old. They're showing us a window into the future, and our in-house research into their finances shows they are so fundamentally different, they will catalyse change in financial services.

## Online and offline are blurred

As digital natives who have grown up in virtual worlds, they have become 'financial shapeshifters', using their mastery and innate understanding of the digital world to make and circulate money fluidly.

To Gen Z, money is no longer limited to what we've always known it to be; a tangible exchange of notes and coins, or payments made through credit and debit cards. It's evolved into a value that's stored and exchanged across a variety of places, platforms, assets and forms. Some we understand and some we don't fully - yet.

Their concerns about the future have motivated them to create multiple income streams as financial back up. Digital platforms have opened a new world of entrepreneurial possibilities that they are adopting and taking into adulthood. We found that buying, selling and providing services online is a hugely popular side hustle for Gen Z through platforms such as Etsy, depop, Vinted and fiverr.

However, these earnings are no longer just paid into traditional accounts but are continuously circulating through digital wallets provided by the likes of Apple, PayPal, Square and Coinbase.

As well as making and moving money in new ways, they are creating new 'digitally native' markets with their own products, services and value systems. Their money shapeshifts, changing form from digital wallets across a variety of places including virtual worlds, gaming platforms and assets like cryptocurrencies and NFTs (non-fungible tokens) to suit their everyday needs, desires and social obligations.

## Enter the metaverse

Having grown up in the digital world, this generation now find themselves at the forefront of the development of the Metaverse AKA 'immersive internet'. They are also leading the way in exploring, adopting and investing in the 'decentralised internet', with their adoption of cryptocurrencies, NFTs and DAOs (decentralised autonomous organisations).

The overlap between the immersive internet and decentralised internet represents a potential vision of the future. Imagine finance, absent of the traditional institutions, enabled instead by global, open financial networks...

The risk for traditional financial services providers is that Gen Z becomes a lost generation. Or one where their presence becomes increasingly insignificant. We will need to find new ways to re-engage and create relevance.

It's time for a new kind of digital challenger, one that speaks to the values that Gen Z believe so strongly.

It's time for the neo building society to be become a reality.

## Next Steps:

*To explore ways to engage this audience, get in touch with Tom at* ***UKDeloitteFusion@deloitte.co.uk***

# Pandemic support methods building societies match sta in navigating the cost-of-liv

Alex Russell, Ipsos, Corporate Reputation's Associate Director discusses the importance of the 'S' in ESG for building societies and the challenges to doing it well.

The idea of businesses as corporate citizens has seen much evolution since Howard Bowen first published 'Social Responsibilities of the Businessman' seven decades ago. This nascent concept evolved in 1971 when the Committee for Economic Development described the social contract between business and society, and since then we have seen the topic encapsulated through various monikers and acronyms. From Corporate Social Responsibility (CSR) to Environmental, Social, Governance (ESG), an increasingly important branch of business has grown. What may have originally been seen as 'extra-curricular' to the running of a business is now considered imperative, and how businesses fulfil this role is fundamental to success.

The importance of ESG is highlighted through Ipsos research, where there is a clear positive correlation between ESG performance and corporate reputation. Findings among business journalists[1] and MPs shows that the higher a company's perceived ESG performance, the higher regard the company is held in. And of course, what journalists write and MPs enact into policy can influence a company's success, share price and licence to operate, so being seen favourably by these groups is key.

Despite widespread agreement about ESG's growing importance, there remains uncertainty about what 'good' looks like in this area. With three distinct letters under one umbrella initiative, it's hard for businesses to know where focus should lie, but the current economic state of Britain may provide a roadmap. 'Environmental' may claim to be the most widely championed, but the response of business to COVID-19 signals the growing importance of 'Social' – especially for banks and building societies. Indeed, signs are encouraging here with Ipsos research showing that trustworthiness in banking in the UK grew eleven percentage points from 2019 to 2021[2], and the pandemic response no doubt played a part in that. There was a wide array of actions taken that showed genuine support for people, and by extension a refined focus on the S of ESG. The forbearance shown through mortgage 'holidays', frozen loan repayments and credit card extensions was very well received and built positive sentiment among stakeholders and the public. The sector was stepping up at a time of crisis, having been seen more negatively for much of the previous decade.

Whilst the crisis point of the pandemic has passed, the need for societal support has not. We are in another crisis – the cost-of-living crisis – and this requires an even greater emphasis on the 'Social' aspect of ESG. Ipsos data from October 2022 shows 64% of Britons think that things in the country "are on the wrong track", whilst 43% of the country has inflation as their number one concern – that this was 19% at the beginning of 2022 highlights how much this has ballooned over the year[3]. Worryingly, at the start of 2022, just over half the population reported to be either 'just about getting by', 'finding it quite difficult', or 'finding it very difficult' to manage financially[4], and six in ten British adults now think their disposable income will fall over the next year[5].

> *"We are in another crisis – the cost-of-living crisis – and this requires an even greater emphasis on the 'Social' aspect of ESG."*

All of this taken together means there is a space created for banks and building societies to step in with a support net and help society navigate through this crisis, in a similar way to how it helped in COVID-19. However, pandemic level support may no longer be sufficient to win support in the current climate. Stakeholder expectations of the sector have understandably risen off the back of the pandemic, and the level of intervention required to win support will only have climbed further in-line with soaring profits. With 'greedflation' an increasingly common term, organisations and sectors that are performing well at the current time will also be those that are expected to contribute most.

Beyond the actions and steps taken to support those in need, how businesses communicate these initiatives will also be crucial, and there are some guiding principles that should always be considered when sharing ESG news with any kind of stakeholder. First, when a company has chosen an issue to focus on, it needs to be prepared to make a sustained investment of time, money and energy on that issue. Failure to do so raises doubts of inauthenticity, and this can have a detrimental effect on the reputation of a business. Moreover, the impact that is being made needs to be demonstrated through measurable actions. The link isn't always clear between societal contribution and the alignment of business objectives, so measurement to demonstrate impact is required, as is clear and digestible reporting.

# can help banks and keholder expectations ing crisis

By **ALEX RUSSELL**, *Associate Director, Ipsos Corporate Reputation*

Finally, and arguably one of the biggest risks surrounding the whole ESG agenda, is to ensure that what is being said is being done. Talking a lot about ESG but not backing it up with actions will be interpreted as a form of 'washing'; businesses need to identify which issues align with its core purpose before thinking about what actions should be taken and then finally what can be communicated. There have been countless examples of misalignment between business actions and business words – what we call the 'say-do' gap. For example, taking a position on reaching net-zero ambitions whilst simultaneously making new investments in intensive carbon emitting industries will raise justifiable concerns around authenticity. Avoid these sorts of contrasts when making commitments in order to protect perceptions of integrity and honesty.

> *"Beyond the actions and steps taken to support those in need, how businesses communicate these initiatives will also be crucial, and there are some guiding principles that should always be considered when sharing ESG news with any kind of stakeholder."*

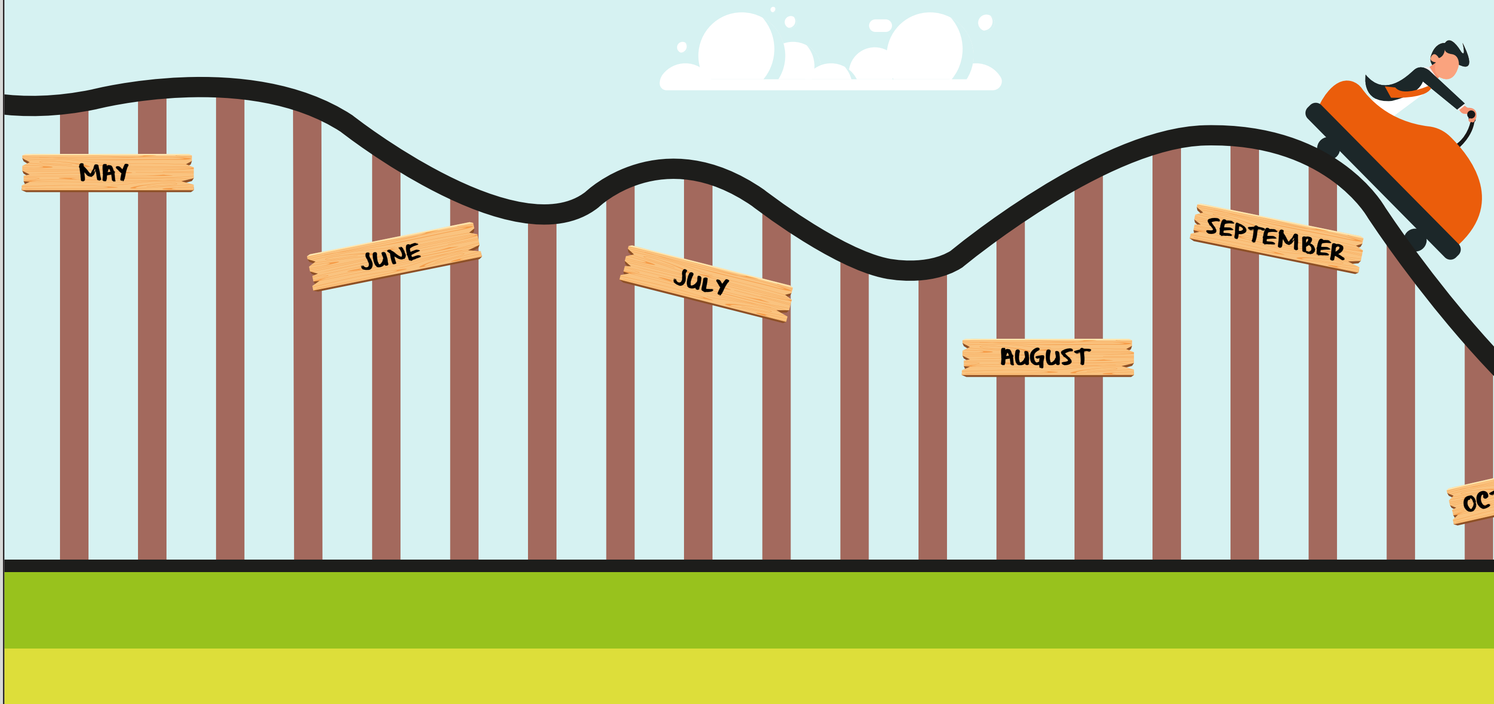
In short, companies must find the issues that matter most to their stakeholders, identify the actions they can take that are seen as credible and where they can have a positive impact, measure that impact, and then communicate it effectively to the right people. In the times the country is living through right now, supporting society is where most impact could be made, and the financial services sector is in a uniquely strong position to provide this support.

## Next Steps

*For more information contact*
***Alex Russell (alex.russell@ipsos.com)***

1 Ipsos: UK Survey of Business Journalists, Summer 2021
2 Ipsos: Trustworthiness Monitor 2021
3 Ipsos: What Worries the World – October 2022
4 Ipsos: Global Perceptions of Inflation, 2022
5 Ipsos: Global Perceptions of Inflation, 2022

# The month that changed




Behavioural economics tells us we tend to overstate the relevance of more recent information but, to my mind, the events of the last two months represent the most challenging trading period I can recall in the last decade.

As a reminder, on September 23 the then Chancellor of the Exchequer, Kwasi Kwarteng, revealed his "mini budget". This unnerved the market which saw a large increase in unfunded spending, something that it deemed to be risky, and at odds with the monetary policy position at the time.

> *"Looking at the market dynamics first – the question of who is competing and how - is critical as it allows you to anchor your own position and consider the linked prudential and operational risks."*

Among its many impacts, this resulted in a sharp rise in funding costs: seven days later, the two-year swap rate was around 20% higher than it had been the day before Kwarteng's announcement.

This increase, in turn, led some lenders to quickly pull their products. The drivers of this change will be familiar to you all – different hedging approaches as well as the implied impacts on the consumer required consideration.

Over the course of a week, product availability fell by nearly 40%. Many mid-tier lenders exited the market completely, while a number of larger lenders reduced their ranges.

At the same time, consumers - driven by concerns about rapidly increasing mortgage costs and product availability - pulled demand forward seeking to fix their maturing or variable products. In some instances, they even paid an early redemption charge to enable this.
This created extraordinary pressures in the market as the remaining lenders absorbed huge amounts of demand. Consequently, this led to service pressures which directly impacted brokers and consumers.

## Assessing the damage and exploring opportunity

In the face of this complexity, the job of leaders is to simplify the problem, creating the conditions for clear thinking and effective prioritisation. With this in mind, at the Yorkshire we focused on three key factors: the market, risk and reward and responsible lending.

Looking at the market dynamics first – the question of who is competing and how - is critical as it allows you to anchor your own position and consider the linked prudential and operational risks. The challenge, in a volatile, fast paced market, is the quality and digestibility of information. While there is more we want to do, we have built out comprehensive qualitative and quantitative sources of insight, and, critically, effective ways to transmit and interrogate these which has proven an incredibly powerful tool to interpret the market's lay of the land.

Turning to risk and reward - how do we ensure sustainable returns priced for risk? This is a broad and challenging question in the face of such uncertainty, and with such an extensive range of potential outcomes. Thankfully, from managing our response to Covid, we have well used methodologies that allow us to test outcomes in various hypothetical scenarios. We can then consider these, on balance, to optimise our response and best manage these dynamics.

Finally, it goes without question that decisions are made with the responsible lending lens - ensuring that we are lending in a way that is appropriate for our customers. This is of course influenced by the first two assessments. For me, this considers not just the conduct aspects, but also our longer-term relationships. It is easy to forget about the latter point during times of stress, but I think this can be short sighted.

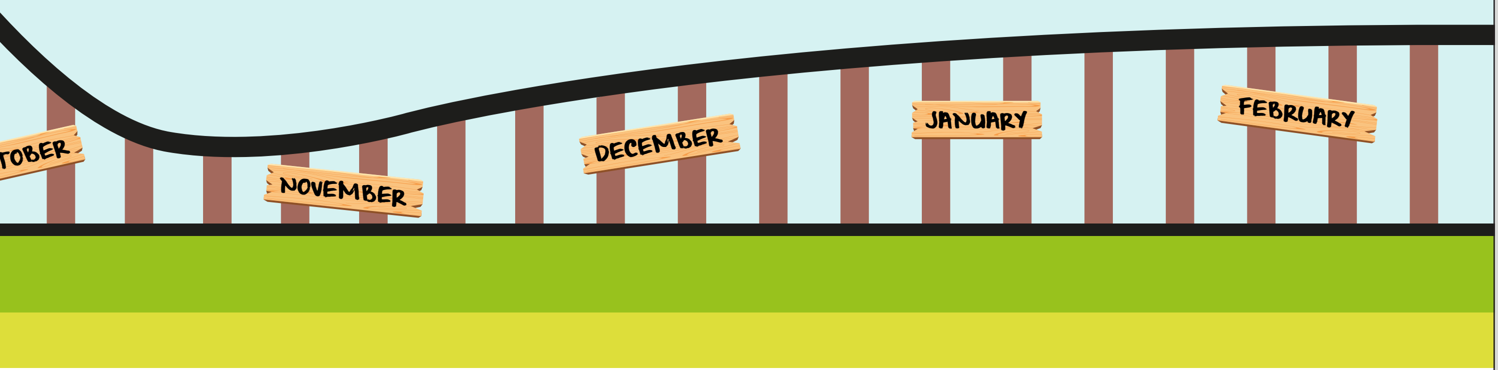
One important lesson Covid taught us was the need to be able to make decisions quickly and this period once again gave us an

# the mortgage market



David Morris, Chief Commercial Officer at the Yorkshire Building Society, writes about the recent challenges for the mortgage market and how, as mutuals, building societies can differentiate themselves.

By **DAVID MORRIS**, Chief Commercial Officer at Yorkshire Building Society




opportunity to put this in practice. Clarity on who your decision makers are, and ensuring they are engaged, aligned and up to date with the situation is critical.

## Looking forward

The markets have subsequently settled – a new team in Westminster, mindful of the markets, has been sure to be seen to be fiscally responsible, and to avoid any surprises.

Swap rates and mortgage rates have consequently fallen but the markets still remain imbalanced. The residential market has fallen away with the purchase and first-time buyer markets dropping off significantly. The reduction in the size of the buy-to-let market has been even more

> *"Finally, it goes without question that any decisions are made with the responsible lending lens - ensuring that we are lending in a way that is appropriate for our customers."*

pronounced. Simply put, the current rate landscape makes these markets materially less attractive for our customers. Along with some tough economic data, an increased tax burden, and record low consumer confidence, we can expect choppy waters for some time to come.

Existing mortgage customers though, have a slightly different challenge. A rate shock was expected, but the fear that it could be worse than first thought is sobering for the many borrowers looking to remortgage. Instead, it becomes a question of how they can best manage. The market has already seen borrower behaviour change, with a significant uptick in demand for offset and tracker products. Sadly, for some customers the reality is they will not be able to afford their mortgage in the context of immense financial pressure. This will mean we see more customers fall into arrears across the market, though that's expected to be felt most acutely in the unsecured lending market. This will consume resource, time, capital and management focus, among other things, for the large lenders who have such a material influence on the mortgage market.

Some lenders may also take more conservative policy and pricing positions. This creates opportunities for more agile or flexible lenders to innovate and meet changing needs and demands. As building societies we're really well placed to respond in ways others won't - or can't. We've got a history of helping people into, and keeping, their homes, and there's rarely been a better time to show our support for borrowers and the sector.

Of course, the same support – thanks to our mutual credentials - can be said for savers too. Interest rate rises here provide a great incentive for cost-conscious consumers to shop around. We, and many other building societies, give value back to our members, which could be the difference as savers respond to the cost-of-living crisis.

> *"This will mean we see more customers fall into arrears across the market, though that's expected to be felt most acutely in the unsecured lending market."*

Autumn certainly proved to be another challenging time for all but the fact the market has weathered the storm so well should give us confidence.

Thankfully too, mutuality sets us apart from a host of others. These founding principles rooted in many communities up and down the country will, I'm sure, see us do the best we can for customers on both sides of the book as we continue to help our members navigate the current challenges.

## Next steps

*For more information and news about the Yorkshire visit **www.ybs.co.uk***

# How walking in your customers' shoes can accelerate compliance with the new FCA Consumer Duty

*By* ***ROGER HOUGHTON****, Principal Strategist, Paragon DCX*

Roger Houghton, from Paragon DCX, gives some tips on preparing for the FCA's consumer duty.

The FCA's new Consumer Duty effectively makes customer-centricity a regulatory requirement for financial services firms when it comes into effect next year. The rules set a higher standard for firms who now must 'act to deliver good outcomes for retail customers' rather than *'pay due regard to their interests and treat them fairly'*.

## Context is key to understanding how consumers behave

As many firms will have completed their gap analysis and implementation plans, one of the next steps will be reviewing their customer journeys.

It's important these reflect *"how consumers behave in the real world"* before starting to assess them. A recent Microsoft Study[1] found 73% of financial organisations said at least half of their customers' activities had switched from in-person to digital at a time when choices were driven more by necessity than preference.

Assessing your journeys using NPS, CSAT or switching data may tell you what customers have done, but it won't help you understand how customers behave if you don't know the full context. Are they a new customer? Is it a product or service they're familiar with? Is there a sense of urgency or social approval at stake?

Relying on headline data risks relying on assumptions that may no longer be valid. The recent Lloyd's Digital Index[2] found consumers who were *'highly digitally engaged'* were nearly twice as likely to have their sleep impacted by money worries than the least digitally engaged. Increased stress is linked[3] with poorer decision-making, so journeys need to describe how customers are feeling, not just the touchpoints they're using.

## Consider how your firm's behaviour needs to change, not just consumers'

Research by the FCA Practitioner Panel[4] found that while consumers broadly agreed they should accept responsibility for their financial decisions, it was conditional on two things:

1. Consumers feeling they've been able to act responsibly
2. Firms behaving responsibly

Customers do not understand financial jargon, so look to firms as experts who can guide them by providing information *"at the right time and in a way they can understand."* Customers also need to have confidence in a firm's behaviour - the types of products they're offered, the prices they pay, or support they receive - for them to have confidence in their own decisions.

## Look at what customers do, not what they say

Finally, the Consumer Understanding outcome requires firms to *"test, monitor and adapt communications."* Asking customers what they think, for example by using surveys or focus groups, can be problematic when decisions are driven more by feelings than facts. The most effective method is observing how customers behave and asking about their choices when appropriate.

Technology can also help accelerate this process by automating aspects of user testing. For example, at Paragon DCX, we've been evaluating the effectiveness of print and website designs by using an eye-tracking tool powered by AI that simulates real-world results. This tool can quickly tell you where customers are or (more importantly) aren't looking, to highlight where improvements can be made or where good practices can be shared.

## In summary

FS firms have an opportunity to do what's right for customers in a way that's right for the business. To do this, firms need to start by looking outside-in (from your customers' perspective) rather than inside-out (from a product or channel perspective). Taking a step back and considering the outcomes holistically will also help ensure they ladder-up to the cross-cutting rules.

## Next steps

*To find out more about how Paragon DCX can help accelerate your firm's compliance with the FCA's Consumer Duty, please get in touch on* ***hello@paragon-dcx.com***

1 https://info.microsoft.com/rs/157-GQE-382/images/EN-WBNR-SlideDeck-SRGCM4447.pdf
2 https://www.lloydsbank.com/banking-with-us/whats-happening/consumer-digital-index
3 https://www.iza.org/publications/dp/8060/effects-of-stress-on-economic-decision-making-evidence-from-laboratory-experiments
4 https://www.fca-pp.org.uk/sites/default/files/fca_practitioner_panel_consumer_responsibility_report_september_2013.pdf

# Building a Nation of Savers

Michael Royce, from the Money and Pensions Service, talks about MAPS' Nation of Savers strategy.

By *MICHAEL ROYCE*,
*Senior Policy & Propositions Manager*

Helping people build their savings may seem counterintuitive in the current economic climate, but there is always a case for encouraging people to put aside *what they can afford* when they can afford to do so to enhance their financial security.

Between now and 2030, Nation of Savers is focused on increasing by two million the number of people of working age on low to modest incomes who save regularly. These are people that have the means to save yet aren't already putting money aside as regularly as they can. We want people to build accessible savings pots that they can draw on in times of need to help meet unexpected costs or bills because having a savings buffer enhances a sense of financial security and has a positive impact on people's mental and wider wellbeing.

To achieve our target of two million new savers, we must work with partners in financial services, government, and workplace/community settings. We are doing this based on three core recommendations.

### Recommendation #1 – expand provision of payroll-deducted savings schemes.

We see the workplace as a channel to reach people directly to offer them the means to save by default alongside managing their money and pensions in other ways. More recently, we have tested "autosave" models of workplace savings, where the default is for the employer to enrol the employee into a workplace savings scheme automatically unless the employee actively chooses to opt out with dramatic increases in employee participation rates. We plan to continue testing autosave in different workplace scenarios to build on these initial, positive findings – and engaging government, providers, and employers about ways to scale provision of workplace savings, either through autosave or opt-in models.

### Recommendation #2 – increasing take-up of Help to Save and our understanding of incentivised saving

The government's reward-based Help to Save scheme is targeted at people on low incomes. The account, provided by NS&I, stays open for four years , offering a 50p reward for each £1 saved on savings of up to £50 a month.

Once the account matures then the saver must transfer the funds to a nominated deposit or another savings account. For both new and maturing Help to Save accounts, it's a good opportunity to keep the savings message front of mind for people who can afford to do so.

We're also interested in working with financial services to understand how we can use prize or reward-based incentives beyond interest rates to encourage savings among the working age population on low to modest incomes.

### Recommendation #3 – working with financial services to create a savings charter.

To help us achieve our target, we plan to work with financial services providers to create a savings charter. The primary purpose of the charter is to raise the profile of savings in the retail or community-based activities of its signatories. It will provide a means for building societies, credit unions, banks, and fintech providers – either alone or in partnership – to consider the savings needs of working-age people on low to modest incomes.

Author: Michael Royce, Nation of Savers policy lead for the UK strategy for financial wellbeing, Money & Pensions Service.

## Next Steps:

*To find out more, visit:*
***www.moneyandpensionsservice.org.uk/uk-strategy-for-financial-wellbeing***

# Building Societies
# Annual Conference

**LIVERPOOL**

**3 & 4 MAY 2023**

We look forward to welcoming all of our members, associates, colleagues and guests to next year's Building Societies Annual Conference. The conference will be returning to the ACC Liverpool with a new look programme:

**Wednesday 3rd May**
Conference opens at lunchtime, followed by evening welcome party

**Thursday 4th May**
Day two of conference, followed by conference reception and dinner

**www.bsaconference.org**