

# SOCIETY matters



## For people, not shareholders

The mutual difference



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# Hello and welcome to the spring edition of Society Matters



...and Happy Birthday to the BSA! This year marks 150 years of the Association. As mutual, member-owned organisations, building societies and credit unions are ultimately for people – not shareholders. Therefore, it made sense to launch into the BSA's 150th year with a special edition based around that theme. It starts on P8.

**W**e marked the occasion with a parliamentary reception at the Houses of Parliament complete with cake, fizz and speeches from a number of senior parliamentarians – all of whom were positive about what our sector has done – and can do – in today's society (P5).

One comment from Shadow Economic Secretary to the Treasury, Jonathan Reynolds MP was that "If people could pick a bank, it would be a building society"... and the proof is in the pudding. The sector's longevity is testament to how well it serves its members: this year the Monmouthshire also turns 150, Chorley and the West Brom are 160 and Ipswich, Nottingham and Saffron Building Societies are celebrating 170 years on the high street. But is the high street where 'banking' will remain? And how will things change in future?

Coventry Building Society is redesigning its branches in line with what their members want. The spaces now include cosy book corners, areas for community projects and there's not a glass barrier in sight – meaning customers feel more relaxed when making financial decisions (P9). Meanwhile Monzo CEO, Tom Blomfield shares his thoughts on Open Banking and how it is already shaping new product design – putting customers in control (P7).



Alongside Tom and many other fantastic speakers, Jagjit Chadha from the National Institute of Economic and Social Research (NIESR) (P15) will be speaking at the BSA Conference in May (P16). This year we return to London, where it all began for the BSA. I hope to see you there!

**AMY HARLAND**  
Society Matters Editor

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# What's so special about our sector? It's the people!



When I was a very small boy, our local village post office had a magical rack of Matchbox cars, each car displayed in series number order. I can't now remember how much they cost, but I do know it was rather more than a small boy from my community had in pocket money each week. So began the early life discipline of saving up to buy the things I wanted. No credit was available from the Bank of Mum and Dad!



By **ROBIN FIETH**,  
BSA Chief Executive

**T**hat Post Office was also where I opened my first Post Office Savings Account, as a place to save the ten shilling notes that my Godfather would send me each birthday. I found that blue savings book the other day while sorting out a pile of stuff at home, sparking vivid memories of the Post Office, the family butchers and the little café that sat in the same row of shops on the village green. All a bit Hovis-like really, except there were no cobble stones on the steep hill down from the shops to the pond and stream at the bottom where we would go to feed the ducks, sail toy boats and, later on, try our hand at fishing.

Why all this nostalgia you ask? The Sunday morning after the BSA celebrated our 150th anniversary with a huge birthday cake and a 'party' in the House of Commons, I found myself on a stage somewhere outside Crewe, talking to a group of our retail co-operative colleagues about the theme of using our history as the inspiration for our future - a theme many BSA members and supporters will be familiar with. The common heritage of both the Rochdale Pioneers in 1844 and those

who gathered in the Golden Cross in Snow Hill in 1775 is the idea of people helping people. BSA Chair, Stephen Mitcham, expressed it well in his remarks at our Parliamentary reception when he said that the birth of the building society movement was driven by a mutual desire to help each other and how this idea of mutual self-help was both ground-breaking and revolutionary at that time.

It is worth reflecting on that. And challenging ourselves about whether we are still ground-breaking and revolutionary?

Surveys consistently tell us that we are better at customer service and that the absence of the customer : owner conflict of interest does result in far more of the benefits from our societies and credit unions going to our customer-members than is the case outside the mutual world.

And we have a good range of stories to support that. I have told the story that while visiting one of our smaller societies, the CEO spotted £1 on the floor and gave it to one of his staff to put in the charity box. But

the cashier said he knew the member who had been sitting there a few minutes earlier and he would make sure she got it back. At another society, I heard that a member had sent their passport in for identification purposes but the staff realised she would need it for a forthcoming foreign trip – and so hand-delivered it back to her on the way home that evening.

We hear, too, about the real benefits of manual underwriting, such as the case of an individual being turned down by the major bank lenders because of an impaired credit history, but when the building society looked at the application, it was clear that the issue was solely about a historic dispute with the would-be borrower's mobile phone provider. There was no current issue about affordability and the building society was able to help another family fulfil their dream of home ownership.

That's all great, and we all love a good-news story. But is it enough to maintain clear blue water in customer-service between the building society sector and our shareholder owned competitors?

opinion



I don't think so.

We have been able to anticipate the arrival of retail ring-fenced banks for a number of years. We have seen the creation of new banks in substantial numbers since the financial crisis, and some of them are ground-breaking and revolutionary. We have had a year or so to think about the potential impact of Open Banking platforms driven by increasingly clever algorithms created using artificial intelligence and machine learning.

Add to that the growing narrative challenging the Friedman Doctrine that corporations exist solely to maximise profits and returns to shareholders, and we are starting to see major banks talking far more explicitly about their purpose in society beyond shareholder returns, reinforced no doubt by the requirements of the 2018 UK Corporate Governance Code to "understand the views of the company's other key stakeholders and describe in the annual report how their interests and the matters set out in section 172 of the Companies Act 2006 have been considered in board discussions and decision making."

When it comes to it, all businesses can be driven by a purpose beyond maximisation of shareholder return. Those who challenge Friedman's Doctrine argue forcefully and cogently that in fact all businesses should be driven by a purpose beyond this, and must be if they are to flourish over the long term.

It is my belief that we must be careful not to dilute our purpose so that it is indistinguishable from the banks. At a time when the UK is moving away from its love affair with shareholder value maximisation and looking more to business fulfilling a wider purpose, we don't want to find our breakfast being eaten.

***"It is my belief that we must be careful not to dilute our purpose so that it is indistinguishable from the banks."***

For people, not shareholders in its real sense gives us a route to sustaining long-term competitive advantage – if we are brave enough truly to use our history and

foundation as the inspiration for our futures. I am talking, of course, about social purpose rather than just purpose. I am talking about a deep down conviction that runs through our organisations that we are here to meet the needs of our members and society.

Looking at the agenda for our 150th Anniversary Conference in May, I am particularly taken by the title of one of our contributors on day two: Pascal Geenens is a Cyber Security Evangelist. How many real evangelists do we have in our own organisations? How many CEOs would think of themselves as Chief Evangelist Officers? I was struck by an irony in our recent CEO survey with one response encouraging me to be braver ... from a Chief Executive who chose to remain anonymous!

We have collectively done a huge amount in the last five years to position building societies, credit unions and the wider financial mutual sector as a vital part of the future of UK financial services. Going forwards we need some more evangelists to seize the opportunities.



**Next steps:**  
You can follow Robin on Twitter [@bsaceo](#)



# A parliamentary reception marks 150 years of the BSA



The Building Societies Association (BSA) held a parliamentary reception at the House of Commons earlier this month to celebrate its 150th birthday.

By **KATE CREAGH**,  
Public Affairs  
Manager, BSA

**A** 200-strong group of Chief Executives, Chairs, NEDs, staff, associates, Parliamentarians, civil servants and regulators gathered in the Terrace Pavilion, overlooking the Thames. The reason for the celebration was the BSA's 150th anniversary and the contribution the UK's 43 building societies make to the UK's economy and communities.

The speakers at the Parliamentary Reception were Jonathan Reynolds MP (Shadow Economic Secretary to the Treasury), Stephen Mitcham (Chair of the BSA and Chief Executive of the Cambridge), Lee Rowley MP (Vice-Chair, All-Party Parliamentary Group on Challenger Banks and Building Societies) and the Rt Hon Nicky Morgan MP (Chair of the Treasury Select Committee).

A number of the speakers shared stories of how building societies had helped them or their families – whether to save, in opening up their first account or by offering a mortgage. Nicky Morgan emphasised that she wanted the

sector to make its voice heard in Treasury Select Committee inquiries. Jonathan Reynolds highlighted that the Labour Party was committed to building societies and credit unions, and Lee Rowley noted the emerging opportunities from the All-Party Group on Challenger Banks and Building Societies, as members of the group wanted to champion the sector in Parliament.

***"From one group of people meeting in a pub there are now an incredible 25 million building society members across the UK."***

Stephen Mitcham touched on the history of building societies and the contribution they make to the economy, helping people save and buy a home of their own. He also highlighted the contribution they make to their local communities, whether through fundraising, supporting local organisations with facilities. Examples include the Cumberland hosting the local football club's

supporters' shop when it was flooded, or combining branches with other local facilities, like the library in Yarm where the Newcastle co-located a branch ensuring the library's future. He left the audience with a challenge – to consider small first when developing legislation or regulation that affects the sector.

After the speeches the Economic Secretary to the Treasury joined the reception to meet a number of Chief Executives and discuss some of the issues on their radar. The goodwill towards the sector from politicians, civil servants, regulators and the media was evident from the attendees in the room. A number of useful connections were made by both the BSA and its members, with MPs due to visit members in the weeks ahead and briefings promised to Parliamentarians. The work certainly does not stop after the reception!

Taking a minute to reflect, the growth of the sector since its early days of people pooling their savings to be able to buy or build a home of their own

is amazing. From one group of people meeting in a pub there are now an incredible 25 million members of building societies across the UK.

As customer-owned organisations they use the £280 million of savings invested with them to fund mortgages, just as they did in the early days.

Building societies are constantly adapting to the needs of modern society and their local communities. Examples include intergenerational and student mortgages to help young people get their foot on the housing ladder, workplace savings that are deducted in the same way as pension contributions, and specialist mortgages for B&B owners in the Lake District – one Society's response to dynamically adapt to their local community's needs.

Here's to the next 150 years!

## **Next steps:**

*Keep up with the latest BSA events at [bsa.org.uk/events](https://bsa.org.uk/events)*



By **ROBERT THICKETT**, Digital Policy Manager, BSA

# The pioneering spirit of building societies

How can building societies thrive in a digital world? That was the theme at this year's Local & Regional Conference, which was hosted by the Monmouthshire Building Society in Newport, Wales.

**A**s Monmouthshire's chief executive Will Carroll pointed out in his opening speech for the excellent two-day event, the digital theme acknowledged the unprecedented pace of change gripping UK financial services. To that end, sessions covered robotics, chatbots, regulation technology (regtech) and an eyebrow-raising session on the Dark Web from an ex-hacker.

Consultants Julian Herring from EY and Julian Wells from Whitecap Consulting spelt out the demands facing the facing sector.

Herring argued major changes were just around the corner, such as the expectation that by 2022 many mortgages may be brokered by an AI-powered adviser. He also pointed to the adoption of Cloud-based systems globally for financial services as an example of the accelerating pace of change. In 18 months he said, firms had gone from outright rejection of Cloud-based systems to many now taking a Cloud-first view for any new technology deployed.

Wells likewise pointed to data showcasing the benefits firms are getting from the adoption of technology, with 55% of mortgage lenders looking to use technology to cut time and costs.

Open Banking may not have taken off (yet) but the key technology behind it, application programming interfaces (APIs) certainly has; Wells pointed out that the industry has high hopes for the transformative efficiencies API-powered connectivity will bring. He also added that digitisation was a business challenge, not a technology one and firms would need to look within to maximise any efficiencies gained from technology.

This was a theme continued by Richard James, head of digital technology and engineering at Nationwide, who used his speech to talk through the idea of Pioneers, Settlers and Town Planners to talk about building societies embracing change.

'Pioneers, Settlers and Town Planners' is a concept put together by Simon Wardley,



a research fellow at Leading Edge Forum (LEF) to categorise how individuals embrace innovation within organisations.

Pioneers bring in new, sometimes crazy ideas into an organisation; settlers turn an idea into something useful for an organisation, building trust and understanding; town planners take something that has been established and industrialise it across the organisation. Each category will have its strengths and weaknesses when it comes to embracing change. The challenge for any organisation is to get them working together.

**“Pioneers, Settlers and Town Planners’ is a concept put together by Simon Wardley, to categorise how individuals embrace innovation within organisations.”**

Looking at the building societies sector as a whole, James hailed the pioneering spirit of the building societies sector itself, both historically and in the present day. He also

cautioned societies not to forget these roots, especially when it came to any technology that hampered their ability to innovate.

It's safe to say that no matter the size of organisation you work in, absorbing new ideas and ways of operating is a tricky process. As Niccolo Machiavelli, the master of political manipulation, observed in his 1513 book *The Prince*, “there is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things.”

But there are means to innovate without losing the unique purpose that building societies continue to provide for members. Speaking to many of the societies in attendance over the two days, it was great to hear the sector is up for the challenge.

It will be interesting to see what societies bring to market in the months and years ahead.

## Next steps:

You can sign up to receive BSA event notifications at [bsa.org.uk/events](https://bsa.org.uk/events)

# The bank of the future isn't a bank at all



By **TOM BLOMFIELD**,  
Co-founder and  
CEO, Monzo

In 2016 I published a blog post on the Monzo website titled: The bank of the future will be a marketplace.

I say Monzo, but in fact we were still called Mondo then. Since that post, we've changed our name, grown to a team of over 700 people and welcomed more than 1.5 million customers to change the way they bank.

What hasn't changed is our vision for the bank of the future.

## A financial hub tailored for each customer

I opened the post by explaining that the banking culture of 'owning the customer' and cross-selling was hurting customers. Marketplace banking (or the 'hub and spoke' model) would be different. In this model, the current account is the hub which the customer plugs different spokes, or services, into.

This kind of bank gives you, the customer, a single place to discover and manage products and services based on your spending patterns and preferences. It helps you stay on top of your money. It means you never pay more than you need to for things like energy tariffs or insurance cover. Instead the bank finds, suggests and switches you to plans or deals that are right for you.

If you needed to move money abroad, you'd do it using market-leading foreign exchange rates. You wouldn't need to search for specialist service providers or open new accounts. If you have money to save, you won't need worry about shopping around for the best rates. Your bank would pool the services of other providers in one convenient place. And although this marketplace would be a digital platform, the customer would have access to round the clock support from real people if they needed it.



*"This kind of bank gives you, the customer, a single place to discover and manage products and services based on your spending patterns and preferences."*

## Monzo is creating that platform

When we started Monzo four years ago, we did it to create the best current account in the world. People thought we were mad, and at times I thought they were right. But now we're growing fast. Around 140,000 people open a Monzo account every month and we're announcing some seriously exciting things this year.

We're already integrating with other companies to offer Monzo customers things like contents insurance, ISAs and energy tariffs. We're helping customers to do more with their money from the app, and in a matter

of seconds. We take care of compliant KYC and sanctions checks when the customer creates their current account, which saves companies the cost and time taken to onboard customers. And the best part is that it saves the customer the hassle of opening and managing multiple accounts.

## Building Societies have an important role to play

And it's that customer focus that I know is as important to Building Societies as it is to Monzo. I've long hoped that we could do great things together, particularly with savings accounts.

We can give Building Societies access to more retail deposits from a more diverse range of customers. Often in age brackets or locations Building Societies don't traditionally reach. And we can offer a first-rate account opening experience, done on the customer's phone, with compliant KYC checks at no cost to the Building Society.

We'd love to understand more about how we can collaborate. If you're interested in speaking to us then please email Max Winston at [maxwinston@monzo.com](mailto:maxwinston@monzo.com).

## Next steps:

Tom will be speaking at the BSA Conference in May. For more information visit [bsaconference.org](http://bsaconference.org)



By **NICK LAWLER**,  
Head of Business  
Development, DPR

# The growing power of communities

The world has become more accessible than it's ever been via the emergence of new technology, but at the same time individuals and communities are looking to be more localised and connected, with a clear sense of identity.

Let's consider the reasons why David Cameron called the EU referendum: to respond to a groundswell of opinion that one size doesn't fit all; that individuals and, in particular, communities have differing needs. That was evident in the big swings of opinion depending on region. Ironically, while he gave individuals a voice, whatever the outcome over the next few weeks and months, it will still be a compromise for everyone concerned.

## Consumers want it all.

It's human nature and technology is allowing for this. And today consumers expect their interactions with their bank to mirror their everyday life in the same way they use services like Netflix, iTunes, Amazon and Spotify.

They also expect apps to regulate house temperature and provide tools that can limit food wastage. In fact they expect a personalised experience for pretty much anything and everything in daily life.

## So what does this mean for banking?

The big banks are already adapting; moving towards the use of APIs, providing enhanced consumer digital journeys through mobile banking, growing distribution models via brokers, aggregators and AISPs, product proliferation, and automated decision making.

## Building societies can really win, but need to act fast.

Building societies are unique, operating in a common marketplace differentiated by a strong regional presence, representing members not shareholders and serving their local communities.

Given how consumer trust in banks and financial institutions is at an all-time low, this is a perfect storm for building societies to pick up some momentum.

However, they've also got some hang ups. Some societies' legacy IT systems are costly to upgrade and enhance. They were not designed for the current technology nor the consumer demands of today.

Those societies must adopt new modern technology in order to have compelling online solutions and allow mortgages to be truly electronically submitted from all channels such as aggregators and fintechs like Habito, Trussle and MortgageGym.

In adapting technology, the prize is winning in the market and securing loyalty and brand advocates. Peer-to-peer recommendations are so important in today's social world, and this is as important in banking as it is in any other part of commerce. More and more financial institutions are

looking at customer experience reviews and scores, and customer sentiment is at the core of what they need to change. Building societies are in the perfect position to harness the voice of the customer and leverage this position of trust, but first they need to be in a position to win.

## Is your Society ready?

Over the coming months, DPR will be working on a series of articles and events to help all building societies succeed in this digital space.

## Next steps:

DPR will be hosting a number of events and meetings to discuss opportunities during 2019. For more information, please contact [nick.lawler@dpr.co.uk](mailto:nick.lawler@dpr.co.uk)

*"Peer-to-peer recommendations are so important in today's social world, and this is as important in banking as it is in any other part of commerce."*





# The high street is changing - and so is the Coventry's branch network

It seems like every week there's a headline bemoaning the loss of a high street chain or a bank closing its last branch in town. Many businesses argue that they don't need a high street presence these days, as more consumers choose to shop or transact online.



By **MATT MANNINGS**,  
Head of Branch  
Network, Coventry  
Building Society

**S**o why have we started a multi-million pound investment in our branch network?! Are we, King Canute-like, about to be washed away by the tide of progress, the waves of mobile apps and robot advice, smart agents and fintechs?!

Well no, not if our members are anything to go by. Because the clear message we're hearing from them is that our branches are as relevant now as they've ever been.

They're happy to use technology where they're doing something simple or run of the mill. But when it comes to sorting out their savings, planning for their future or dealing with the difficult things that life throws up – then our members want to talk to someone face-to-face.

In practice this means that our branch savings balances have more than doubled in five years, at a time when interest rates are low and the household savings ratio is about half its long term average. It means that our branch Net Promotor Score averaged +90 in 2018, and employee engagement is equally strong from a team who know what they're there to do, and are proud of doing it exceptionally well.

We hear many stories of our branch teams helping members at the most difficult moments of their lives, often going beyond all normal expectations: stories which generate trust and loyalty in the Coventry. So for us, investing in our branch network is an obvious part of serving our members and growing our business.

We needed to redesign our branches to make them work better for members, the branch teams and our local communities – now and in the future. We looked at everything from ergonomics to environmental impact; from security to the services we offer, and we redrew the branch accordingly.

The new design is open and simple, with no gimmicks but a lot of thought. The



introduction of Teller Cash Recycling machines has meant we could lose the counters and security screens and the feedback has been fantastic. Members and staff really love the lack of barriers, finding it 'easier to connect' with each other. We're also getting great feedback for the 'warm and welcoming' design, built around a flexible space that can accommodate a training session for employees or members, but also offers privacy for complex or sensitive conversations.

*"We looked at everything from ergonomics to environmental impact; from security to the services we offer, and we redrew the branch accordingly."*

So far the new design has been rolled out in nine of our branches, we're finding it works equally well on a town high street as in a busy city centre. We've hosted charities as part of our wider support for local communities, and plan to run sessions with local Police and Trading Standards officers to help protect members from fraud.

But it's in the day-to-day business of serving members and protecting their interests that we see the best return on our investment. We sometimes use the phrase 'digital first but human always' to describe what we're doing.

We're convinced that our future success depends as much as it ever did on building strong relationships with our growing membership.

## Next steps:

Follow the Coventry on Twitter  
@CoventryBS



By **JONATHAN WESTHOFF**, Chief Executive, The West Brom Building Society

## More than just feedback: The Wes

The successful creation of consultative groups encompassing members and employees is setting a new standard amongst mutuals in terms of stakeholder engagement.

**E**arlier this year the West Brom held inaugural meetings for two newly-formed business groups: our Member Council and Employee Council.

An obvious assumption regarding the purpose of these councils would be to provide a platform for feedback from people who regularly use our services, alongside those responsible for delivering them. Tell us what you think and we'll endeavour to make improvements.

Such feedback is an important part of the relationships we have with our key stakeholders, but the mechanisms for gathering it already exist. The Member and Employee Councils have very different remits and, in that sense, are all about the West Brom striving to raise the bar around corporate governance.

As a member of the Society's board, I frequently receive questions on how we make decisions and how much consideration is given to other people's views. Of course, our commitment to our members is that we always act in their best interests, but to truly live up to it we must be in tune with their expectations.

This is a fundamental aspect of good corporate governance that is fast-becoming a hot topic from a regulatory perspective.

While building societies are not required to abide by the UK Corporate Governance Code, at the West Brom we have always had a strong regard for its principles. An example of how we adopt the highest standards of governance came last year when the Board offered members a binding vote on our Remuneration Policy for directors.

In the case of the revised Code and its increased focus on enhancing stakeholder engagement, we see this as a positive development. Not only is it relevant to us, it is something that will ultimately make us a better building society.

***"Good governance cannot be something an organisation simply pays lip service to and, as a building society, we do not believe we ought to lag behind the standards that PLCs are setting."***



### Making it happen

We began formalising plans for our two council groups last spring, and from the outset it was important to define what we were expecting participants to do.

The councils are positioned as consultative groups whose purpose is to articulate stakeholder views back to the Society's board and senior leadership team. They meet once a quarter to discuss specific business matters; broadly mirroring what the board themselves need to address to ensure the safe stewardship and future direction of the Society.

We drew up terms of reference and a code of conduct so applicants had a clear understanding of the council member role and its responsibilities.

Finding a diverse participant population, which fully reflects our stakeholder base, was always going to be a challenge. From the member side in particular, it was also harder to reach people and communicate directly with them. With this in mind, we made sure everything was ready in advance of our AGM and

promoted the launch and application process in our AGM materials. We also advertised the 'vacancies' on our website, displayed posters and literature in our branches and featured the opportunity in our members' newsletter.

The response was extremely encouraging, not just because of numbers – more than 60 people applied across both councils – but also due to the range of backgrounds, ages and experience levels the applicants had. Having diversity and broad representation is critical: it is the only way we will get a proper sense of what matters to our members and colleagues.

In the end we appointed 14 employees and 12 members to their respective groups, although we expect to add a further two representatives from full time education to the Member Council very soon.

We have carried out inductions and our first meetings, each chaired by a board member. Agendas included a variety of topics, from director remuneration through to the boundaries between comply or explain under the Code, and a potential to grow home ownership from the rented sector.

# West Brom's Member and Employee Councils

## The right approach

We are confident both councils will make important contributions to our future planning and direction. Participants will grow in confidence and challenge existing thinking, especially once we demonstrate exactly how the Society is reflecting their views in its actions.

Good governance cannot be something an organisation simply pays lip service to and, as a building society, we do not believe

we ought to lag behind the standards that PLCs are setting. Merely to comply with the updated Code, we could have taken the 'safer' option of nominating a non-executive contact to be the link offered to stakeholders, but we felt this was not in line with the fundamental tenet of democracy that underpins building societies.

We see full engagement as the right approach whereby we always take the

full spectrum of stakeholder opinions into account in order to carry out clear and unbiased decision making. Only then can we truly live up to our promise to members to support their financial wellbeing and act in their best interests.

## Next steps:

For more information visit [westbrom.co.uk](http://westbrom.co.uk) and search 'member council'

## Stakeholder perspectives – why we decided to get involved



### Member Council

**Ian Hayles, West Brom savings member for more than 30 years.**

"I work as a Project Manager in the rail industry and felt that the skills and attributes I have in this role would translate well across to the Member Council. These include stakeholder management and developing long-term working relationships in order to gain trust.

I was happy to volunteer to be part of the Council because as a member I have a vested interest in the West Brom being successful. Hopefully my opinions, and those of other Council members, will help to influence the board and how they think about certain aspects of the Society so that it continues to flourish.

Now that we've met it's good to see the Council is made up of people from a diverse range of backgrounds. The West Brom certainly stands to benefit from getting greater insight from its members, but I think I will also get something positive out of participating too.

Regardless of age, you should always continue to learn and take on new challenges. This will give me experience of being in a different working environment, which I can take back with me and apply to my day job."



### Employee Council

**Violet Sissons, Customer Manager in the West Brom's branch network.**

"I joined the West Brom two-and-a-half years ago, and much of that time has been spent working within the relief team covering various branch locations.

This means I have a broad perspective in terms of what colleagues and our customers think. I hope to reflect this experience when participating in the Employee Council.

Being asked to represent colleagues as part of the Council makes you feel valued, knowing that business leaders want to hear your opinions and act upon them.

There is a good mix of personalities, ages and job roles in the group, so the output from the discussions should be well-rounded and reflect the different areas of expertise people have.

I am enjoying taking part and it's helping me to form new relationships with colleagues who work in areas of the business that I wasn't familiar with before. I am also developing new skills, but within a safe and supportive environment where everyone is given the chance to contribute. As a result, I think it will prove to be a really good development opportunity for me."



By **PETER TOOLE**,  
Strategic Relationship  
Director, Paragon  
Customer  
Communications

# Ensuring continued member engagement in an increasingly digital world

Communicating with members to keep them informed, whether about new products or notices of AGMs, presents an opportunity for building societies to engage with their membership.

**B**ut how can Societies deliver strategies that provide real 'cut through' in an increasingly digital landscape?

## Embracing new technologies

Digital disruption has been driving change across many industries for the past few years, with the rise of advanced platforms such as Artificial Intelligence (AI), smart devices and powerful data analytics re-shaping the future of individualised communications.

While some building societies have introduced these new age methods, the same cannot be said sector-wide. Embracing new technologies is crucial to forming stronger member interactions.

## Understanding preferred communication channels

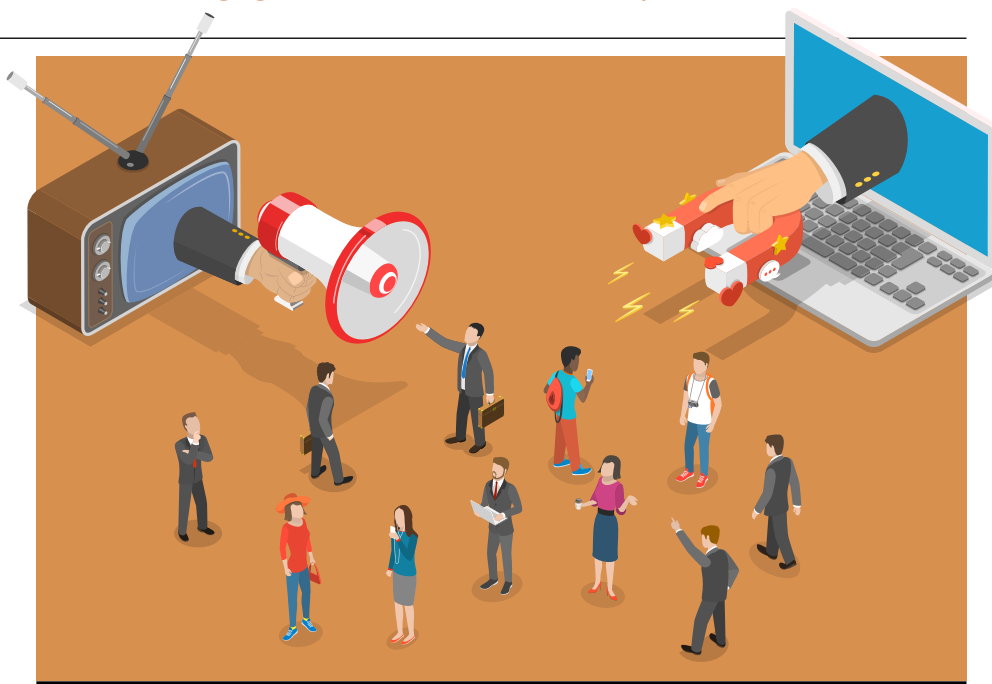
Building society membership age demographics span decades – from the 18 to 24-year-olds that represent the industry's future membership base, to the long-standing members in the 50-plus age group.

Communications strategies are being determined by the membership demographics more than ever before. For example, 41% of millennials prefer to communicate through digital methods rather than face-to-face, phone conversation or print.

However, whilst age group should be an important consideration when it comes to selecting the channels to deploy, it should not be the only consideration when determining an overall strategy. Other measures include understanding individual members' preferred methods of communication, their needs and expectations and the strengths of each form of correspondence. Is it relevant? How equipped is your Society to communicate the information at the right time through the most effective channel or channels?

## It's not all about digital

Although emerging digital channels are revolutionising communications across the industry, more traditional mediums – such as direct mail – remain an integral marketing tool. Especially in the post-GDPR era.



In fact, the 2018 Direct Mail Annual Report 'New Currency for Mail' revealed that more than half (57%) of respondents opened addressed mail such as letters, catalogues and leaflets/ flyers when they arrive, while 20.8% open within 28 days.

## Tailored customer journeys

In contrast, email is relatively fast and inexpensive to deploy and affords building societies the possibility of real-time tracking and measurement.

Societies can also use automated and trigger-based email campaigns to cement a deeper level of personalised communication with members, built on their response or action associated with the initial email campaign.

Elsewhere, SMS is useful to put relevant information directly into someone's hand at exactly the right moment. This is particularly advantageous for quick reminders to members.

## A fine balance

The real challenge facing building societies is knowing how to balance both physical and digital channels in a multi-channel strategy, to improve service and efficiency, without compromising effectiveness.

Digital and print communication should remain hand-in-hand. Building societies that deliver a seamless, joined-up approach to cross-channel communications can expect to maintain stronger long-term relationships with members.

Even in instances where paper mailing seems like the obvious candidate for a communication, adding a digital stream can help to enhance targeting, improve response rates and reduce operational costs – all whilst delivering an enhanced member experience.

The traditional image of building societies being branch-based entities that provide face-to-face services for valued members remains a strong asset. However, the advent of smart communication tools – and shifts in how members expect to engage with a Society in the digital era – are reshaping the way building societies can communicate.

## Next steps:

*Paragon Customer Communications combines generations of expertise with the latest technology innovations and smart data. More information: [paragon-cc.co.uk](http://paragon-cc.co.uk)*

# Crackdown on financial crime in the building society sector



By **MICHAEL HARRIS**,  
Director Financial  
Crime Compliance  
and Reputational Risk,  
LexisNexis Risk Solutions

As the global financial system grows ever more interconnected and digital, so too do the risks around financial crime. As a result, anti-money laundering checks are now part and parcel for financial institutions and building societies.

**H**owever, with the scope of legislation constantly changing in a bid to tackle the problem, and financial criminals seemingly one step ahead of the curve, financial service providers can find themselves trying to strike a balance between "business as usual" compliance and keeping pace with the latest regulatory demands.

## Building defences

We work with a number of building societies in the UK, and it is clear that rising to this challenge requires continual effort and investment. Now more than ever, it is vital for firms to keep on top of their compliance obligations and improve their systems in order to minimise operational risk exposure, while still providing the products and services customers need.

To address this issue, some firms now use a three-line defence model to manage their AML processes and controls, with staff on the front line responsible for implementing AML and counter terrorist finance controls. A centralised financial crime and risk team then serves as a second line of defence, while an internal audit function provides a third layer of control.

However, the increasing expectation for firms to adopt and invest in new technologies and capabilities can still make compliance challenging. This can be a particular issue for building societies, many of which are significantly smaller than high street banks yet face the same customer expectations and pressures to embed the latest technologies.

In response, some firms have adopted a risk-based financial crime strategy designed to ensure they can meet all regulatory and statutory requirements, including controls that look at senior management governance risks, customer onboarding and monitoring, transaction monitoring and internal fraud investigations.

With fewer customer touch points than a high street bank, these smaller organisations can be at a slight disadvantage in an environment of continually changing regulation. However, on the upside, the risk of diverted payments is diminished as a result of not having current account functionality.

Nevertheless, smaller firms are not exempt from risk and a growing number of building societies are making a significant investment in AML compliance, including the introduction of third-party systems and a thorough review of their operating procedures. Firms like these are also aware that they need to remain agile as an increasingly digital world gives rise to new threats.

## Greater collaboration

Clearly, staying on top of developments is a key concern for all building societies, but balancing the needs of the business with the cost of compliance remains a challenge. At the same time, proportionality remains an issue for the sector, particularly in light of the EU's Second Payment Services Directive.

A number of banks and building societies are therefore calling for a renewed focus on the public/private partnership and for the industry to work collaboratively to support law enforcement and other firms by creating an information-sharing framework.

With the industry working in silo, many of these organisations believe that the solution may lay in the convergence of cyber and financial crime risks. With so much money being spent on the two areas separately, linking this spend could be the future.

## Next steps:

Read the 'Money Laundering Exposed' report here: <https://bit.ly/2NjwSSy>



# Brick by brick

We are a nation that prides itself on being able to tell a Georgian home from a Victorian or Edwardian one...



By **CHARLIE BLAGBROUGH**, Mortgage Policy Manager, BSA

**Y**et in recent decades, it feels increasingly like the look of new build housing converges around a small number of designs similar to each other.

Clearly it suits the house-builders to standardise and commoditise the

house-building process in order to deliver at scale and control output. Equally, you can understand why the proud owner of a listed cottage in some idyllic rural village might worry about a new development ruining the character of their little corner of the UK.

In order to achieve a diversity of good design, what we really need is a diversity of builders, large and small. Yet in 2018, the top six house-builders produced almost 40% of new build homes in the UK. Self- and custom-build – a term that encompasses a range of development models – could reinject diversity into the industry. While it is difficult to put a figure on how many homes self- and custom-build developers produce each year, estimates tend to be around the 12-13,000 mark, well below numbers in places like the Netherlands and Germany.

At the last count, 27 building societies were involved in providing self- and custom-build mortgages. They have around £500m of loans currently on their mortgage books in the build phase. This is an underestimate of the total amount of finance in this area, as lenders re-categorise a self-build mortgage as a 'standard' loan once the property is finished.

***"In order to achieve a diversity of good design, what we really need is a diversity of builders, large and small."***

Involvement in the design process is one of the reasons why aspirations to build one's own home remain high. Ipsos MORI, polling for the National Self and Custom Build Association (NaCSBA) in 2016, found that one in eight Britons expected to research or plan how to build a home for themselves in the next 12 months.

The government is capitalising on this voter demand. In 2016, it introduced, under the Housing and Planning Act 2016, the 'Right to Build' – legislation requiring local authorities to identify land for self- and custom-builders. Between April 2016, when the act came into force, and November 2018, over 40,000 people declared their interest in a parcel of land through the Right to Build Register.

The government is also putting resources into promoting self- and custom-build at the ex-Ministry of Defence site Graven Hill – where the UK's first ever plot shop opened in September 2017. Following examples from Europe, the plot shop is a place where prospective self-builders can go to choose a piece of land with amenities and planning already taken care of. Schemes like these could see self- and custom-build take off in the coming years.

Add to this that Housing Minister Kit Malthouse MP visited the Graven Hill site in September 2018 and has reportedly been truly evangelical, describing the houses built there as the 'listed buildings of the future'. High praise indeed. In October, we also received the long awaited Letwin Review on build out, the key tenet of which was the need for diversity of type, size, style, design and tenure mix of homes on large sites. The Review also called for more plots to be released for self-build so we might hope that with all this extra focus, more of those 1 in 8 Britons may one day fulfil the dream to build a home of their own.

**Next steps:**

*As part of our continued involvement in tackling the lack of housing supply, the BSA will be giving evidence at an MHCLG committee on 1 April.*



# What is 'normal' monetary policy?

"She had many opinions but taken together they did not add up to a point of view".

– V. S. Naipaul, *Guerrillas*, 1975.



By **JAGJIT CHADA**,  
Director, National  
Institute of Economic  
and Social Research  
(NIESR)

**H**e could have been writing about the Bank of England. On 5th March 2009 the Monetary Policy Committee of the Bank of England cut Bank Rate to 0.5% from 1.0%. This was an historic low in the policy rate and reflected both the extent of the financial crisis and its prospective impact on the real economy.

It was 89 MPC meetings later that that Bank Rate moved again, on 4th August 2016 but, rather amazingly, to an even lower level of 0.25%. Subsequently there have been further changes in Bank Rate but it has proved so difficult to get away from the low interest rate trap. We should be asking when will it be time to start thinking about reversing and returning to "normal" times and what that might mean.

The pat answer is that monetary policy will become normal when the economy itself becomes normal. But in preparation for that transformation, there are two simple reforms that might help normalisation.

First the Bank of England may also wish to complete its forward guidance by providing projections of Bank Rate and the holdings of assets by the Asset Purchase Facility over the policy horizon. These projections might be given by each member individually, as some other central banks, such as the US Federal Reserve, tend to do. Such statements would allow market participants to form a clearer view on the likely path of any normalisation.

Secondly, given extraordinary circumstances the MPC may wish to consider smaller or baby steps in the normalisation process. It would be quite possible to move in, say, steps of 10Bp to demonstrate intent but also the gradual nature of the process.

Ultimately, decisions on the appropriate level of Bank Rate and the stance of policy rely ultimately on judgement, which is backed by theoretical models and empirical findings.

There is an obvious room for disagreement in the presence of judgement. And to that we

can add considerable uncertainty about the current state of nature, particularly as we try to engineer an acceptable response to the 2016 referendum result, and the impact of interest rate normalisation in an economy with elevated asset prices and high levels of debt.

It seems to be me that that plotting the policy path will be considerably more complicated during recovery and normality and so requires significantly more explanation than we have had in the past. These factors call for caution but a return to normality needs to start at some point.

And so, a decade after we started an experiment with ultra-low interest rates and unconventional monetary policies, it is may be time for both a definition of the new normal and for some adjustment to it to begin.

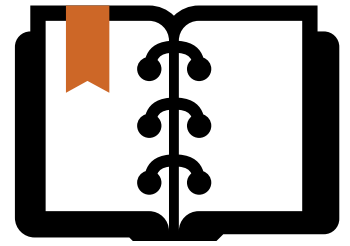
## Next steps:

*Jagjit will be speaking at the BSA Annual Conference in May. For more information please visit [bsaconference.org](http://bsaconference.org)*

# Dates for your diary

The BSA events programme is regularly updated – Full listings at [bsa.org.uk/events](http://bsa.org.uk/events)

Register to attend any of the below events at [bsa.org.uk/events](http://bsa.org.uk/events)



## Mortgage underwriting

11 & 12 June 2019, 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 is designed to fully equip underwriters with the knowledge required to carry out their role effectively.

On completion of this programme delegates will be fully conversant with the full range of skills to underwrite mortgages effectively, while ensuring that customers' needs are met.

**Cost:** Members/Associates: £895 VAT exempt  
Cost includes course documentation, lunch and refreshments

**Register:** For information and registration please visit [bsa.org.uk/MUJune19](http://bsa.org.uk/MUJune19)

## Liquidity, funding and ALM update

25 June 2019, London

This one-day course from the BSA and ALMIS International covers a range of current liquidity, treasury and asset/ liability management for building societies and smaller banks.

It is designed for staff who have responsibility or involvement in these areas. It may also be of interest to NEDs who would like a refresh in this space.

**Timings:** 10:00 - 16:00

**Cost:** £350 VAT exempt - BSA members/associates only

Includes course documentation, refreshments and lunch

**Register:** For information and registration please visit [bsa.org.uk/liquidity](http://bsa.org.uk/liquidity)

## Fast start seminar for new directors

2 July 2019, London

This introductory seminar for new non-executive directors delivers an intensive introduction to the business, board and regulatory environments. It also facilitates an informal exchange of ideas with industry peers.

The event will have strong interactive components and will be important to anyone who has recently joined a BSA member's board.

**Timings:** 09.30-16.00

**Cost:** BSA members only: £350 per delegate (VAT exempt)

Cost includes course documentation, lunch and refreshments

**Register:** For information and registration please visit [bsa.org.uk/fastjuly19](http://bsa.org.uk/fastjuly19)

## BSA Annual Conference 2019

23 & 24 May 2019, London

Our annual conference offers a great opportunity to exchange views and ideas with peers and wider industry contacts through our thought-leading keynotes, breakouts, exhibition floor and social events.

Featuring keynote speeches from Joe Garner, Nationwide Building Society CEO; Tom Blomfield, Monzo CEO; John Glen MP, Economic Secretary to the Treasury; Jo Coburn, Political Correspondent; Sam Woods, Bank of England and many more.

**Event details:** For more information, registration and the conference programme please visit [bsaconference.org](http://bsaconference.org)

