Building Societies Association

No. 47 | Spring 2018

SOCIETY matters

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We explore different facets.

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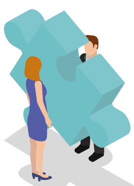

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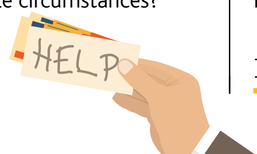

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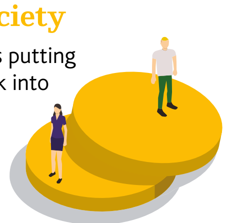

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Hello and welcome to the spring edition of Society Matters

It's hard to believe that that spring is almost here, mostly because some parts of the country are still resembling Narnia, reeling from the snowfall and gales brought by the Beast from the East and Storm Emma tag team. (What kind of Brit would I be if I didn't open with the weather?)

But 2018 is in full swing, and the BSA is really ramping up preparations for its Annual Conference. This year we are heading to Manchester and the programme is really shaping up – it's going to be a good one (P16).

Elsewhere, our sector seems more focused than ever on culture. How do the ideas of culture and ownership support one another and feed into products and services? Mutuals have always had that little something extra to add to financial services. Whether that's manually underwriting mortgages for those with niche lending needs, identifying and helping their most vulnerable customers in their time of need (P12-13), or asking their members to help shape the future of their organisations. In this 'Culture special', we take on perspectives from various areas of financial services (from P6) to see what effect the ownership structure really has on an organisation and its people.

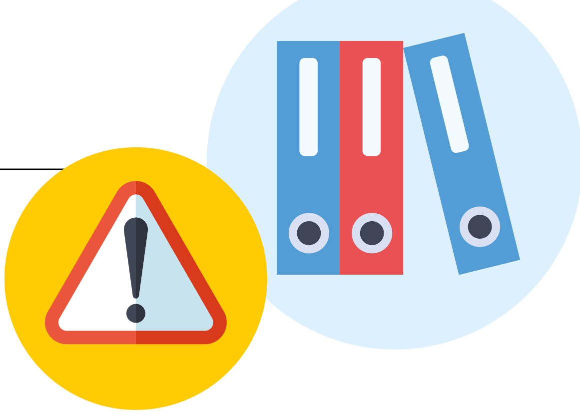
A particular development that I have found exciting is that building societies are building homes again (P15). Harking back to their roots, Principality has provided £50m in loans to Welsh housing associations for the provision of new homes, and Nationwide has entered a partnership with Swindon Borough Council to fund a community-led housing project in its hometown. In these dire housing times, such developments could not have come at a more helpful time. I look forward to seeing these projects progress.

Now as we pack away our winter coats - hopefully for the last time for a while – it seems as good a time as any to ponder the raft of events, campaigns and wider work coming up this year. Do say hello if you see me wandering around our Annual Conference, otherwise see you in the summer edition.

Until next time.

AMY HARLAND
Society Matters Editor

You can keep up with the BSA on Twitter
@BSABuildingSocs



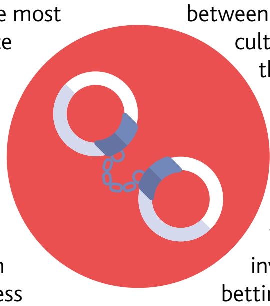
Is it realistic to think we can regulate for good behaviour?

When I was a chartered accountancy student (many years ago in case you are wondering) we were required to undertake ethical training, in part so that we learnt about the specific ethical requirements of the profession we aspired to. More importantly, in a high-pressured competitive environment, we learnt about the real premium the firm put on doing the right thing by our clients, by our colleagues and by the firm itself.

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

At a recent reunion, a number of people commented on just what a special environment that was and how fortunate we were to start our careers in such an organisation. Over thirty years later, the fact that a couple of hundred people paid to spend an evening in each other's company (this was not a firm sponsored event), renewing acquaintances and friendships, says a lot about the enduring nature and influence of a really strong positive business culture.

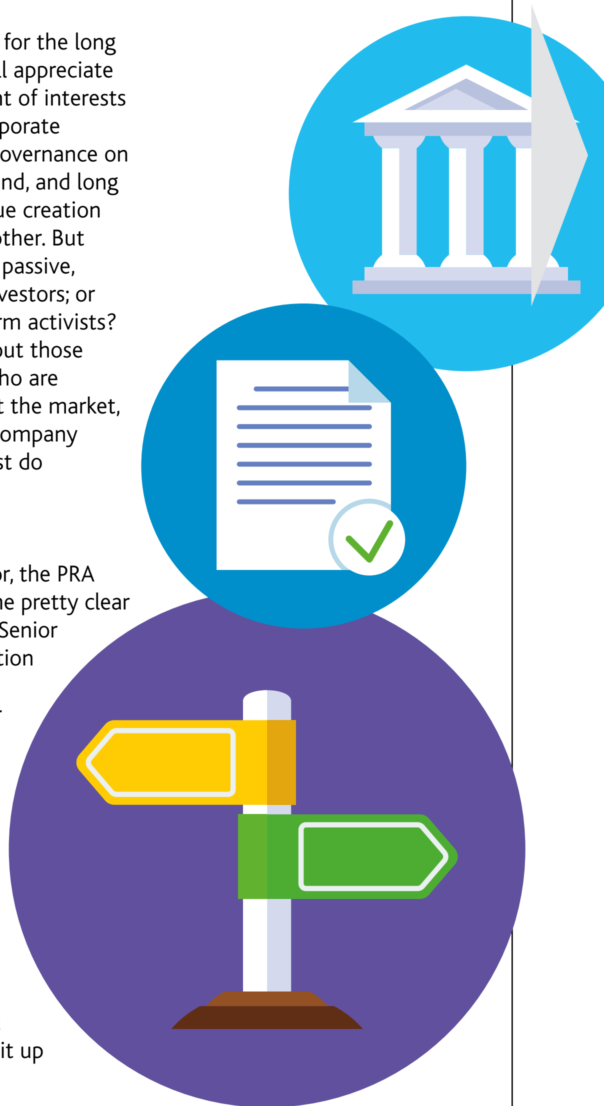
Over the past four years at the BSA I have often said that one of the principal challenges for regulators is how you regulate for good behaviour rather than just try to limit poor and egregious practices. I still suspect that, in fact, you don't. The most you can do in practice is to encourage good behaviour and strongly discourage bad.

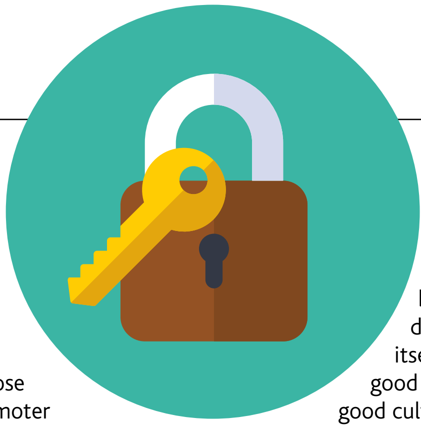


Which brings me to the increasing regulatory interest in corporate and business culture. For a number of years, the Financial Reporting Council (FRC) has sought to involve investors in influencing business culture though the combination of the UK Corporate Governance Code and the Stewardship Code. I have frequently wondered whether this is a reasonable expectation on the part of the FRC. For those active institutional investors who are in for the long term, then we can all appreciate a potential alignment of interests between good corporate culture and governance on the one hand, and long term value creation on the other. But what of passive, index investors; or short term activists? What about those investors who are betting against the market, shorting individual company stocks? What interest do they really have in a stewardship code?

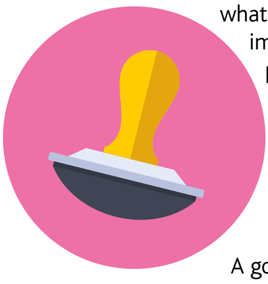
"I have often said that one of the principal challenges for regulators is how you regulate for good behaviour rather than just try to limit poor and egregious practices."

In the financial sector, the PRA and FCA set out some pretty clear requirements in the Senior Manager & Certification Regime, backed up with an equally clear understanding that among the first questions they will ask when something goes wrong is "who is responsible?" For which many read, "who is culpable?" Whether that is fair or not, it is sufficient for most leaders to sit up and pay attention.





But does it make for good culture in those businesses? Is there agreement, even, on what good culture looks like? To be clear, though, I have not yet come across a culture that I would describe as healthy, or good, where the first question when something goes wrong is, "who is culpable?" And there is one of the paradoxes. Great businesses will seek to engender cultures of responsibility, empowering their people to deliver extraordinary results. But when a regulator talks about responsibility, it can take on a wholly different connotation.



We will continue to encourage our members and the regulators to think about, and work with us on what really good looks like, whatever the particular focus and subject matter. We want to continue exploring how businesses of all sorts can be encouraged to do the right thing consistently. And, when something does go wrong (as it inevitably does), to focus on the following three questions: "What's happened? What are we doing about it? How do we try to ensure it doesn't happen again?"

The latest FCA Discussion Paper on Transforming Culture in Financial Services, published as we go to print, provides us all with a future opportunity to input to this vital debate.

Following on, if we can agree on what good culture looks like, how do we measure it? Traditionally, I suspect we have relied on measures of negative assurance, such as smaller numbers of complaints, absence of ombudsman referrals and decisions, fewer staff grievances, fewer and smaller regulatory penalties. We are getting better now at finding positive proxies and indicators, whether those are net promoter scores, comparative customer satisfaction reviews or the BSA's own survey of employee opinions. Perhaps it is that range of measures that we need to focus on rather than becoming over reliant on any one. If what we measure gets done, then how we balance what we measure has real importance, a theme picked up well by Deloitte in their 2016 paper, *Management information on culture: connecting the dots*.

A good number of us have been very interested in the work that KPMG Nunwood have been doing looking at that balance through their customer experience excellence analysis around the six pillars of personalisation, integrity, expectations, resolution, time and effort, and empathy. Ranging across many industries and territories, there are stories and recommendations that we can all learn from and apply back into our own individual organisations.

Survey evidence consistently shows building societies ahead of the competition on customer service measures. Even if customers do not understand or realise that we are all mutual and owned by them, they do recognise a difference.

> *"What's happened? What are we doing about it? How do we try to ensure it doesn't happen again?"*

That difference is one of the things that fascinates me is how our business form contributes to the culture of our business and our sector. As Alison Cottrell says elsewhere in this edition, business form does not of itself guarantee good behaviour or good culture. But it is interesting to consider whether some business forms can enable or create the opportunity for stronger positive cultures.

The firm with which I trained certainly achieved that strong positive culture. Arguably venture capital and private equity backed companies are very successful in encouraging high growth developing businesses to fulfil their potential. I hope that we would all agree that the customer owned mutual business form gives us a very special opportunity to focus on outstanding customer offerings and service, free from any customer versus shareholder conflict.

There is a wonderful line that we say in one of our local church services, "for the times when it was so difficult that we didn't know the right thing to do…we are sorry". When we are trying to decide what is the right thing to do, the times when that decision is too difficult should be fewer and further between because we are able to focus on great customer outcomes without conflicting shareholder demands.

So we have the opportunity. The challenge for all of us is how we make the most of that, how we stay ahead of the competition in culture and customer service. Our mutual business form gives us the opportunity for real, sustainable competitive advantage. In an increasingly digital world, it is up to us to make the most of that, to stand out from the crowd for all the right reasons.

Next steps:

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

Opportunity in change

2018 brings with it significant new opportunities for building societies in a digitally driven world, specifically when it comes to Open Banking and PSD2 regulation.

By *NICK LAWLER*, *Building Society Lead, Fiserv*

It's now widely accepted that the way in which we interact with our finances has changed forever: the digital revolution has delivered smart phones, smart watches, wearable technology and even the ability to talk to our home with the advent of services such as Amazon Echo and Apple Home. The farfetched ideas and gadgets from yesterday's sci-fi films have become today's reality.

Slick, seamless, relevant member engagement is well and truly out there. However, it poses both challenges and opportunities for building societies when trying to attract, retain and remain relevant to the next wave of digital member.

The personal touch a building society provides instils trust in its loyal members. But in the new self-service digital world, financial service relationships and brand loyalty are far less dependent on personal interactions.

Furthermore, the industry is evolving at an increasing pace, driven by changing consumer expectations as well as changing regulations.

Open Banking and PSD2 are two recent key initiatives that will have a wide-ranging effect on all financial service providers, retailers, and the wider financial service ecosystem. Some of their potential to disrupt traditional banking channels and consumer experiences is already being seen, most notably in the form of new entrants that are offering consumers modern ways to interact and manage their money.

We see a clear direction of travel for Open Banking. Building societies would be smart to anticipate further regulations relating to the 'opening up' of member data and behaviour in the interest of driving increased competition in the market. It is important to tune in to what is happening in these areas and consider the implications.

There are also important considerations for how building societies can benefit from PSD2 and the mandated Open Banking APIs that will allow authorised third parties to access banking customer data, and the transition to more digital applications.

Building societies will want to evaluate how access to open APIs from the banks could improve the Society/member experience. For

example, with the member's authorisation, a building society could access said member's bank account information via an API to improve the mortgage affordability check process and reduce the friction in the mortgage application process.

> *"The personal touch a building society provides instils trust to its loyal members. But in the new self-service digital world, financial service relationships and brand loyalty are far less dependent on personal interactions."*

Leveraging a bank's payment API could also make it easier for Societies to enable members to make payments into a savings account.

In addition, as the world moves to digital applications and away from legacy processes, the historical constraints of lower IT budgets will begin to dissipate. Services that, only a few years ago, would have been considered far too expensive to roll-out to building society members are now widely available at a much lower cost.

Building societies have built their brands, and by embracing the digital revolution they can become an essential part of member's daily lives by introducing apps for smart phones and televisions, and by utilising the data provided by the CMA 9.

Introducing a comprehensive digital strategy alongside a compelling member proposition that is boththth relevant and timely, will allow building societies to mitigate potential churn. They will be able to attract a new wave of members in the face of increasingly rapid technology changes and further regulation: Utilising the data available to offer the local community bespoke mortgage and savings products, or perhaps introducing a current account proposition.

Open Banking provides the opportunity for building societies to build on their strong brand and adapt their go to market for the years to come.

Next steps:

For more information on Fiserv or to discuss digital strategies please contact Nick at ***nick.lawler@fiserv.com***

Building Societies Association

A culture of purpose

What does it mean for a building society to be mutual? Formally there is the ownership structure, with customers as member-owners of the business. But mutuality goes much deeper, affecting how and why the society goes about providing savings and mortgages.

The BSA investigated how employees relate to working for a member-owned business, and how deeply a mutual ethos is embedded in societies' workforces, by looking at the extent to which building society staff understand and relate to mutual values.

The importance of ownership

The results, published late last year, indicate the effects of mutuality run deep: 85% of employees from across building societies' businesses agreed that they would be confident explaining mutuality to a customer.

What's more, they indicate the importance of ownership on how employees believe the value created by a business is distributed among its stakeholders, whether these are customers, shareholders, employees or wider society.

Alongside The BSA's survey of over 2,400 building society employees, YouGov asked 1,100 people working in plcs, private companies and in the public and charitable sectors who they think receives the value created by their organisation.

In each type of organisation, the respective owners receive the largest share of the value created. For example, building society staff think that customers get 37% of the value created, while employees at plcs think their customers getjust 13%. In contrast, while shareholders and external investors are believed to get 4% of the value created by building societies, plc employees believe that shareholders receive 36% of the value created.

> *"Mutuality may do a better job of aligning stakeholder incentives than some alternative forms of corporate governance."*
>
> **Andy Haldane,**
> **Chief Economist, Bank of England**

So ownership matters, as it determines who gets the value generated by the business, and as such, will affect how the organisation goes about doing business.

Shared values

The form of ownership affects the governance arrangements and incentives at work within the organisation, and the direction set by the firm's leaders. In this way, mutuality is also reflected in the values that building societies state are important to the ethos of their businesses – for example, being trustworthy, ethical, friendly to customers and having supportive, respectful, responsible workplaces.

The survey results show that the above values apply widely at building societies, according to their employees. The results also reveal that these values apply to a greater extent in building societies than in other types of organisation. For example, while 93% of building society employees agree that their employer is trustworthy and 85% agree that the working environment is respectful, among plc employees surveyed by YouGov the proportions are 55% and 58% respectively.

By *ANDREW GALL,*
Chief Economist, BSA

Organisational purpose

The third inter-related aspect is the organisation's purpose. This is more than simply what products or services it seeks to provide. It encompasses why the organisation exists, what role it plays in society, and reflects the values and beliefs of its members. In this culture special, Harpenden Building Society and Glasgow Credit Union share how their culture is communicated (P8 & 11).

> *"Building societies possess this very precious asset of trust, underlining the importance of how a corporate form – mutuality – translates into values and the warp and woof of the business model."*
>
> **Will Hutton, Economist & Columnist**

The Big Innovation Centre's Purposeful Company project investigates organisational purpose, and defines it in terms of relationships with stakeholders across four dimensions. These are summarised in the boxes below.

Looking at these relationships, it is clear why building societies often consider themselves as organisations with a deep sense of purpose.

Starting in the top left quadrant, and working clockwise: their member-ownership gives them deep relationships with their customers; they develop organisational cultures based on trust and respect, as our survey results demonstrate; they often have close links to the communities in which they are based; and finally, they were originally established to help overcome exclusion from home ownership for current and future generations of members.

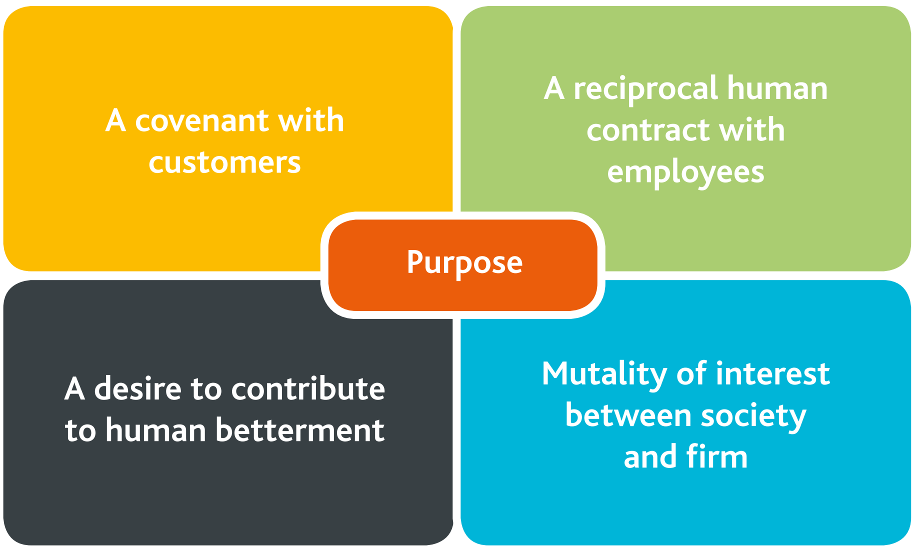
No guarantees

However, just being mutual does not guarantee a good culture. There are always challenges, whatever the structure, as is highlighted by Alison Cottrell of the Banking Standards Board (P9). For example, it could be hard, if not harder, to put forward an alternative point of view in a small organisation where there is a strong cultural consensus.

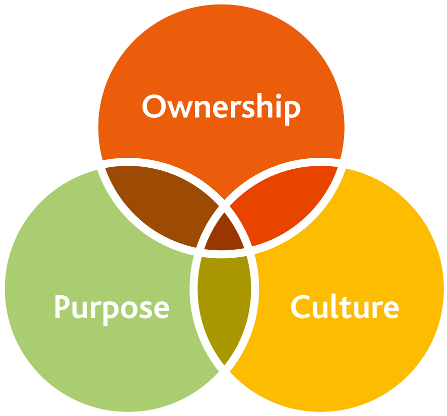
Culture also needs to be dynamic, just as the organisation's purpose needs to adapt to changes in wider society. Another article in this special issue comes from Andrew Loveless from the Pecan Partnership (P10). He discusses how an organisation's leaders might effectively align culture and purpose by taking the ultimate custodians of that culture – the people who work there – with them.

Structure shapes behaviours

Since the financial crisis there has been more focus on culture at financial services providers. Many banks have publicly stated that they are putting the needs of the customer more centrally within their strategies, and are seeking to adjust their cultures and employee behaviours accordingly.



Derived from the Big Innovation Centre, Purposeful Company Project



> *"Mutual organisations had a competitive advantage in establishing trust, important in financial services: customers could more easily believe that the people who worked for a mutual business had their interests at heart."*
>
> **John Kay, Economist**

Building societies' mutual ownership structure should give them an inherent advantage in this respect. Their long-standing purpose, through the filter of member-ownership, affects their culture by encouraging important stakeholders – such as employees – to take on the values that the firm wants to sustain.

The survey results demonstrate this is the case. It matters because a strong mutual ethos or culture lies behind some of the differences in outcomes for consumers that we consistently observe between building societies and banks. For example, we see higher scores for customer service and trust for societies versus banks, as well as better statistics for complaints handling and considerably fewer fines from the regulator for bad conduct.

An organisational purpose of meeting member needs, for member-owners, can produce a strong culture that earns consumers' trust. But this isn't a foregone conclusion. The articles on the following pages explore how societies can shape their cultures so that they continue to put their members first.

Next steps:

The full results are available in the Ownership Matters report:
bsa.org.uk/OwnershipMatters

HARPENDEN BUILDING SOCIETY
local reputation, national recognition

In practice: How organisational purpose underpins mutual culture

By **CARL ASTLEY**, Chief Executive, Harpenden Building Society

Culture – what's it all about and why does it matter? I've been in post for a couple of years now and a key focus during that time has been to nurture the people and culture of Harpenden Building Society.

At the sector level, building societies can focus on creating long-term member value. We are not in it for the short-term; we run businesses that have stood the test of time and have a lasting and sustainable future. We are the custodians of that future – when we leave we want our societies and the sector to be stronger than when we joined. For me, this is the mutual culture – the creation of long-term value, sustainable customer-focused businesses and a thriving sector.

I believe that it is the same with our people. As employers we are custodians of a part of our peoples' careers – when they leave we want them to be better developed, better educated, and stronger than when they joined. One of my mantras is that people come first and our cultural development is underpinned by empowerment of our people and providing a supportive environment where we learn, develop and succeed together. And, most importantly, where we listen.

At the Harpenden, we are absolutely focused on providing the best support and development opportunities for all of our people in an environment that promotes openness, integrity and continuous improvement. This aligns perfectly to the mutual values.

When I took on the CEO role the Society understood the 'what' and the 'how'…

What do we do and how do we do it? We have spent much more time considering the 'why'… we have delved into the formation of the Society and its purpose and considered whether this remains relevant today. We have worked hard to understand the benefits of being a mutual... to the Society, its members and its staff.

> *"As employers we are custodians of a part of our peoples' careers – when they leave we want them to be better developed, better educated, and stronger than when they joined."*

More recently, we have started to think about the 'who'… who are we?

What is the personality of Harpenden Building Society? Of our people, of our leadership, of our business…? Culture is often described as "the way we do things around here". For me, this works. It is our "way of life". However, we have tried to take this further in our definition of culture and it encompasses the way it feels to work around here and the way we act towards each other.

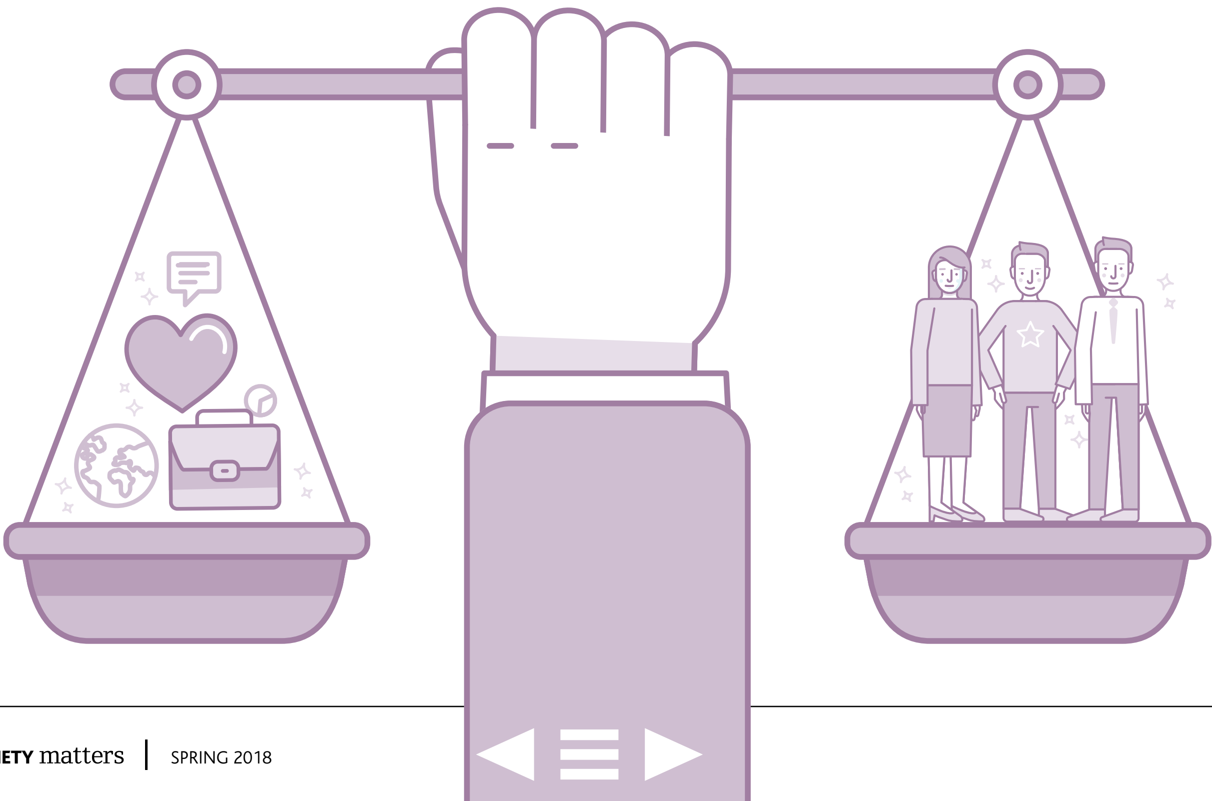
At the Harpenden, we have developed a set of values and behaviors that underpin our day-to-day work. This came from my people; it is their words, not mine, and this strengthens the impact as it is more authentic. Whilst it may fit with my personal values, if I had tried to impose my values on the business it would not have been as effective.

Does culture make a difference?

In short, yes. We are fortunate to lead mutual societies. We have a clearly defined purpose that underpins the mutual culture and values that we share. We are part of something that makes a difference to our people, our members and our communities. Our people understand this difference and are proud of it. It is a challenge for us – indeed it is imperative for us – to continue to nurture and support our people in delivering these cultural benefits to our customers and members.

Next steps:

Keep up with the Harpenden at ***harpendenbs.co.uk***



Mutuality is not a guarantee for good culture, but it could be advantageous for future resilience

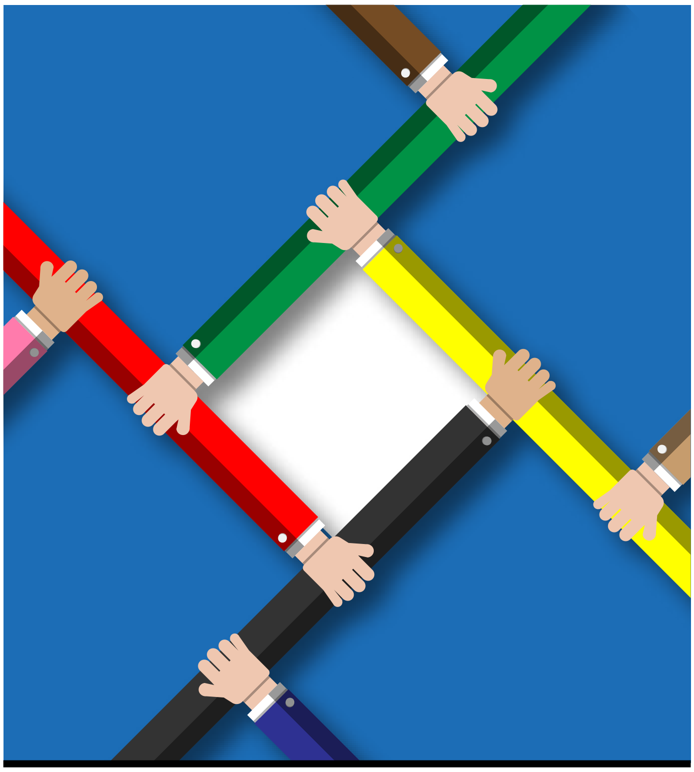
Mutuals are different. An organisation's ownership model can influence its strategy, time horizons, values, its structures and its governance; who it hires and who it retains, and who aspires to work in and lead it.

By ***ALISON COTTRELL****, CEO, Banking Standards Board*

Ownership, in other words, can influence culture. The mutual model brings a diversity to the UK banking sector that is valued by its members and, as the BSA's Ownership Matters survey also shows, by those who work in it. The sense of pride and purpose that emerges from this survey report will be familiar to Building Society boards and employees across the UK.

If mutuals are different, this does not however mean that mutuality is always the cause of observed differences. The organisations compared in the report, for example, come from a wide range of business areas and sectors, and are of various sizes, ages, locations and histories. All of these elements can also potentially shape an organisation's culture, making it difficult to disentangle what may be due to any single factor. This does not mean that ownership does not matter; simply that it is not all that matters.

One of the interesting observations from the BSB's first Assessment in 2016 (an exercise that does not seek to measure a firm's culture per se, but rather the outcomes of that culture) was that a firm's business model was not a good guide to its Assessment results. When comparing comparable business areas at different firms, being a mutual – or, indeed, a plc – neither guaranteed a strong performance nor protected against a weak one.



> *"Speaking out can be as daunting in a friendly, small, supportive organisation with a clear sense of purpose, as in a larger or more complex entity."*

One challenge highlighted in the BSB's Assessment (and common to many firms) was that of encouraging speaking up; not just in the context of whistleblowing but more broadly, e.g. when something could be done better or more efficiently. Speaking up is, for most people, innately difficult. It goes against the natural human inclination to conform to the group.

Within an organisation, a number of factors can then exacerbate this reluctance: Fear of the consequences is certainly one. Other factors may include the perception that nothing would be done even if a concern were raised, or a reluctance to let down colleagues and friends. Reluctance can also stem from the suspicion that raising an issue would mean having to take responsibility for also fixing it, or a sense that if no-one else appears worried then the concern must be misplaced.

Speaking out can be as daunting in a friendly, small, supportive organisation with a clear sense of purpose, as in a larger or more complex entity.

While the Ownership Matters survey compares building societies and other types of organisation – and while building societies certainly share a common business model and ethos – each building society is also, of course, different.

Each has its own identity and culture shaped by its own history, aspirations, community, leadership, employees and members, and each will respond in its own way to the changes in technology, demographics, regulation, competition and customer expectations facing the financial services sector as a whole.

The sector will look different in five years' time, and different again in ten. For building societies, individually and collectively, the challenge is how to harness the benefits of mutuality to help anticipate and respond to this change as effectively as possible, ensuring that it is not only a source of pride and value in the present, but also of strength and flexibility for the future.

Next steps:

Keep up with the Banking Standards Board at ***bankingstandardsboard.org.uk***

By ***ANDREW LOVELESS***, *Director, Pecan Partnership*

Is your organisational culture where it needs to be?

When culture drives performance

Customer expectations continue to be raised through new entrants and so-called disruptors. The ongoing raft of legislative, technological and commercial challenges means an adaptive, customer-focused culture is essential for sustained success.

Yet, while culture change is understood intellectually, it is not always done well. At its heart it involves mindset shift and behaviour change to bring about more effective ways of working and different outcomes.

It can be tricky to shift but by no means impossible, and the rewards speak for themselves.

Is your organisational culture where it needs to be? How can you check this and make change where required?

Here are some areas worth exploring, each one proven to raise the bar in helping building societies successfully change and perform:

1. Review the organisation's stated purpose.

Is it still relevant? Is it compelling? Is it interpreted consistently? If not, test it out with staff and customers and revisit it with leaders and staff across all teams

2. Enable everyone to own it and communicate it

Often the purpose is overly-associated with the leaders of the organisation. This is not enough to ensure the whole company is focused on fulfilling a common purpose. Equip leaders and managers with the tools and confidence to bring the purpose to life in their area, through their communications, their decisions and their attention

3. Make the purpose and values live and breathe

Does everyone get it? How real are the values in the day to day work? Develop leaders to inspire and connect everyone with why and how it makes a difference for them and crucially how it impacts the customer experience

4. Have the customer present in the physical environment

How central are customers to decision-making? It's easier to put customers at the heart of decision-making if they are visible. Make creative use of posters, videos, blogs and social media forums to create insight and test ideas

5. Align reward and recognition to putting customers at the heart

As we are measured so we behave. Strike the right balance of quantity and quality in the people management and appraisal process. Capture and share best practice examples to illustrate how teams have collaborated to improve customer experience and increase success rates

6. Remove sacred cows

Find out what's really getting in the way of fulfilling your purpose and providing a great customer experience. A key role for leaders is to remove blockers to performance – even those that people have never dared touch before. Courage may be needed to challenge fixed mindsets, power-bases, old habits and outdated ways of working

7. Check out the customer journey

From initial enquiry through completion and towards becoming an advocate, what is it like? How smooth, efficient and joined-up is the journey? Get staff to mystery shop to see whether your target customers would choose your organisation

8. Act on customer and staff feedback

Whether direct from customers or from customer-facing staff, there are invariably golden nuggets of insight that can enable significant improvements. Give customer-facing staff the power and influence to make a difference

Leaders are responsible for up to 80% of an organisational culture so it's vital that they take it seriously and understand their role in shaping it. You can't delegate organisational culture.

Why not explore the above list in the boardroom? It will open up discussion, raise curiosity and help to keep culture living and breathing at the heart of the corporate agenda.

Next steps:

*Find out more at **pecanpartnership.co.uk***

Communicating culture – the key to success

It will come as no surprise to hear a marketing professional claim that communication is the key to success – but when it comes to culture, there really can be no dispute.

By ***HAYLEY STREET****,*
Marketing Executive,
Glasgow Credit Union

Corporate culture is the personality of a company – describing what we are and where we want to go. But if that personality isn't effectively communicated, then it's just words on a page.

At Glasgow Credit Union we've always believed that our culture extends beyond our office walls – our members and physical location are as much a part of our culture as our staff and Board.

As well as the traditional cultural concepts of trust, service and co-operation that are shared by all mutuals, at Glasgow Credit Union, our culture also revolves around our 'Glasgow-ness'.

Glasgow is in our name and embedded in everything we do: all of our 45,000+ members either live or work within the G postcode area; we partner with over 90 local employers to provide their staff access to our services through payroll deduction; our office is based in a historical landmark Glasgow building; and our charitable giving fund, Giving Glasgow, provides donations to local charities and good causes within the city.

The challenge is: how do we find the best way of communicating how our culture filters into everything we do?

In 2017, we launched on social media – coming late to the party was a conscious decision as we didn't want to launch without having a clear strategy on what we wanted to say. It took a lot of member research and company soul searching, but we realised that the best way to engage people was to focus on what makes us different to other financial institutions – our culture. Rather than using our social media platforms to promote our latest sales message we chose to highlight the things that make us Glasgow Credit Union. It has proved hugely successful and I'd recommend it to any business struggling to communicate their culture.

Our tips, guides and infographics on financial awareness all feature local information (such as 'Top 10 free things to do with the kids during the summer holidays in Glasgow'), we share news of our charitable donations to good causes and charities that our members have nominated, and our competitions and promotions are run in conjunction with Glasgow-based companies. Using this strategy, we've amassed a highly engaged Facebook following equal to 4.4% of our membership just 10 months.

> *"...we've amassed a highly engaged Facebook following equal to 4.4% of our membership just 10 months."*

We also use our culture to challenge negative perceptions often associated with credit unions - the 'poor person's bank' or 'lender of last resort' tags that linger in our sector. We undertook photoshoots in carefully considered locations across Glasgow, highlighting some of the city's recognisable landmarks and showing Glaswegians of diverse demographics in positive and aspirational situations. These images, used across all online and offline marketing, embody our culture and have really challenged negative perceptions.

Internal communication is also vital, so as well as regular team meetings and training, we produce a monthly newsletter, distributed to all staff, Board and volunteer committee members.

When our people fully understand our culture and mutual principals – they realise the direct impact their roles and actions can have on the success of our credit union, and they're able to communicate our differences to our members.

Next steps:

For more information about Glasgow Credit Union, visit ***glasgowcu.com*** *or find them on Facebook*

MONEY ADVICE TRUST

Identifying and supporting potential vulnerability: What can building societies do?

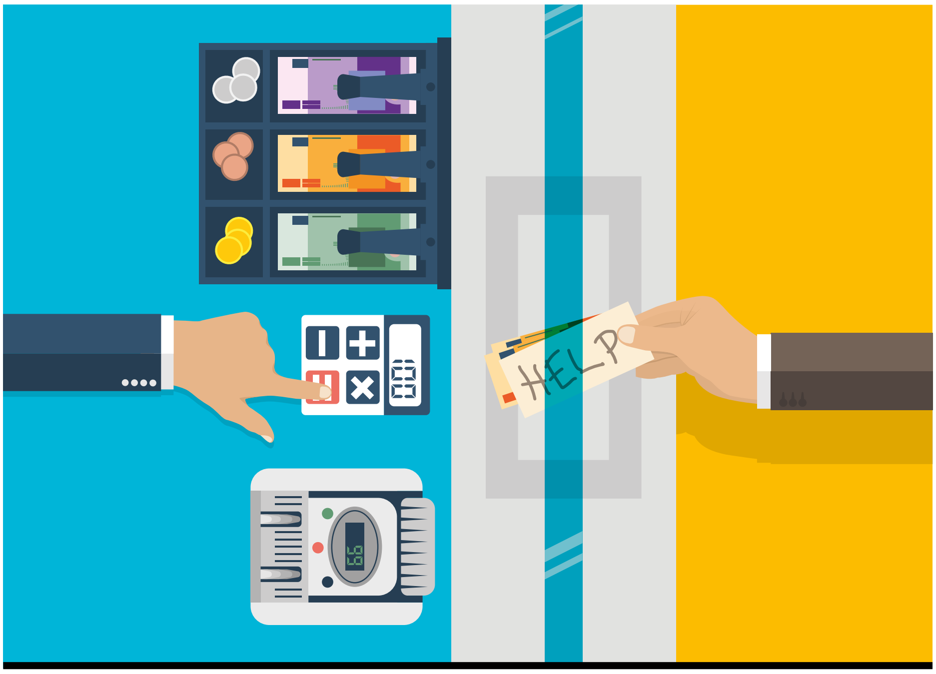
By ***CHRIS FITCH****, Vulnerability Lead, Money Advice Trust*

Frontline building society staff are likely to engage with members who are in a variety of vulnerable situations on a daily basis. When not identified and supported, these conditions can lead to financial difficulty and problem debt.

In my latest research 'Vulnerability: a guide for debt collection', co-authored with Colin Trend and Jamie Evans, we estimate that there are 432 disclosures of mental health, serious illness and bereavement made to each member of frontline creditor staff each year alone. It is therefore crucial for organisations to respond practically to these everyday challenges, to lessen the chance of financial detriment by facilitating better support for staff and members.

With this in mind, it is encouraging to see building societies recognise vulnerability as a key priority – most recently at the well-attended vulnerability workshops run by the Trust and the BSA. Organisations followed up the workshops by reviewing their policies and protocols, providing staff with practical steps towards identification and support of vulnerability.

Many building societies are making progress as they focus on acting in the individual member's best interests. Staff are empowered to identify vulnerability and to better support the needs of every individual member.



What practical steps can building societies take?

There are a number of ways to embed vulnerability processes within any organisation:

1. Identification

Frontline staff speak to many members about their financial situation. To identify members who are in vulnerable circumstances, staff can look out for:

- Self-disclosure, and give every member the opportunity to self-disclose
- 'Red flags': indicators of difficulty, distress, or life events that can highlight an underlying vulnerable circumstance
- Mental capacity limitations: recognising difficulty remembering, understanding, communicating and evaluating information to make an informed choice

2. Talking about wellbeing

Identification is just the first step. To address the situation, identification needs to move to conversation. Most members will not object to a simple, polite question about their well-being and situation. Once a disclosure has been made or identified, staff can follow the TEXAS model (see the '21 steps' guide).

If a more detailed answer is required, the IDEA protocol can be applied to listen out for the relevant information, ask questions that apply to a full range of vulnerabilities and then navigate through a member's situation, formulating a plan of action and support.

3. Support

Once the full range of evidence about a member's situation is collated (from their financial activity and the information staff have gathered from TEXAS and IDEA) their information can be used to develop an appropriate support plan.

It is vital staff understand the evidence, and the options for decision-making. Once a decision is made, all information should be recorded so that any adjustments or actions are not forgotten or overlooked.

4. Decision-making at the point of lending

At the point of lending, more preventative measures can be taken to identify and support members with mental capacity limitations during credit applications. These limitations can result in members having significant problems with understanding, remembering and evaluating information about credit products they are applying for, as well as communicating a decision about this.

At a high level, building societies should ensure that their vulnerability policies take mental capacity limitations into account. More specifically, staff can utilise the BRUCE model (see the 'Lending Decision' guide).

For staff this can be understandably daunting. None of this is easy, but it is crucial to get it right. It is so important that frontline staff are given the tools and confidence they need to have these conversations. We are looking forward to continuing to work with the BSA and with individual organisations on this vital agenda.

Next steps:

To learn more about the TEXAS, IDEA and BRUCE models, and the Money Advice Trust's vulnerability training for staff, visit: ***bit.ly/2p5VMKC***

It's time to talk about mental health difficulties and money

Yorkshire Building Society is urging its customers to speak out after seeing a 13% year-on-year increase[1] in the number of customers experiencing mental health difficulties. Head of Vulnerable Customer Support, Janis Hambling shares the Society's approach to providing much-needed support to such customers.

*By **JANIS HAMBLING**, Head of Vulnerable Customer Support, Yorkshire Building Society*

We've seen a growing trend in the number of our customers experiencing mental health problems – and that is just the ones we know about.

Yorkshire Building Society already encourages customers to share any health concerns to help us better respond to their specific needs. During 2017, we recorded depression as the main cause of mental health difficulties experienced amongst our customers, with anxiety and stress also shown to be impacting members' lives.

According to the charity MIND, there is a link between money and mental health, and this can trigger a snowball effect. Poor mental health can make managing finances harder, and worrying about money can make mental health difficulties worse.

> *"Poor mental health can make managing finances harder, and worrying about money can make mental health difficulties worse."*

There are actions building society colleagues can take to help customers manage their money during difficult times:

Be aware of the signs

We have trained customer facing staff to recognise the signs of someone who may be experiencing mental health difficulties. Being receptive to customers' behaviour helps colleagues to take the necessary steps to support them.

Have an escalation process in place

An escalation process will not only ensure customers receive the right support as quickly as possible, but colleagues will also feel more confident handling the situation.

Signpost to the professionals

As a building society we can – and do – help support customers to manage their money. However, there are dedicated organisations such as Money Advice Trust and Citizens Advice Bureau who provide specific guidance on money issues. Charities such as MIND or the Samaritans provide people with the support they need when experiencing poor mental health. It's important to signpost a customer to a professional to ensure they receive the best care.

Understand financial habits

Money worries can contribute to poor mental health, which can also cloud good decision making. It can be helpful to encourage customers to be aware of their spending and wider financial behaviour – one way of doing this is to suggest they keep a spending diary to keep a track of finances.

Keep the lines of communications open

It is important that customers know they can speak to their financial service provider if they are ever struggling or need help managing their finances, so keeping the lines of communication open is key.

Encourage social interaction

Money problems can affect relationships and social lives, which in some instances can exacerbate poor mental health. Regular interaction with people can really help – perhaps encourage the customers to keep popping into the branch. This will also help staff to monitor the customer's wellbeing.

Mental health can impact many facets of a person's life, including their finances. Yorkshire Building Society is urging customers not to suffer in silence. We're here to support them and take steps together to help manage their money during difficult times.

It is also important for mutuals to support their colleagues too. We have created a toolkit, accredited by Money Advice Trust, which gives clear guidance to colleagues on how to work with customers facing potential mental health difficulties, and how our vulnerable customer team can assist them to do this.

Next steps:

*Please email **pressoffice@ybs.co.uk** for a copy of Yorkshire Building Society's toolkit*

[1] The Yorkshire saw a 13% increase in the number of customers known to be experiencing mental health problems (5% of customer base) from January to August 2016, compared to the same period in 2017.

Reducing the impact your DB pension scheme has on your capital position

By **JONATHAN JACKAMAN**,
Regional Development Manager,
TPT Retirement Solutions

As you will be aware, capital must be set aside to cover the risks inherent in a Society's DB pension scheme. This may be seen as an unavoidable "side effect" of having a DB scheme, but there are steps that can be taken to reduce the capital needed. This need not just be a paper exercise to reduce the capital strain, but can actually have real benefits in terms of the ongoing running of the Scheme.

As background, Societies are required to calculate two assessments of risk capital with regards to their Scheme:

1. A set of stresses prescribed by the PRA, to be applied to the Scheme's position shown in the Society's latest set of accounts.
2. A stress event chosen by the Society with no prescribed basis beyond some general principles. In practice, some Societies simply use the prescribed stresses as their own approach, and so only do one set of calculations.

Pension schemes face a number of risks, and the key ones are usually interest rates, inflation rates, market risk and longevity risk. Unsurprisingly, these are the areas that the PRA's test focuses on, and usually form the basis for Societies' own assessments. Longevity risk can be mitigated or eliminated, but to do so can be quite complicated and/or expensive, so I'll focus on the others for this article.

One of the main investment strategies which can help reduce these risks is to use Liability Driven Investments (LDI). Using LDI you can reduce or virtually eliminate the risks from interest rate and inflation movements, which could dramatically reduce your capital requirements. LDI has been used by the largest and most sophisticated schemes for a number of years. The savings can vary significantly, but a reduction of up to 50% could be possible in many cases.

For smaller schemes it can be relatively expensive to create, implement and maintain an LDI strategy. One option to help manage these costs would be to transfer your Scheme to a DB Master Trust. This would enable you to access LDI and other alternative investments at a lower cost. This is because you benefit from the economies of scale the Master Trust can offer, which could also significantly reduce the running costs of the Scheme and improve governance.

> ***"Pension schemes face a number of risks, and the key ones are usually interest rates, inflation rates, market risk and longevity risk."***

Finding a good way to reduce the impact of market risk is more difficult. In the simplest sense a scheme could just avoid riskier assets such as equities, but schemes often rely on the higher expected returns on these assets. Diversification can bring benefits, but the rather simplistic approach of the standard PRA stresses will mean this often shows little benefit. However, the Society can choose to use its own approach and select one that will show the benefits of further diversification, leading to further capital improvement.

The risks that the stress tests look at are usually amongst the most significant risks to any DB scheme, and so mitigating or eliminating them should also lead to a much smoother ride in terms of scheme funding.

Given the bumpy ride that DB schemes have been on for a long time now, this could make risk mitigation a win-win both in terms of the wider scheme management and the Society's capital requirements.

Next steps:

Head to the TPT Retirement Solutions website to learn more: ***tpt.org.uk***

Putting the 'building' back into Building Society

In 18th Century Britain, when home ownership seemed a distant dream to many, the Building Society Movement was established. Groups of neighbours joined to save small, regular amounts to fund the house building. Once a house was complete, one member of the group moved in and the process repeated until all members had a home of their own.

Fast forward two hundred years and a lot has changed both for building societies and in the wider world. Innovative products and services have developed to cater to the complex and changing needs of modern society – yet the ethos of mutuality remains. Now, when the housing shortage couldn't be more critical, for the first time in a long time building societies are building houses once more.

Principality Building Society

Principality Building Society's Commercial team agreed to provide £50m in loans to housing associations in Wales last year.

Welsh housing associations plan to build 13,000 affordable homes by 2021 to meet the 20,000 affordable homes strategy set by the Welsh Government. Principality has supported many affordable and social housing schemes in the past, most notably the Mill at Canton, plus several phases for the Welsh Housing Partnership.

These two initiatives alone should see almost 1500 affordable homes developed. In addition, the Society has been a mainstay of traditional funding to the sector – having committed £150m to housing associations across Wales.

Peter Hughes, Managing Director of Principality Commercial, said: "We want to help fund social housing in Wales as there is no doubt there is a shortage of affordable homes in many of our communities. It is important that businesses like ours remain flexible and supportive as lenders, responding constructively to market challenges.

"The funding landscape has changed significantly over the last few years but we believe we should lead by example and show that there is more than one way funds for social housing can be made available.

"There has already been considerable interest in our proposals from the sector and we are in advanced discussions with several bodies. Our commitment to social housing projects is consistent with our approach in recent years."

Nationwide Building Society

Nationwide Building Society recently announced a new partnership with Swindon Borough Council, with the aim of providing a significant community-led housing project in its hometown, with provision for affordable homes.

The project harks back to Nationwide's mutual roots, continuing its work to help people into homes of their own. It is the latest initiative of Nationwide's new five-year social investment programme aimed at helping people 'find a place fit to call home', after the Society's members voted housing as their top concern.

Nationwide will redevelop a five-hectare brownfield space in Swindon allocated for housing. The scheme follows strong member feedback that the Society should support new practical approaches to housing.

The investment of around £50 million over a number of years is designed to break even through sales and rentals. Any profit will be reinvested in other Nationwide community projects. It puts local people at the heart of the planning and design process, who will influence the layout, mix and number of properties on the site. The inclusion of green spaces and facilities will benefit the wider local community. The project seeks to deliver a long-lasting, high quality, mixed-tenure development, including affordable homes, to support a diverse and thriving community.

We are building on our housing heritage, our mutual purpose, and our founding principle that people can achieve more together than they can alone.

Next steps:

Follow the BSA for the latest sector developments
@BSABuildingSocs

Dates for your diary

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

Preparing for regulatory interviews

26 April 2018, London

A new, half-day members' workshop on preparation for prudential regulatory interviews.

The workshop, led by KPMG, is designed to help:

- Society executives who may be interviewed on promotion to an SMF role
- Notified NEDs who may face interview on moving across to an approved (SMF) role
- A society's 'local expert' who will use and pass on the acquired knowledge in preparing that society and individual colleagues for interviews during supervisory/thematic visits as well as for SMF interviews

After scene-setting, the workshop will cover the expectations and responsibilities of the individual being interviewed, the typical process and format for interviews, golden rules of behaviour, hot topics the PRA is focusing on and what key preparation the individual should attempt.

Open to: BSA members only

Cost: £325 per delegate (VAT exempt)

The cost includes course documentation, lunch and refreshments

Conduct 2018 – Your firm's conduct risk

1 May 2018, London

Learn to navigate the increasingly complicated waters of retail conduct risk.

FCA conduct fines increased ten-fold between 2016 and 2017 and investigations rose by 75% – indicating the likely direction of travel.

The event will likely be of interest to: Risk, compliance, legal, company secretaries, marketing, product, and other practitioners. In conjunction with Eversheds Sutherland LLP and set to include:

- Competition law breach
- Unfair contract terms
- Mass claims and limitation periods
- 'Reasonable steps'
- Mitigation - an interactive workshop session (including case studies)

Open to: BSA members and associate members

Cost: £350 per delegate (VAT exempt)

The cost includes course documentation, lunch and refreshments

BSA Annnual Conference 2018

23-24 May 2018, Manchester

This year taking place in Manchester's Central Convention Complex, the BSA Annual Conference attracts over 600 delegates.
It is a great opportunity to meet senior executives from building societies and other mutual financial services providers in the UK and debate the role of building societies in shaping the future of UK financial services through our thought-leading keynotes, breakouts, exhibition floor and social events.

Venues

Conference venue: Manchester Central Convention Complex

Dinner venue: The Midland Manchester

Hotels

Marketing Manchester Convention Bureau is our official accommodation provider for the conference.

Negotiated rates will be available to book until 26/04/2018. If you require accommodation beyond this date or you have any queries about the website, please contact the Accommodation Booking Team on ***0161 238 4514 / 4563*** *or email:* ***abs@visitmanchester.com***

For fees and attendance options, or to keep up to date with the growing programme, please visit the conference website: ***bsaconference.org***

Next steps:

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

An introduction to treasury management

6 June 2018, London

This event is aimed at those with no treasury experience. If you do have some experience, we advise you to attend the Treasury Risk Management event as your entry level.

This event is likely to be of interest to: NEDs, senior management, risk officers/managers new to the building society sector, those in related areas who require some background treasury knowledge, as well as those who have recently started work in the treasury function.
Topic areas covered include:

- Financial services environment
- Building society environment
- Regulatory environment
- Treasury functions
- Treasury operations
- Financial risk management

Open to: BSA members and associate members: £490 per delegate (VAT exempt)

Non-members: £590 per delegate (VAT exempt)

The cost includes course documentation, lunch and refreshments

Treasury Risk Management

7 June 2018, London

This event provides 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 function.

It is aimed at those with some treasury experience, or those wishing to improve their treasury risk understanding.

Topic areas include:

- Identifying financial risks
- Measuring and managing liquidity risk
- Measuring and managing credit risk
- Measuring and monitoring operational risk
- ALCO monitoring
- Measuring and monitoring financial risk
- Financial risk management in the real world

Open to: BSA members and associate members: £490 per delegate (VAT exempt)

Non-members: £590 per delegate (VAT exempt)

The cost includes course documentation, lunch and refreshments