Building Societies Association

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SOCIETY matters

Mutuals into the future

Big challenges, even bigger opportunities

contents

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Chief Executive Robin Fieth
Robin.Fieth@bsa.org.uk

Guest Editor Katie Wise
Katie.Wise@bsa.org.uk

BSA, 6th Floor, York House,
23 Kingsway, London, WC2B 6UJ
www.bsa.org.uk

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Hello and welcome to the Summer edition of

Society Matters

Mutuals into the future - Big challenges, even bigger opportunities

Hello and welcome to the summer edition of Society Matters.

One thing that feels certain is that we are living in uncertain times; the current UK economic situation is continuing to cause worry for many people, driven by multiple negative headwinds. These include rising interest rates and a cost of living crisis driven by inflation in the cost of food, fuel and energy, and the war in Ukraine which shows no sign of reaching a resolution. This uncertainty looks set to continue through 2022 and beyond, albeit with some welcome government support to hopefully alleviate some of the pain for those that need it most. It is reassuring to know that building societies and credit unions remain strong in their communities and are ready to support those members in need.

Whilst the threat from the Covid Pandemic has not yet disappeared, we have reached what feels like 'the new normal', long heralded by the government. Following an enforced break from large face to face events, the Building Societies Conference took place in Liverpool in early May. With over 600 attendees, including almost 60 speakers and 46 exhibitors, it was certainly clear that people were happy to be back!

The Conference is where we focus our attention for much of this edition of the magazine. Many of our fantastic speakers are featured and cover topics as varied as cybersecurity to diversity & inclusion to the UK housing market.

Kicking off this edition is the BSA Chief Executive Robin Fieth's article on the major themes he believes should be on all member board's strategic agendas – an essential read.

With a specific focus on today's mutuals, we hear from Caroline Domanski, CEO of No1 CopperPot Credit Union on mutual businesses in the post pandemic world; Cara Woods, Consultant at Odgers Bernston who explores diversity & inclusion in the modern mutual and Peter Hunt from Mutuo, introducing us to the Mutual Value Measurement© Framework - a framework created by the Australian Business Council of Co-operatives and Mutuals and researchers at Monash University in Melbourne to measure the total value creation of co-operatives and mutuals.

Stepping away from the conference, we are delighted to welcome John Glen MP, Economic Secretary to the Treasury, with his views on how the mutual sector is well placed to support the Government's ambitions to keep UK financial services competitive, productive, sustainable, prosperous, and attractive; and NEXA Finance, introducing their alternative lending model.

Much to digest, enjoy!

KATIE WISE
Guest Editor

Big challenges, even bigger opportunities

By **ROBIN FIETH**, BSA Chief Executive

Robin highlights the opportunities for building societies, credit unions and other financial mutuals to stand out as distinctly different, truly purpose driven and dedicated to meeting the needs of their member and communities.

Reflecting on the biggest and most successful BSA Annual Conference in many years, it seems appropriate that much of our focus was on the biggest and most challenging themes facing us all in this turbulent and unpredictable world. Here are four from my Conference speech:

On the UK's commitment to achieving **Net Zero by 2050**, do we green our own balance sheets by restricting lending to homes and properties that achieve the magic, if flawed, EPC A to C rating? Or do we invest in the UK's overall just transition to Net Zero by working with all households to reduce carbon emissions? Do we in fact put the greatest emphasis and direct the greatest effort to supporting those living in the oldest and energy-leakiest properties?

Having brought forty years of EU financial services legislation and regulation into UK legislation, what happens next through the **Future Financial Services Framework Review and the Financial Services and Markets Bill** announced in the Queens Speech gives us all the opportunity, and I believe the obligation,

> *"We need to celebrate the real power of difference, embracing all aspects of diversity"*

to review that enormous array through the lens of what works best for the UK and for our objective of positioning financial mutuals at the heart of the future of UK financial services (which we would argue is the same thing). This is the opportunity to set an appropriate and proportionate UK regulatory framework for the next forty to fifty years, creating and leaving a positive legacy for future generations, fulfilling our stewardship obligations at a systemic as well as individual firm level.

Ronald Reagan is quoted as saying that one of the scariest phrases you can ever hear is, "hello, I'm from the government and I am here to help." Something of this sentiment strikes me when it comes to the **regulation of diversity and inclusion** in financial services, reinforced I must say by the latest guidance from the FCA for listed companies, published in April. Taking a simplistic q our aspirations should lie. We need to celebrate the real power of difference, embracing all aspects of diversity. What we measure, and especially how we assess cognitive and socio-economic diversity is critical. As too is how we ensure that the resulting executive and non-executive teams are truly inclusive in how they work, how they encourage and embrace different perspectives and viewpoints, and how regulatory supervision supports (and doesn't undermine) all this.

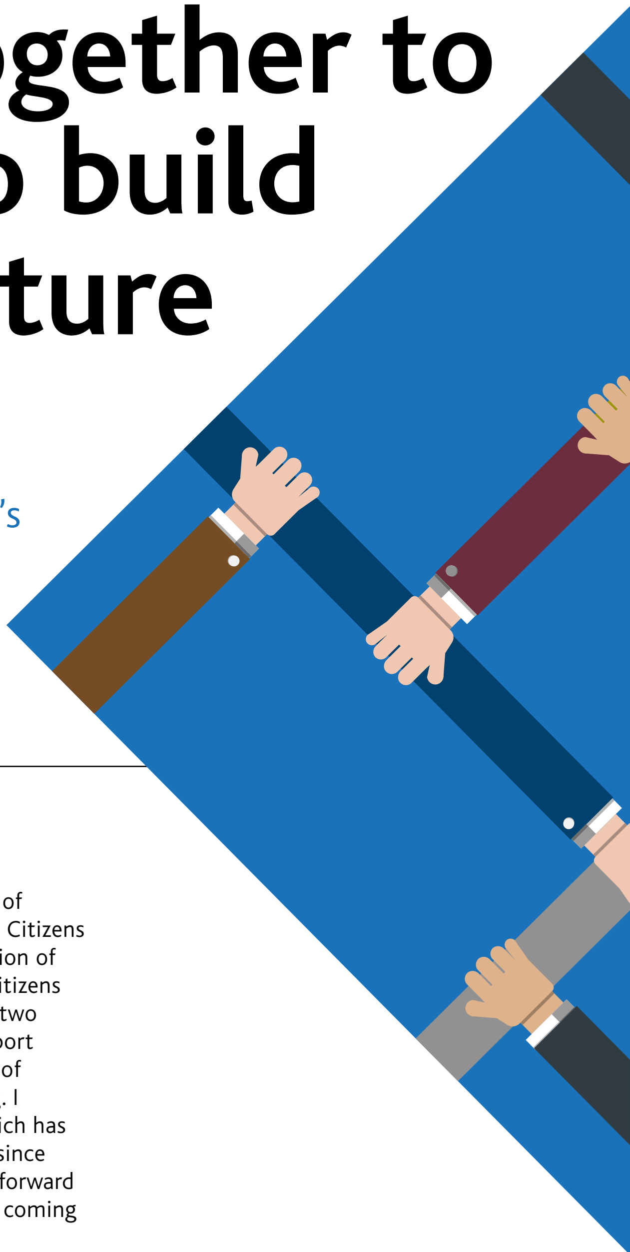
Even in the few short weeks since the Conference, the crypto story has entered a new chapter, with the high profile collapse of Terra Luna, wild fluctuations in the price of Bitcoin and lots of commentary questioning whether crypto-currencies really have any enduring role in society. I wouldn't be so quick to write them off, but it will be interesting to see how the recent turmoil affects Government and Bank of England thinking about the benefits or otherwise of a **UK Central Bank Digital Currency** – and if we are to have one, how it will operate in practice.

With the challenges come the opportunities – for building societies, credit unions and other financial mutuals to stand out in these debates as distinctly different, truly purpose driven and dedicated to meeting the needs of their members and communities. Big challenges, even bigger opportunities!

Next steps:

Follow Robin on Twitter ***@bsaceo***

Working together to continue to build the UK's future



By **JOHN GLEN MP**, *Economic Secretary to the Treasury*

We welcome the Economic Secretary to the Treasury's views on how the mutual sector is well placed to support the Government's ambitions to keep UK financial services competitive, productive, sustainable, prosperous, and attractive.

Mutuals provide vital diversity to the financial services sector, with your distinct focus on delivering services your members and communities need. That's why in my four and a half years as the government minister responsible for UK financial services, I've worked to champion the sector.

I believe mutuals have a key role in making some of the Government's top priorities for UK financial services a reality. Building societies and credit unions can help push forward the Government's levelling up agenda, which plans to realise the potential of individuals and business across the UK, thereby making the economy stronger. With reach in towns, villages, and cities all over Wales, Northern Ireland, England, and Scotland, you have first-hand experience of the challenges and opportunities that your members and communities face.

The Government has taken note of the resilience and determination of your sector. Throughout the COVID-19 pandemic, your members have relied on you, and you have proven yourselves more than worthy of that trust. Your core values have helped support many people in challenging circumstances, and I would like to personally thank you for your dedicated service to your communities during these difficult times.

As we move forward, I encourage you to continue to rise to the challenge of supporting your members through uncertainty. I am greatly supportive of Yorkshire Building Society (YBS) and Citizens Advice's recently announced expansion of their one-to-one support scheme. Citizens Advice advisers are available one or two days a week in YBS branches to support members of the public with a range of issues, including financial well-being. I commend YBS for this scheme – which has already benefitted over 530 people since launching in May 2021 – and I look forward to seeing other innovative solutions coming from your sector.

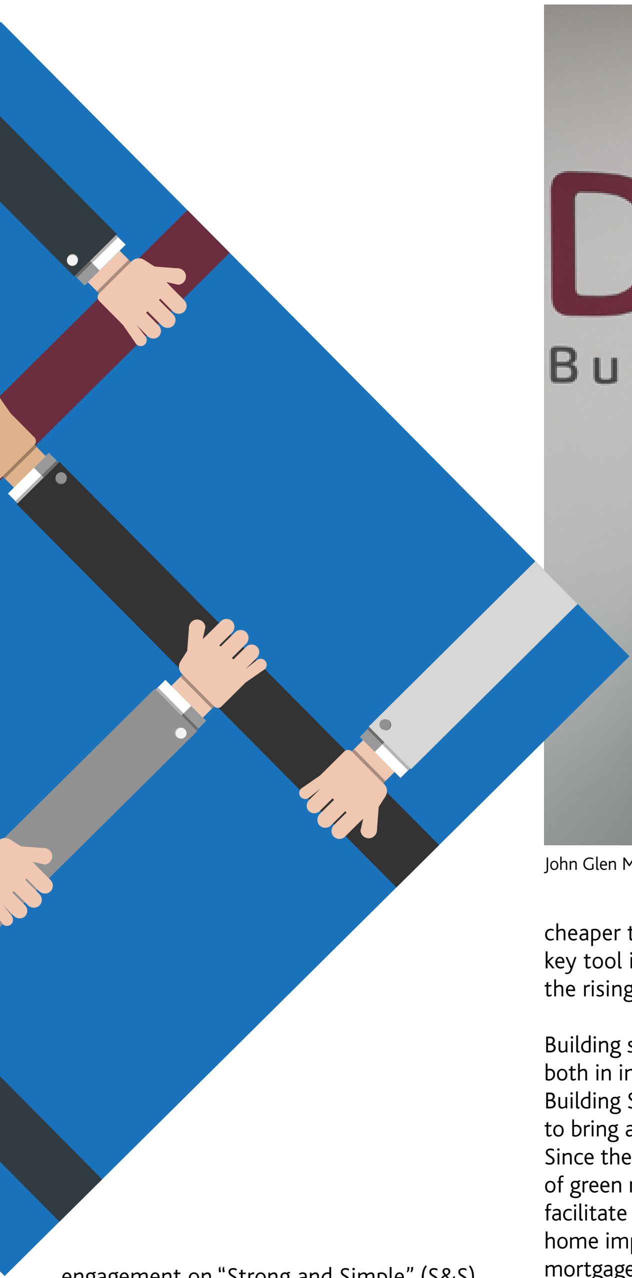
> *"I believe mutuals have a key role in making some of the Government's top priorities for UK financial services a reality"*

I would like to reassure you that the Government is working to support you to expand your opportunities and growth. As part of this, I am excited to be leading the work to ensure that building societies and credit unions have an appropriate legislative framework.

Whilst the Government believes that the Building Societies Act 1986 broadly remains fit for purpose, we recognise that there is interest and rationale in making further updates. We concluded our consultation on several technical amendments to the 1986 Act, with the sector broadly supportive of these proposals. We are considering all responses and will set out next steps when appropriate.

Last month at the annual Association of British Credit Unions Ltd conference, I was pleased to announce that the upcoming Financial Services and Markets Bill will make changes to allow credit unions in Great Britain to offer a wider range of products and services. The sector expressed a clear interest in offering hire purchase agreements, conditional sale agreements, and insurance distribution services, and the Government listened and worked to make this a reality.

I want to reiterate that the Government always welcomes further engagement on any areas to best support the mutuals sector. We understand there are a range of views across societies of different sizes and locations, and the Government is willing to discuss these, e.g. around the credit union common bond. We appreciate industry's



John Glen MP meeting with Andrew Craddock, CEO, Darlington Building Society, on a recent visit to the Building Society

engagement on "Strong and Simple" (S&S), one example of the opportunities we have after Brexit to change the way we regulate and recognise the diversity of our bank and building society sectors. Although there is still a lot of detail to work out, the release of the Prudential Regulation Authority's latest S&S consultation paper in April this year is real progress - and I would now urge firms to engage with the consultation thoroughly before it closes on 22 July. S&S is a policy that continues to have my full support, and I believe this Brexit opportunity can deliver real change in regulatory simplification, growth, and competition.

In addition to your continued engagement on regulatory issues, I would like to call upon societies to help accelerate other Government priorities. We remain committed to achieving Net Zero by 2050, and our housing stock needs to play its part in that. Energy efficient properties are not only better for the environment, but they are also cheaper to run, making housing retrofitting a key tool in helping homeowners to alleviate the rising cost of living.

Building societies are at the forefront of this, both in innovation and product design. Ecology Building Society was the first mortgage lender to bring a green mortgage product to market. Since then, we have seen an impressive array of green mortgage products launched that facilitate homeowners to undertake green home improvements. But of course, green mortgages are only one way to finance green home improvements, and I encourage societies to continue to offer a range of products to help people upgrade their homes, including, for instance, unsecured personal loans.

And whilst the Government is fully supportive of these initiatives, we are determined that work in this space does not disadvantage those who are aspiring to homeownership. It will be crucial that building societies continue to take the long view, helping people striving for their first home, and that our mission to decarbonise the housing stock through mortgage lending does not occur at the detriment of those with limited affordability headroom who cannot afford to upgrade their homes right now.

To support competition and productivity in the financial services space we need to ensure that we can provide everyone across the country with equal access to opportunities and attract the best talent. Government remains committed to championing gender balance at all levels across the sector, and there are currently over 20 building societies and credit unions signed up to the Women in Finance Charter. The Charter's Five-Year review, published in March 2021, showed that you are making progress in the right direction. On average, 40% of senior management across building societies and credit unions are women, 8% higher than the average in financial services. I encourage you all to continue to strive for greater diversity, holding yourselves to account by signing up to initiatives such as the Women in Finance Charter if you have not already.

I would like to conclude by reiterating that the Government has noticed the incredible work and effort your sector achieves, and we will continue to support you. In turn, I believe that your values – your community focus and mutual ethos – mean that your sector is well placed to support the Government's ambitions to keep UK financial services competitive, productive, sustainable, prosperous, and attractive. I look forward to continuing to build the UK's future together.

Next steps:

*You can follow me on **Twitter @JohnGlenUK** for updates on my work, and you can keep an eye on **https://www.gov.uk/government/organisations/hm-treasury for updates to the Building Societies Act 1986 consultation.***

Boosting financial resilience and wellbeing through workplace saving

By ***ANDREW GALL,***
Head of Savings & Economics, BSA

A recent BSA report looks at why employers might want to help their employees by offering a workplace savings scheme, and how this could work.

The Covid pandemic and the subsequent substantial rise in the prices of energy and other commodities have highlighted the vulnerable financial position of many households. Even prior to the pandemic, 11.5 million people had less than £100 to fall back on if they got into difficulty.[1]

Whilst many people see the benefit in saving regularly, it is often hard to maintain those good intentions against other demands. One way that people who are in work might be helped with developing a savings pot is if the money was moved on their behalf straight out of their pay.

Many employees are under financial strain
Our latest report draws on a YouGov survey of over 2,000 employees which highlights the vulnerable financial position of many households, with 61% of employees finding their bills and credit commitments a burden, and over a quarter finding that money worries have affected their work.

Many households have little or no resilience should they experience a shock to their income, with one in 20 employees (5%) saying they would not be able to cover their living expenses for one week if they lost their main source of income and 15% saying they wouldn't be able to last a month.

Interestingly, almost two-thirds (62%) of employees surveyed think their employers should care about their financial wellbeing and just 10% disagree. However just 24% think that they do, giving a financial wellbeing gap of 38 percentage points.

Employers can help to support their employees
Workplace savings schemes are a way in which employers could help support their employees' financial wellbeing, as they get a sense of security knowing they can deal with unexpected bills. Half of the employees surveyed who aren't currently offered this would be interested in taking part if one were to be offered by their employer. The figure rises to 60% when asking those whose money worries have affected their work. For one in eight people interested in taking part in a workplace savings scheme, it would be their first formal cash savings.

How workplace savings typically works
The employee opens an account with the chosen provider and decides how much they want to put aside each month. This is all they need to do – it's simple, flexible and low risk. The employer's payroll department then deducts the chosen amount from their after-tax pay and transfers all the participating employees' savings to the financial services provider. The employee can access the savings whenever they want, for whatever they need.

Workplace savings can really help some people because the decision to save has been made in advance, they don't get the sense of losing out on spending the cash on other things – savings are deducted before they are missed.

Government support
The Minister for Financial Inclusion, Guy Opperman MP is supportive of workplaces savings schemes and thinks that more companies should offer them. He recently revealed that he had challenged every FTSE 100 CEO to encourage them to introduce a payroll savings scheme.

Commenting on the BSA report he said; "Workplace savings can play an important role in helping people to build their future financial resilience, we need to grow the number of providers and encourage employers to take advantage of these services to support staff."

Many credit unions and a number of building societies offer this type of account, and several building societies are actively exploring how they can help in this area.

Next steps:

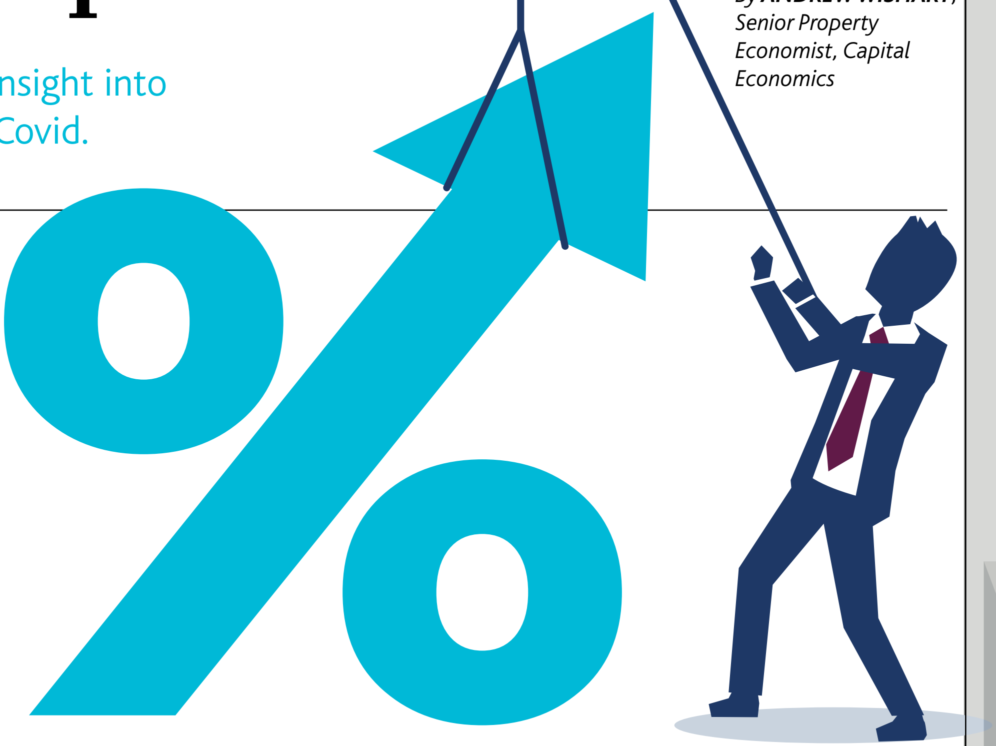
Read the full report - ***www.bsa.org.uk/information/publications/research-and-reports/boosting-financial-resilience-and-wellbeing-throug***
Contact: ***Andrew.gall@bsa.org.uk***

[1] Money and Pensions Service 2020, The UK Strategy for Financial Wellbeing

Sharp rise in mortgage rates will usher in a fall in house prices

*By **ANDREW WISHART**, Senior Property Economist, Capital Economics*

Andrew Wishart provides an insight into the UK housing market post-Covid.



The rise in CPI inflation to a 40-year high of 9% in April, and likely further increase to a peak of 10% in October, represents the biggest challenge the Bank of England has faced since it was given independence to set interest rates to control inflation in 1997.

Admittedly, higher interest rates will do little to ease global supply bottlenecks or reduce energy prices as the west shuns imports of Russian energy exports. And together those factors account for about 80% of the overshoot of inflation over the 2% target. But there are also factors that could keep inflation high. A shortage of workers has already seen pay growth accelerate to 7% y/y in the latest figures. Policymakers are worried that firms will keep raising prices to account for their rising costs and workers will demand pay increases that keep up with prices or leave for better paid jobs, putting more pressure on costs and causing inflation to stay high.

We think that the Bank of England will have to respond to this challenge to its credibility with the largest rise in Bank Rate for over 30 years. The policy rate has already been raised from 0.10% to 1.00% since last November, and we expect it to be hiked to 2.50% by year-end and to 3.00% in 2023.

Mortgage lenders have been slow to respond to the sudden change in the interest rate outlook so far. Financial market measures of interest swap rates suggest there will be a very slim, if any, net interest margin on loans written in recent weeks. So it was little surprise to us that mortgage rates have finally begun to rise. After hitting a record low of 1.5% last November, the average rate on new mortgages rose to 1.74% in March. Based on our forecast for interest rates and assuming lenders rebuild their profit margins, we think that mortgage rates will jump to over 3% by the end of the year and to 3.6% in 2023.

House prices are particularly vulnerable to higher interest rates following their 20% surge since the start of the pandemic. That increase has taken prices up to their highest level relative to earnings on record, surpassing the previous peak reached in 2007. High prices and rising mortgage rates will lead to a sharp increase in the cost of repayments on new mortgages at the same time as households face a steep rise in living costs across the board.

That deterioration in affordability will put the brakes on home purchase demand. In fact, there are signs that even the relatively modest increase in mortgage rates thus far is having an impact. The RICS survey no longer shows demand vastly outstripping supply, suggesting that the rise in house prices will slow to a crawl by the end of the year. And the number of web searches for the property websites Zoopla and Rightmove fell back to their lowest level since May 2020 in April.

All that said, we suspect that the housing market will endure a correction rather than a crash. For one thing, because mortgage rates are likely to peak around 3.6% rather than at 6% as in 2007, the extent of overvaluation will be less severe than in the financial crisis and the previous crash in the early 1990s. Second, limited very high LTV lending paired with the run up in house prices over the past two years should prevent the emergence of widespread negative equity. And third, the tight labour market will limit forced sales and support wage growth, meaning less of a drop in house prices will be needed to make them affordable again. All told, we are expecting a peak-to-trough fall in house prices of 5% in 2023 and 2024, reversing about a fifth of the increase since the pandemic began.

> *"House prices are particularly vulnerable to higher interest rates following their 20% surge since the start of the pandemic"*

Next steps:

*Visit Capital Economics **https://www.capitaleconomics.com/publications/uk-housing/***

Mutual businesses in a post-pandemic world

By *CAROLINE DOMANSKI*, *MBE, CEO, No1 CopperPot Credit Union*

An insight into positioning the mutual brand in the post-pandemic world, exploring the challenges in supporting colleagues adapting to new working practises and members' financial challenges.

We keep hearing the phase "the new normal" but what does that actually mean for mutuals, our brands, our colleagues and our members?

At the BSA conference we heard from two industry experts, Daniel Stanley, Cohere Partners and Teddy Nyahasha, OneFamily, alongside Professor Rob Briner, Queen Mary University of London, to understand what's changed since we entered the post pandemic world.

The panel session discussed the challenges we face as a sector but these challenges haven't really changed since the pandemic. Mutuals have continued to position their brand as ones that support members with their pre, during and post pandemic financial challenges in the same member-centric way that mutuals always have.

The bigger challenges in our industry remain the same and are focused around positioning our brand against an ever-increasing competitive market. A market in which there is a continuation of corporate competitors positioning themselves in a greener more ethical and purposeful way. Our challenge as a sector is to continue to build our voice, communicating the collective responsibility that mutuals have to do the right thing, not only for our members but the environment as well. This is a challenge that hasn't changed since the pandemic, but what the pandemic has given us, is time to pause and think about what we want from our lives, our homes and even our finance providers. This is where as mutuals we need to position our brand to meet these social-economic shifts in member attitudes.

> *"Mutuals across the sector have built on changes in attitude to produce a more agile, flexible and forward-thinking workforce."*

What we have experienced throughout and post pandemic is a closer look into the lives of our peers and colleagues as many of our meetings have been, and continue to be conducted remotely. This is widening into the lives of our members as we look towards using technology to replace traditional face-to-face meetings and we see into the homes of our members. There has been a time saving and more focused approach to meetings but in many cases, we have suffered from the loss of interaction. Wellness and isolation has risen to the top of the agenda as we realise many of our colleagues need support beyond the day-to-day function of their role within the business and there is a greater desire to look out for one another on a more personal level.

Research has shown us that fewer things than we thought have changed in the post pandemic world and more than we thought has not actually changed at all. A closer and more relaxed community has seen greater flexibility in our workplaces, but this isn't a new concept, it's just a more accepted one. Mutuals across the sector have built on these changes in attitude to produce a more agile, flexible and forward-thinking workforce.

As we walk through what is now the "new normal" we continue to attract new customers to our businesses. New customers who largely join mutuals simply as customers, it is then our role to turn those customers into members, creating advocates for our brands and creating an understanding that we all have a part to play in doing the right thing and that mutuals are the foundation of that vision.

Building a brand of support, responsibility and longevity has been the most important thing to come from the pandemic and this has been welcomed by our members.

Next steps:

Visit: ***www.no1copperpot.com***

The Mutual Value Measurement© Framework

Peter Hunt provides a fascinating overview of the Framework, developed in Australia to enable a mutual to assess, measure and report their mutual value.

By ***PETER HUNT,*** *Managing Partner, Mutuo*

We know that accounting rules and standards which concentrate on return on investment measures don't tell the full story when it comes to relaying the value that mutual business creates for all stakeholders.

A team of researchers from Monash Business School in Australia worked with the Business Council of Co-operatives and Mutuals (BCCM), the Australian industry association for mutuals, to develop a performance measurement framework that would work across different types of mutuals in a range of industry sectors.

They sought to capture the specific value that mutuals create through their purpose-led business activities that is often not measured or reported on.

> *"It is essential that mutuals are not left behind, unable to articulate the importance of their different business purpose."*

BCCM's project led to the development of the Mutual Value Measurement (MVM) Framework, which enables a mutual to assess, measure, and report the mutual value resulting from its corporate purpose and activities for all stakeholders. It offers a common language and consistent framework for capturing the value that otherwise is difficult to express.

The MVM Framework has six dimensions which the research revealed as key areas in which mutuals create value. Here's a brief explanation of each dimension:

- **Commerciality** refers to the generation of sustainable economic value for current and future members through business operations.
- **Shaping markets** is the value of a mutual's existence in creating, maintaining or shaping sustainable and competitive markets for goods and services.
- **Member relationships** looks at building and maintaining meaningful and sustainable relationships with members of the mutual.
- **Community relationships** considers building and maintaining strong and sustainable relationships with the broader community beyond the members of the mutual.
- **Ecosystem and reciprocity** is about how the mutual thrives alongside other stakeholders as part of a mutually beneficial economy and society.
- **Mutual mindset** refers to how a mutual acts ethically, sustainably, and consistent with mutual values. Through the focus on values, a mutual mindset enables each of the other five dimensions.

Some dimensions of mutual value cannot be measured by using only quantitative metrics. Qualitative information such as stories and testimonials are required and useful in measuring value. For example, measuring value in the mutual mindset dimension can only be effectively achieved by using stories and testimonials of corporate behaviours.

A number of mutual businesses have already applied the MVM Framework. It has a range of applications and is particularly useful alongside strategic planning to help articulate the mutual difference. By identifying measurable value, it has helped mutuals to engage better with customers, employees and other stakeholders and to track progress in these areas.

The Framework is particularly suited to helping a mutual to communicate its economic and social impact, and therefore builds a bridge to ESG reporting by providing a measurable and verifiable narrative of the additional value created through mutuality. This aspect is likely to become increasingly important as corporates of all types seek to express a business purpose beyond merely rewarding investors. It is essential that mutuals are not left behind, unable to articulate the importance of their different business purpose.

BCCM has now developed an accreditation scheme for mutuals that adopt the Framework and a community of practice enables executives to share their experience and good practice with their peers.

Next steps:

To find out more about MVM, please take a look at ***https://bccm.coop/about/key-projects/mutual-value-measurement/***
If you would like to talk about MVM and your business, please contact Peter Hunt: ***peter@mutuo.coop***

Steps to increase inclusion and diversity in the modern mutual

By **CARA WOOD,** Consultant, Odgers Berndtson

Following an engaging and enlightening panel session at the Building Societies Conference, Cara Wood provides valuable insight into achieving true inclusion and diversity within an organisation.

Achieving true inclusion and diversity in your organisation should be - and hopefully is – a business priority. An organisation that is inclusive and diverse drives better value for colleagues, customers, communities, and business performance.

Of course, there will be nuanced challenges depending on your organisation – its size, culture, location, resources, current and future skills priorities. One thing, however, should be consistent: diversity should be about what different individuals contribute because of who they are, innately and through lived experience, rather than simply representation of a characteristic. Truly diverse organisations embrace diversity in all its forms, including those that are not visible. Whilst we have seen some progress, there's much more we can all do.

So, how can you develop a truly diverse and inclusive business?

Your proposition: attracting talent
For many organisations and their leadership, a key challenge is the ability to attract diverse talent to address the current and future skills needed to drive commercial and operational strategies forward. Whilst there is no doubt that the competitor pool is broadening, for modern mutuals, there's a huge opportunity. Trust barometers, sector wide, indicate that people do not recognise the value of what financial institutions do in local communities. Distinct to some other parts of the sector, building societies have local communities at the core of their business models. This should be critical to your positioning. As should an agile and empowering culture, your commitment to investing in people, a passion for innovation, and communicating the breadth of role types and opportunities that exist within today's modern mutuals.

Your approach to hiring: securing talent
Hiring underpinned by diversity and inclusion starts with a willingness to broaden the experience requirements. As an executive search firm, at Odgers Berndtson, we take seriously our responsibility to encourage clients to consider the broadest parameters for each role e.g. emphasising skills and potential over years of experience.

> *"Consider diversity in its broadest sense and recognise the contribution of different people in our workplaces and communities."*

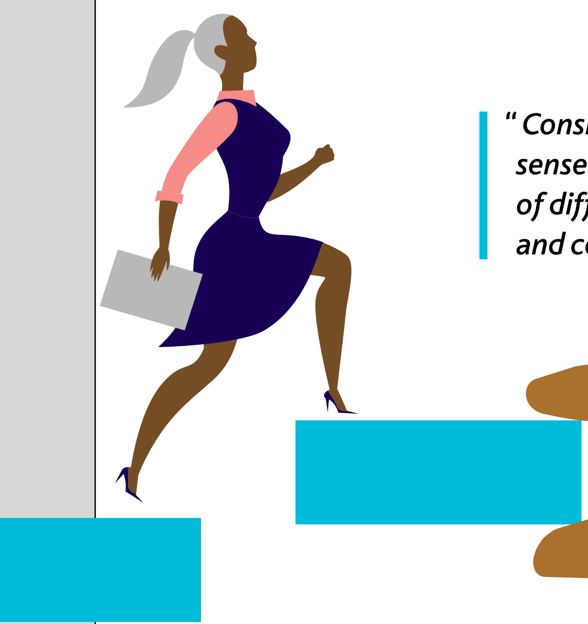
Secondly, it's about considering diversity in its broadest sense and recognising the contribution of different people in our workplaces and communities, as opposed to applying a narrow lens on one or two characteristics.

Thirdly, be thoughtful about how you articulate and convey opportunities. The language should be accessible, with no barriers to interest. Can you highlight flexible working arrangements which might appeal to different groups of people? Perhaps those returning to work, with caring responsibilities, disabilities, or other personal or business interests.

Lastly, is your process accessible, and is the selection panel representative of the communities you serve and seek to attract? Getting these aspects right can also help mitigate candidate withdrawal.

Your ongoing commitment: nurturing talent
Nurturing talent is fundamental to retaining diverse talent, and ultimately to the success of your people and performance. These are a few simple actions you can consider: create opportunities and forums for different voices to be heard within your business; demonstrate your commitment to investing in developing rounded leaders of the future; ensure promotion processes are objective and transparent (increasingly important as we work in a more flexible way that can give risk to proximity bias); and use data to track the flow of diverse talent in and out of your organisation.

These words only touch on the progress we can all make. Where we go from here is continued cultural and structural change. It requires every one of us to operate with inclusion at our core – as individuals, organisations and as a sector.



Next steps:

Visit ***www.odgersberndtson.com/en-gb/about-us***

Mutuality can lead the way on green finance

Alison Vipond explains the Society's ecological mission and how building societies are well positioned to champion fairness and co-operation at the heart of the transition to a low carbon economy

By **ALISON VIPOND,**
Sustainability Policy and Innovation Lead, Ecology Building Society

In 2021, research funded by the WWF reported an 'eco-awakening' around the world. A growing number of people are concerned about nature and demanding action to protect the planet. That awakening must urgently translate into a rapid transition to a low carbon economy, powered by green finance. Building societies, as mutuals grounded in communities, are well positioned to champion fairness and co-operation at the heart of transition.

When Ecology was created, our founders were motivated by concerns over environmental degradation. Now climate change, ecological collapse, deepening social inequalities, a global pandemic and conflict are the defining issues of our time. Our values of fairness, responsibility, co-operation and activism have never seemed more relevant.

Our ecological mission, to support sustainable homes and communities, provides us with great clarity, as well as resonating with our growing community of members, colleagues and partners. All our lending seeks to create environmental and social benefits such as improving the energy efficiency of a property, bringing under-utilised buildings back into use, and creating community-led housing, including housing co-ops and other forms of mutual home ownership. Our C-Change mortgages incentivise energy efficiency through our mortgage pricing.

Our mission also guides how we use our influence to catalyse positive change in the financial system. For example, we're founding signatories to the UNEP Finance Initiative - Principles for Responsible Banking and Net Zero Banking Alliance. By joining these initiatives, we hold ourselves to account, but we're also creating momentum for other banking providers to join. We also co-chair the UK group of PCAF, the Partnership for Carbon Accounting Financials, helping to build capacity to measure the carbon footprint of residential property.

Ecology's members are knowledgeable and passionate – they tell us to be bold. During 2021, we co-developed our 2030 strategy with our members, colleagues, board and

key partners. We used the 'Theory of Change' approach, which is commonly used by purpose-led organisations. First, we shaped the vision of the future we want and from there, identified priority areas for positive change. Through our consultation, our members provided richly valuable insights and ideas to shape the strategy. An online member event provided the opportunity to share the strategy and the thinking behind it with members and wider stakeholders, enabling us to hear direct feedback and stay accountable.

Although we have been fully dedicated to our ecological mission for more than forty years, we still have a lot to do. The pursuit of sustainability is a journey. We're currently working on developing net zero transition plans for both our operations and our lending, grappling with some big issues, not least that we do not operate in a vacuum, but are dependent on the economy, policy, energy and transport infrastructure, supply chains, human behaviour and innovation.

We continue to call for a National Retrofit Strategy as an infrastructure priority. The UK has the 'leakiest' homes in Europe, wasting heat and exposing us to rising fuel bills. We believe building societies are well-placed to enable large-scale retrofit to transform the UK housing stock, a mission that all our members will applaud.

On a final note, we encourage fellow building societies to join PCAF and UNEP FI Principles for Responsible Banking. Together we can create unstoppable momentum in the development of green finance in the UK, accelerating the journey to net zero.

Next Steps:

https://carbonaccountingfinancials.com/
https://www.unepfi.org/banking/bankingprinciples/

Building a Cybersecurity Program fit for your building society

By *JOSH DAVIES*, *Product Manager, Alert Logic*

Josh Davies explains the why, what and how of cybersecurity programmes

At this year's Building Societies Conference, I spoke about emerging threats and how to combat them. Cybersecurity events have skyrocketed in recent years, both as organisations have slowly deployed new digital technologies across their businesses and as companies have transitioned to hybrid work models following the pandemic.

The importance of an effective cybersecurity program

Emerging digital workplaces opened attack vectors that hackers have exploited, making a robust cybersecurity program essential. A cybersecurity program makes organisations more resilient, enabling you to protect your reputation, conduct proper risk assessment and ensure regulatory compliance.

A cybersecurity program combines security controls, procedures, teams and remedial plans to reduce cybersecurity risk and recover data following an attack.

Why implement a cybersecurity program?

- **Protect your reputation**: Business reputations in the digital economy depend on an organisation's ability to protect the personal data of customers. A strong cybersecurity program, demonstrates that customers' personal data is taken seriously, building trust.
- **Stay compliant:** Regulatory agencies are responding to the cybersecurity threat by introducing and refining compliance regulations. An effective security program includes controls ensuring adherence to regulations, helping organisations avoid costly non-compliance investigations and fees.
- **Coordinate cybersecurity efforts:** An organisation's cybersecurity strategy may be fragmented across departments, leaving gaps in their security posture for hackers to exploit. A cohesive cybersecurity program ensures standardised alert detection, threat analysis and incident response across the organisation.
- **Mitigate third-party risk:** Outsourcing operations to third-party vendors exposes firms to risk, which can be more difficult to identify and protect against. A well-developed cybersecurity program includes third-party security protocols and ensures third parties have adequate controls to protect the organisation's sensitive data and mitigate risk.

Four cybersecurity program essentials

There are numerous ways to create an effective cybersecurity program, and security controls should address specific requirements of the organisation, but there are some essential elements:

Business and data recovery plan

Organisations require plans to recover data and ensure business operations quickly return to normal. Organisations should keep regular data backups — preferably stored off-site — to mitigate data loss from an attack.

Cybersecurity training

People are an organisation's most important asset but pose a cybersecurity risk, as hackers often exploit mistakes to penetrate systems. Ongoing training sessions with employees on best practices ensure they are doing everything possible to protect account information.

Relevant performance metrics

It is important there are procedures to measure the impact and success of the cybersecurity program. Track metrics like mean time to detect (MTTD), intrusion attempts and mean time to contain (MTTC) to quantify performance.

Ongoing monitoring

Organisations need to stay abreast of emerging threats and constantly test their own security systems to better understand where new vulnerabilities exist.

> *"A strong cybersecurity program, demonstrates that customers' personal data is taken seriously, building trust."*

Steps to building a cybersecurity program

Here are the basic steps to craft a cybersecurity program:

1. **Outline a cybersecurity vision:** Detail a vision that places the proposed cybersecurity program inside the broader digital journey of the organisation.
2. **Conduct a risk assessment:** Identify malicious actors interested in penetrating your systems and stealing critical data. These could be amateur black-hat hackers or cyberterrorists.
3. **Identify relevant compliance regulations:** These vary by industry, so it's critical organisations understand relevant regulations and build controls that ensure compliance.
4. **Place proper controls:** Identify the tools, procedures, personnel and software for the cybersecurity program you envision.
5. **Conduct ongoing gap analyses:** Regularly test technological solutions, governance procedures and security personnel to ensure cybersecurity policies are properly implemented and identify gaps.

Next Steps:

*Visit **www.alertlogic.com** to learn more.*

Boldness, creativity and a mutual mindset – the driving force that's needed right now

Teddy Nyahasha, CEO of OneFamily, explores how the mutual sector can help to bring about lasting change.

By **TEDDY NYAHASHA,** CEO, OneFamily

I recently spoke at the Building Societies Annual Conference in Liverpool, a city known for the impressive Royal Liver Building. Liverpool was at the heart of the development of the friendly society – offering a way to pool risk and provide support to their members at a time when there was no such thing as a welfare system.

I was at the conference, as CEO of the friendly society OneFamily, to talk about mutual businesses in our post-pandemic world.

My opener was that things were already tough enough before the pandemic hit. There were massive challenges; the climate crisis, the country's over-reliance on foodbanks, a greater life expectancy and a lack of social mobility. Irrespective of Covid, the urgency and importance of these challenges continue, and will do so for many decades to come.

Then Covid hit us, which necessitated putting the country on what has often been described as a "war footing". As with the economic consequences of wartime, we're now seeing inflation rising rapidly. And higher living costs combined with rapidly devaluing savings are hitting families hard.

People are hurting. No-one wants to have to decide between heating and eating or having to skip meals so they can feed their children. This is a brutal situation, which will only get worse as we head towards the winter months again.

> ***"We choose to serve everyone, to reach the whole of the market – not just the profitable bits."***

So how can the mutual sector help to bring about lasting change?

Mutuals were the original crowd-funders – helping members to provide for their futures, irrespective of their financial position. Today's version of mutuality still supports its members but also seeks financial inclusion, to enable everyone to have the same opportunities – regardless of their wealth or who they are. We're here to serve the underserved, the marginalised and excluded.

For example, at OneFamily we have fought for the rights of children who lack mental capacity to find a way to ensure that they're able to access their savings without unnecessarily difficult legal barriers being thrown in their way. We've campaigned hard for a change in the law that recognises and puts right the unfairness that they currently face.

We choose to serve everyone, to reach the whole of the market – not just the profitable bits. We've undertaken research and focused our innovation on products for those in the mid-lower income bracket and not those with the greatest wealth. So, it's possible to enjoy the benefits of investing in the stock-market for just £10 per month and save for the future with a straight-forward climate-friendly product that can be managed without the need of an investment expert.

I think technology is going to be a key tool in financial inclusion, making it easier and less daunting to manage money. Giving improved access allows people more control over their own financial wellbeing. Empowerment is right there, simply through a tap on the screen of a smartphone.

Throughout history mutuals have faced the challenges of their time. They've shown they're fleet of foot and are unafraid to be bold, to be positive and to think creatively to support their members – whether that's pooling risk, campaigning for change or embracing technology. These are the qualities that will be needed if society is to progress forward and secure a stable and lasting recovery for the country following the last few hard years.

Modern mutuality could be just the driving force that this country needs right now.

Next Steps:

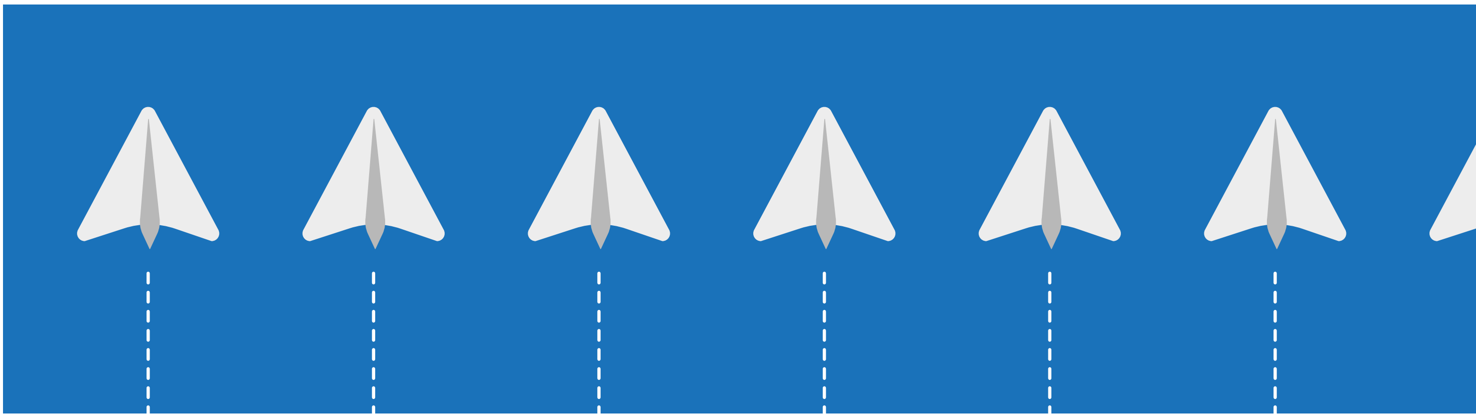
Visit ***https://www.onefamily.com/our-story/***

By ***MARK WILLIAMS***,
COO & Director of Risk at NEXA Finance

and ***SIMON TAYLOR***,
CEO of Melton Building Society

Introducing alternative

Melton Building Society and NEXA connect likeminded people to finance property development



NEXA Finance was founded by Melton Building Society to provide funding to SME property developers and builders who are looking to either build new homes, refurbish existing residential properties, or convert commercial buildings into homes.

Here in this Q&A special, we're sitting down with **Mark Williams** COO & Director of Risk at NEXA Finance and **Simon Taylor**, CEO of Melton Building Society, to learn more about how they're working together to fund developments, encourage entrepreneurialism and put roofs over people's heads, all through an alternative lending model that challenges overcomplicated and commercial models.

Mark, what is NEXA and what makes it different?

NEXA is a professional property financier that knows the marketplace and provides a personal service to borrowers. At NEXA we embrace traditional banking values, where the funder really gets to know the borrower, taking the time to understand their strategy and what makes them tick. We take a real interest in what they are wanting to create, visiting the site, not just once but throughout the development.

It's the acknowledgment that no scheme is the same and therefore they do not fit comfortably in one box or another that makes NEXA different, we have the skills to assess the risk and decide whether a deal is fit for purpose.

We have funded the creation of over 100 completed dwellings in the last 2½ years.

What factors do NEXA consider before approving a loan?

We remain cautious, conservative and conventional in our approach to lending. We do use some quantitative analysis, but predominantly we are about qualitative analysis. No black box, we prefer a more personal touch to assess whether they are good custodians of the investors' money, or not.

We are concerned with what they are building, taking a genuine interest in the project and considering whether it is the right product in the right location.

At NEXA we are passionate about the green agenda and want to help our borrowers on this journey to developing more sustainable homes. Things that get us particularly excited are projects that include ground source heat pumps, solar panels, brown water collection and sedum roofing, which futureproof homes on the path to efficiency and carbon neutrality.

Simon, why did the Melton start up NEXA and continue to partner with them today?

NEXA provides access to new markets and customers, which through traditional lending we would not be able to service, broadening the relevance for the Society to more customers and to help start their journey onto the property ladder.

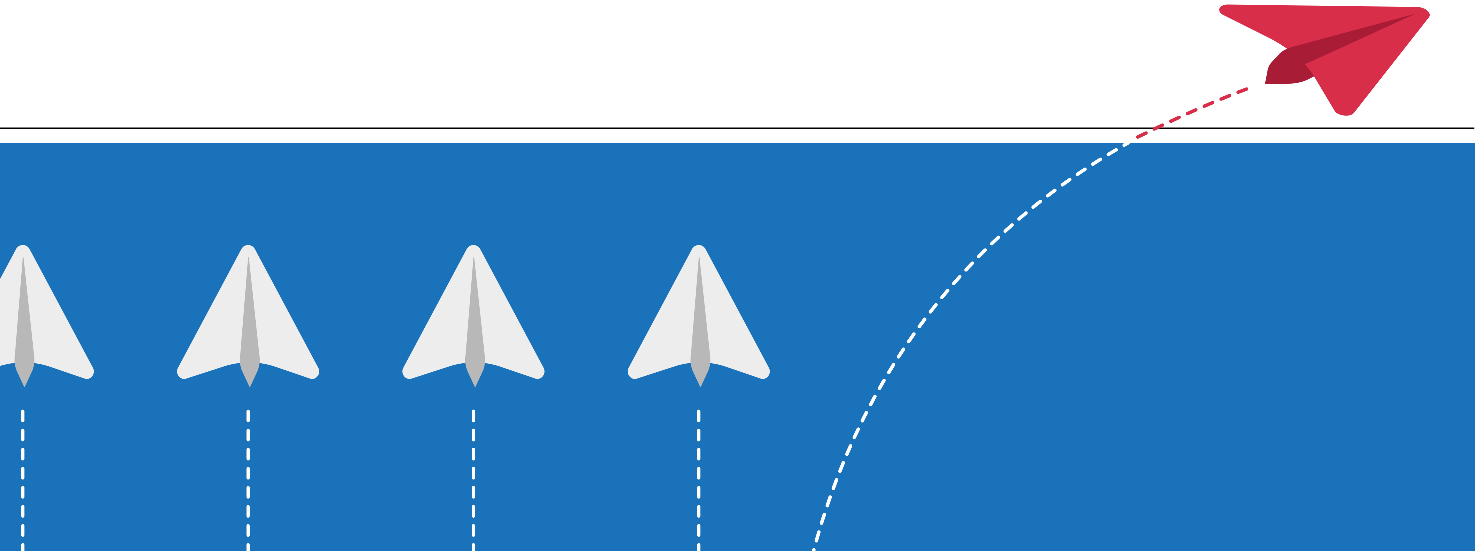
NEXA also provides a new source of income delivered in a cost-effective manner, without deviating significantly from the core focus of the Society.

Mark, what makes NEXA an attractive prospect for investors?

NEXA is a 100% subsidiary of the Melton Building Society and therefore we come from a building society ethos of helping to create more homes for people.

NEXA is a natural extension of the type of funding that building societies provide, funding the creation and ownership of homes. It is not such a big step from providing self-build mortgages, to funding property developers. We do all the hard work for our investors, sourcing the deal and undertaking all the due diligence, whilst assessing and understanding the risk. We then package it together and

a truly lending model



offer the proposal to our investors. But it does not stop there, we act as security and investor agent closely monitoring the project and ensuring the investors funds only flow to where it should, working together in a real partnership.

NEXA has a strong team with seasoned bankers who provide decades of experience and knowledge, which we use to match the investors lending appetite with the prospective borrower. But it is the investor who has the final decision of whether to invest in a scheme or not.

Lending money is easy, the skill is getting it back! We understand the ups and downs of the property finance world to ensure that our investors achieve their expected return on capital and strive to provide a great return on their investment.

For building societies, we enable them to have a more diversified portfolio of property assets therefore spreading the risk of their lending.

Simon, how does the NEXA proposition fit with a mutual building societies key purpose?

Melton Building Society has a clear purpose to 'put roofs over people's heads and build thriving communities' and so being part of a partnership that sees us start the journey from the very beginning of a development is key. What makes NEXA an exciting prospect for a building society is that by being an investor, you can choose both the type of lending and where to lend geographically to align to the society's own requirements. For example, this can be lending just in the society's heartland or on a national basis – the choice can be for each investing society to choose.

At the heart of NEXA sits values which are aligned to that of Melton Building Society and all building societies - putting the customer first and committing to excellent service standards.

Mark, what areas of the UK does NEXA cover and what are your plans for getting more funding for homes in the future?

We started funding in the East Midlands, concentrating on Leicestershire and Nottinghamshire. However, as we have grown and attracted new investors, our geographical reach has widened. We have now funded schemes in Lincolnshire, Yorkshire, West Midlands, Birmingham, Northamptonshire and are currently looking at schemes as far afield as Essex.

We do want to continue to lend more money and expand our geographical reach and with new investors we can provide this funding in their heartland, assisting them to fund house creation in their locality. How nice it would be to have a marketing board on a new property development that said, funded by 'X' Building Society, powered by NEXA.

As we attract new investors, who may themselves bring a slightly different risk appetite, we could open up new business opportunities for both NEXA and the investor, such as larger scheme sizes and more complexity. We grow as our investors grow.

Next Steps:

Contact ***hello@nexafinance.co.uk*** *or visit* ***www.nexafinance.co.uk***

> *"We are passionate about the green agenda and want to help our borrowers on this journey to developing more sustainable homes"*

Dates for your diary

The BSA events diary is regularly updated. View the latest listings and register at **www.bsa.org.uk/events**

Digital Mutual – Implementing innovations in savings

5 July 2022 | online

The BSA's latest Digital Mutual event will focus solely on the changing face of savings and deposits.

Technology is rapidly changing how building societies and credit unions engage with savers, be that redefining front-end digital systems, launching apps and providing a streamlined service for new members.

Drawing upon recent feedback and research from the BSA's savings policy panel, members and fintech will share their experiences about launching new technology and how this is redefining their engagement with members.

Cost:
£250 (VAT exempt) - BSA members and associates
£395 (VAT exempt) - Non-members
www.bsa.org.uk/dmsavings

Arrears handling course

7 July 2022 | London

This bespoke one-day course, in partnership with the Chartered Insurance Institute (CII), is designed to help navigate the complex area of arrears handling. The course will provide an overview of regulatory requirements as well as a basic understanding of the legal process of repossession. In addition, the regulator expects an arrears handler to be able to identify vulnerable customers, deal with them in an understanding and sensitive way and take into consideration their vulnerability when discussing missed payments on their accounts.

The course is regularly updated to reflect the most recent impact of Covid-19 on arrears functions now and in the future.

Cost:
£450 (VAT exempt) - BSA members and associates
www.bsa.org.uk/arrearshandling

Seminar for members of risk and audit committees

19 July 2022 | London

This event, run in conjunction with Deloitte, will provide relevant updates for members of risk and audit committees. Starting with a horizon-scan of current risks and challenges, Deloitte experts will cover key developments and hot topics across prudential policy, conduct regulation, corporate reporting, internal audit and other relevant subject areas. There will also be the much-missed opportunity for networking and exchange of views with other delegates in similar roles.

Cost:
£350 (VAT exempt) - BSA members only
www.bsa.org.uk/auditcommittees

Mortgage underwriting course

13 & 14 September 2022 | London

In recent years the recognised career path to mortgage underwriter has changed substantially, partly due to the changing nature of mortgage advice. This intensive two-day course, in partnership with the Chartered Insurance Institute (CII), has been designed to equip underwriters with the knowledge required to carry out their role effectively.

The course will be interactive with several group discussions and case studies for attendees to consider, discuss and apply the knowledge and skills gained from the course. It has been designed for trainee underwriters/ mortgage advisers that wish to broaden their skillset and those employed in a product development or risk capacity.

Cost:
£895 (VAT exempt) - BSA members and associates
www.bsa.org.uk/underwriting

Treasury management courses

The introductory course
(on 28th September)

Provides an overview of treasury operations within financial services, more specifically within building societies and within the regulatory environment. Following this there is an in-depth study of treasury operations, focussing on liquidity, wholesale funding, credit risk and financial risk. It has been designed for those with no treasury experience.

The treasury risk course
(on 29th September)

Provides participants with an overview of the financial and balance sheet risks a building society faces as a consequence of being a mortgage lender and how these risks are managed by the treasury department. It will help those with some treasury experience, who need to improve their grasp of treasury risk – including NEDs and senior management.

Cost per course:
£490 per person (VAT exempt) - BSA Members & Associates
£695 per person (VAT exempt) - Non-members
www.bsa.org.uk/treasuryintro
www.bsa.org.uk/treasuryrisk