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CHECK AGAINST DELIVERY

Building Society: And proud of it

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Speaking at the 148th BSA Conference at the Business Design Centre in Islington on Wednesday 3 May 2017

A BSA MANIFESTO FOR THE GENERAL ELECTION

I find it quite refreshing that Theresa May managed to pull the General Election announcement out of a hat without leaks or front running of what she was going to say.

Even if it would have been convenient to know her intent when we were putting the Conference programme together!

There has been much debate about her purpose behind calling a snap election.

In the context of triggering Article 50; The forthcoming negotiations about the UK's departure from the EU; And, our future relationship with Europe.

Of course we all want the best outcome possible for the UK.

As predominantly UK domestic players, right now that means a strong, stable UK economy.

One where consumers feel confident about their present and their future. Confident about jobs and the economy. Confident to save for future events and purchases. Confident in their financial resilience in the face of the unexpected. Confident in their ability to buy or rent a good quality home.

Building societies exist to help their members achieve their ambitions. But we see many people struggling to do these things.

Last Friday I wrote to party leaders laying out three commitments which we believe could help change things for the better for the people of the UK:

Firstly:
Building a resilient economy based on a diversity of business models, including mutuals.

The UK needs to move its mind-set away from a fixation on PLCs and shareholder owned businesses as the only game in town.

Diversity encourages a wider range of businesses models and objectives. Adding to resilience in times of crisis. And consumer choice and competition all the time.

The Government and the Treasury in particular should see mutualisation as one legitimate route for the privatisation of public assets

Secondly:
Tackling housing affordability by increasing the supply of good quality homes across all tenures.

Encouraging diversity of supply through more support for SME builders, self-builders and different forms of building technology. Recognising shared ownership as a separate tenure.

And accepting that there will be an increasingly intergenerational approach to home ownership for ordinary people. Which should be promoted, not penalised through policy and the tax system.

Thirdly:

Encouraging a savings culture for all.

Rainy day savings for the day to day shocks that wreck household budgets. Regular savings for those big purchases. And long term savings for secure futures.

Increasing household resilience. Helping people to achieve their dreams.

Keeping savings policy simple and consistent.

Together with continued investment in financial education. To equip young people and adults with the skills and understanding needed for them to manage their own money more effectively.

June 8 is still five weeks away. We will have a better idea then of what the UK political landscape will look like.

We do already know that for building societies our present and future are linked positively to our past.

AN EXTRAORDINARY PAST; AN EXTRAORDINARY FUTURE

We have an extraordinary past. we want an extraordinary future.

Joe Garner's words in the Spring edition of Society Matters.

Ketley's, Longridge and the other early terminating building societies epitomise an extraordinary model of trust.

We know surprisingly little about Ketley's. Other than it is the earliest recorded building society, founded around 1775 in Birmingham. Like many great institutions, founded in a pub. With the landlord, Richard Ketley taking a leading role.

What do I mean by an extraordinary trust model?

Think about how they collected regular subscriptions from their members. Until sufficient funds were accumulated to provide each member in turn with a house. Their turn often being determined by tombola or lottery.

And think about those towards the end of the queue. Trusting in their fellow members to continue contributing. Paying their rent or loan repayments on time. Until the very last member's house was built.

Today I want to take that extraordinary foundation as our starting point.

For setting out our vision for building societies and credit unions as a vital part of the UK's 21st century financial services sector.

As growing, dynamic, forward looking and a force for good in financial services.

A sector that makes membership meaningful. And takes the best of the past as our inspiration for the future. Embedded firmly in the needs of 21st century consumers and businesses.

GROWING

Many of you will have heard me express a degree of frustration with commentators who talk about building societies as a once great force. Or a thing of yesteryear. Their lament and sadness is misplaced.

The facts are very different and it is about time we all blew the trumpet very loudly.

Research by Co-ops UK in 2016 highlighted building societies as the largest membership network in the UK, with, we estimate, over 21 million saving and borrowing members.

Almost one in three of the UK's population are building society members. And the numbers are growing.

Building societies have been growing their share of the mortgage market too. Virtually every quarter since 2012.

From under 18% of mortgage balances just after the crisis to 22% today. It takes a lot to shift a market measured in trillions of pounds.

This is building societies getting on with the business of helping the UK's citizens fulfil their dreams of home ownership.

We now provide one in every three new mortgages in the UK. And one in three new building society mortgages is to a first time buyer.

It is fair to say that without building societies, there would have been no mortgage market for much of this period. And of course, without a mortgage market, there is no housing market.

Especially for those getting on the ladder for the first time. Since 2012, building societies have enabled over 400,000 people in the UK to buy their first home.

New savings data published by the BSA in March demonstrated what we already knew.

That even in the current difficult low interest environment, building societies give the UK's hard pressed savers a better deal than other deposit takers.

On average during 2016, savers with building societies earned 1.58% on fixed rate and notice accounts. Compared with only 1.30% across all deposit takers.

For instant access accounts, savers with building societies earned 0.88% on average, compared with 0.65 % across the market.

And better savings rates and better mortgage deals do not come at the expense of weaker capitalisation.

The opposite is true. The sector's average unweighted CET1 ratio currently stands at around 19.2% compared with 12.2% for the major banks.

And whilst many major banks have been engaged in huge cost-cutting programmes. Shedding staff in their thousands.

Building societies have been contributing positively to both the UK economy and society. Maintaining and now growing their staff. Now employing 43,000 people. Largely outside London and the South-East.

DYNAMIC

Research published in March by one of last year's speakers, Professor Hans Groeneveld from Rabobank and Tilburg University in the Netherlands, highlights a number of ways in which shareholder owned banks across Europe are catching up with their co-operative banking competitors.

On a range of measures from capital strength to rates of branch closure, areas where co-operative banks have traditionally held a competitive advantage, are being eroded.

Here in the UK we are facing the implementation of ring-fencing for retail banks in 2019.

Potentially adding to the competitive environment currently characterised by the emergence of new retail challenger banks.

We in the mutual sector cannot stand still. It is more important than it has been for many years that building societies and credit unions stand out in a highly competitive marketplace for the right reasons.

Working with our second year students on the BSA / Loughborough University MSc programme back in February…we spent some time exploring the areas where building societies (and by inference credit unions) have a sustainable competitive advantage over the whole of the shareholder owned banking sector.

None are earth-shattering in isolation. But all are worth considering across the sector. And, together, in my view, they add up to a real opportunity for financial mutuals over the next ten to twenty years.

Here are four:

First:
No bank can call itself a building society or credit union. Both terms are protected by law. Giving us all the opportunity to use them vigorously to stand out from the crowd.

Second:
There is no customer / owner conflict. And no requirement to remunerate shareholders at the expense of customers.

That gives us both an explicit rationale for putting customer-members truly at the heart of our businesses. And a real cost advantage.

Third:
As financial mutuals we can genuinely and consistently take the long term view. Both in terms of our investment decisions. And our customer-member relationships.

And fourth:

As organisations founded from a social purpose, we have the real opportunity to contribute back into our communities as an integral part of how we do business. Reinforcing our values and purpose.

From the many great initiatives that members are currently undertaking, let me highlight just two that, for me, really illustrate this last point.

In September last year, Newcastle Building Society opened a new branch in Yarm.

In partnership with Stockton-on-Tees Borough Council, this branch in a library is the first of its kind in the UK.

An innovative approach that works for the benefit of communities served by both Stockton Borough Council and Newcastle Building Society.

A partnership that saved the library for the local community and provides a flexible community space including a large activities room. And seating areas including an outside reading garden. All with an integral new building society branch. Offering a full range of savings and mortgage services. Along with professional, convenient and accessible on-site financial advice.

"Hope at last for towns hit by bank closures" rang out the headline in "This is Money" last November. As Nationwide Building Society announced that it was opening a new branch in Glastonbury. After the town's last two banks, Lloyds and Barclays, pulled out. The new branch opened on 25 April.

With queues outside the door as the people of Glastonbury were eager to see inside and start using their new building society.

FORWARD LOOKING

A safe home for your savings is a phrase that recurs when you look at building society and credit union websites. The savings habit goes right back to our origins in the 18th century.

Whether saving to fulfil the dream of owning your own home. Or for a rainy day. A regular savings habit is as important today as it ever was.

And educating young people and adults about how to save, about making conscious choices in how they use their money. In managing their finances, no matter how tight. Is something that I remain passionate about.

It is with a real sense of pride that the Building Societies Trust continues to support financial education programmes with Shelter, Centrepoint, Young Enterprise and MyBnk.

The following quote from the latest MyBnk Annual Report really struck me as summing up why our continuing commitment to financial education across the whole sector is so important:

"Before I met MyBnk, money was just something I spent, nothing else. As soon as I had it, it was gone. Every Monday I'd have £10 and by Friday I was asking to borrow more from my friends.

After MyBnk, I feel having money is a responsibility. They taught me to save rather than spend. I'm more cautious about what my pocket money is spent on, no longer spend cash on fast food and save half of my allowance. MyBnk helped me be independent."

We are now exploring with Young Enterprise how we might help societies do more in financial education.

At our Conference in 2015 we recognised that lending to older people would become a key societal trend and need in the 21st century.

As more people live longer. And more reach retirement age with inadequate pension provision.

With the State increasingly unable to afford the sorts of retirement benefits that we would all see as fitting for citizens of the world's fifth largest economy.

Our first report on Lending into retirement and the sector's positive response to its recommendations has led the way in addressing the mortgage needs of our aging population.

All building societies have reviewed their policies for lending to older people. 34 are now prepared to consider mortgage applications from individuals who will be 80 or older by the time they pay off their loan.

Today we are launching new research, by the International Longevity Centre - UK.

Lengthening the Ladder looks at the future of mortgage borrowing in older age and paints a picture of a very different mortgage market in the next decade.

By 2030 58% of the UK's housing wealth will be held by the over 65s.

By then the traditional housing market will be turned on its head. Instead of people buying in their 20s, trading up in their 30s and 40s and paying off their mortgage to retire mortgage-free…

The combination of unattainable house prices and rising student debt will see younger people renting for longer and getting onto the housing ladder in their late 30s and 40s with longer mortgage terms from the start.

They will trade up later in life and repay part of their mortgage from retirement income or draw more to fund needs in later life or to help their children or grandchildren.

We are seeing this starting to happen already – but it is set to move from niche to mainstream by 2030.

Lenders, Government and regulators won't be able to stop the demographic and societal shift. So policies must adapt. And we will be leading the way. Exploring what really good looks like from the consumer and member perspective.

Our report on Modern Methods of Construction published last November again shows the building society sector leading the way.

Seeking out the solutions needed to help close the UK's critical housing supply gap.

Using our role as mortgage lenders in encouraging and enabling a vibrant market in homes built using alternative methods.

In February I was fortunate to join a group of BSA members on a visit to the new Legal & General offsite factory in Yorkshire. Once production is underway, this single, huge facility will turn out over 3,000 completely fitted out new homes a year. Ten new homes every day. Adding new capacity alongside conventional construction.

Our session on Supporting Local Housing need this afternoon will continue to explore this important theme.

When RBS announced their 2016 results in February, Ross McEwan spoke on the Today Programme about RBS branches as service points.

That was music to my ears.

A strategic focus on automation and self-service rather than personalisation

If there is a common theme in all our discussions about:

The future of the mortgage market

Branch and digital strategies

Innovation as a source of competitive advantage

It is the consistent focus on the member experience. How we innovate and develop in ways that keep us close to our members.

Face to face or digitally. Digital village squares rather that digital marketplaces.

Continuous improvement and first time quality to deliver even more outstanding service. Not simply automation that treats customers as data files and statistics.

These are all ideas and themes that you can pick up in our session immediately after coffee on Customer and Member Engagement. And in our break-out sessions this afternoon and tomorrow on Continuous Improvement, Image Clearing and Innovation.

A FORCE FOR GOOD IN FINANCIAL SERVICES

Why should we think of building societies and credit unions as a force for good in financial services?

We sometimes talk about our great record on complaints. How far fewer complaints are made by building society customers to the Financial Ombudsman. And about how even fewer are upheld.

That gives us a degree of negative assurance. But what of the positive?

What is it really about mutuality which makes the difference? To people's experiences every day?

Most of you will be familiar with this chart. It's one of my favourites. Demonstrating clearly on a range of metrics that building societies stand apart from the rest of the retail banking world for the great way they treat their customers.

It takes constant attention and work. It is a continuing journey reflected in many of our Conference sessions. Starting from a culture dedicated to the customer as member.

Late last year, I was saying goodbye to the CEO of one of our smaller societies when he noticed a pound coin on the floor by one of the chairs in the branch.

He picked the coin up and gave it to one of the counter staff to go in the charity box. But the lad behind the counter said. "I know who was sitting there; I'll make sure it gets back to her". In a nutshell, that's what we mean by a great culture.

Research by Professor Jim Devlin at Nottingham University Business School into trust and fair treatment in financial services shines a bright light on the gulf between banks and building societies.

Both on measures of trust and fairness.

Professor Devlin's research explores fairness in three dimensions:

First: The process used to arrive at outcomes

Second: The balance of cost and benefits between the organisation and the customer

Third: How customers are treated

Old fashioned ideas such as courtesy and genuine personal communication.

On all three measures, building societies are miles ahead of banks.

None of this surprises me. It merely illustrates the outcome of running our businesses with a fundamentally different purpose. Because our customers are our members, we are there to serve them rather than external shareholders.

We are here for consumers. For people. Building society. And we should be proud of it

Our aim is not to maximise profits. It is to maximise member value. And that manifests itself in all sorts of different ways.

- In better than average mortgage and savings rates
- Treating mortgage borrowers as individuals, not statistics
- Providing mortgages to meet their personal circumstances
- Including for the self-employed
- The self-builders
- And older borrowers
- Helping people fulfil their dreams of home ownership
- Providing a safe home for their savings
- Fair profits to secure the future
- And how we earn our money
- How we share the benefits with members present and future
- Community as an integral part of the business

We are about capitalism but capitalism with a social purpose.

A sector focused on the long term in an increasingly short term world. In short, a movement

CONCLUDING REMARKS

We have an extraordinary history. We can make an extraordinary future. As an integral part of the 21st century financial services landscape. Built on social purpose and trust.

Back in 2014 we asked the question about what we wanted the UK's financial services sector to look like in 20 years. We know the answer.

Building societies and credit unions as a growing, dynamic, forward looking, force for good in UK financial services.

Together we will make it happen.

Thank you