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COMMERCIAL CLARITY ™

2021 BUILDING SOCIETY Sector Analysis

A review of the strategic landscape for building societies

Building Societies Association
CREDERA
MAMBU
moneyhub
MUTUAL VISION
nivo
SHOOSMITHS

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Whitecap Consulting

Established in 2012, Whitecap Consulting is a regional strategy consultancy headquartered in Leeds, with offices in Manchester, Milton Keynes, Bristol, Newcastle and Birmingham.

Whitecap typically works with boards, executives and investors of predominantly mid-sized organisations with a turnover of c£10m-£300m, helping clients analyse, develop and implement growth strategies.

The firm works with clients across a range of market sectors, with strong experience in the financial services and technology. Over recent years, Whitecap has worked with a number of building societies in relation to business strategy, technology strategy and partner selection, digital and FinTech engagement, and marketing strategy.

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moneyhub
MUTUAL VISION
nivo
PHOEBUS
sandstone TECHNOLOGY
SHOOSMITHS
Sopra Banking Software

Forewords

Building Societies Association

Whitecap Consulting

Building Societies Association

Robin Fieth
Chief Executive
Building Societies Association

Mutuality still resonates in the fourth industrial revolution

For the last 400 years, successive industrial revolutions have transformed society around the world. Steam, gas and oil, electricity and computers defined the first three industry revolutions. Digital transformation is powering the fourth and there is no doubt it is having a rapid and transformative impact on the business of financial services.

We are transitioning from an era of big hard-wired mainframes and decades of different programmes to one of cloud-based services connected via APIs, data science and intelligent automation.

As Ron Kalifa said in his 2021 Government review of the UK fintech sector, "this is a technological revolution... changing the way we do finance". The likes of payments, mortgage lending, back office processing and regulatory reporting are all being transformed by digital processes.

Thriving in a digital future

It was against this backdrop that Whitecap Consulting proposed to research how building societies – a product of the first industrial revolution - would continue to thrive in a digital future.

This final report shows the key strengths of the sector, in particular focusing on the importance of its regional focus and mutuality – or social purpose as it may be more commonly known.

Whitecap's interviews with the executive teams and CEOs at building societies shows the clear difference mutuality makes in terms of their organisations serving the needs of members rather than shareholders.

The foundation of the building sector is its customer ownership and redistributing profits for the benefit of members rather than external shareholders. This deep connection with its membership remains the key part of mutuality and is a clear point of difference with the wider banking sector.

For the building societies sectors' 25 million customers this translates to a trusted brand. Research carried out at the beginning of the Covid-19 pandemic last year by UK Open Banking fintech Bud, showed trust for building societies to be greater even than the NHS!

Digital innovation and opportunities

In terms of the question of where societies go next, as this report makes abundantly clear, the answer will be different for each of our 43 building society members.

Building societies are already deploying robotics, chatbots, cloud based solutions, API connectivity, mobile apps, digital IDs and Open Banking right now.

We are seeing building societies reimagine the purpose of a branch using clever design and technology to turn them into spaces for engagement and support within their communities.

Technology is streamlining how they advise and on-board customers, how they engage with intermediaries or report data, allowing societies to continue focusing on the needs of their customers.

In terms of other opportunities for the sector, collaboration remains high. Taking a shared approach around non-competitive areas like investment in APIs or access to Open Banking could foster advantages for the wider sector.

The Magic of Mutuality

The global pandemic has brought about a year of extraordinary change within communities across the globe.

With all of us forced to work and interact with each other in new ways, it has underlined the fundamental importance of community, of our own personal and professional networks and the support services upon which we all rely.

Where close contact and social engagement is actively restricted, it has also shown the valuable role technology plays not just in terms of interacting with customers, but providing smarter and more agile ways of working and performing our day-to-day tasks.

How firms provide financial services to customers is changing, but whether it's via a paper-based passbook in a branch or via an app, the key element is maintaining the trust and connection with communities built up over decades and centuries.

It shows that an idea and legal construct born in the first industrial revolution 250 years ago, still resonates and works for the fourth industrial revolution.

Whitecap Consulting

Richard Coates
Maaging Director
Whitecap Consulting

Change is a familiar and constant challenge for building societies, and going back hundreds of years the sector has successfully navigated dramatic economic and social moments such as the industrial revolution, the 2008 economic crisis and more recently the Coronavirus pandemic.

Today, building societies face new competitive pressures from a wide variety of established and new providers across UK Financial Services, fuelled by a combination of changes in consumer behaviour and the advances of technology in the financial services sector. The technological and social changes for building societies today are the contemporary face of a long-standing requirement and challenge of how to engage with customers, partners and communities.

So how can today's building societies differentiate themselves in an increasingly competitive market, and what influence do mutuality, regionality and technology play in their current and future strategies and performance?

Over recent months the Whitecap team has set out to answer these questions, undertaking an analysis which has involved:

- Interviews with 33 CEOs of building societies
- Interviews and discussions with industry stakeholders
- A data-based analysis of the sector
- An online survey generating 134 responses

Our analysis identifies four key themes:

- There are a range of proposition-led strategies from which societies can choose; but individual societies can't pursue them all, so selection and focus are critical
- Mutuality can become point of difference with greater relevance to customers, possibly with a modernised focus on social purpose
- Meaningful community engagement is core to regional success, for customer engagement and branch-based savings
- Societies will need to continue to invest for a digitally enabled future, for customer engagement, distribution and operating efficiency

The implications of each of these key areas is highlighted, and potential actions for societies to consider are also identified.

When assessing their future strategic options, we find that building societies have multiple viable routes open to them. The key ingredient for success is less likely to be the strategy, more the ability to choose a strategy and stay focused on it. Without this focus, societies of all sizes will find their evolution and ongoing sustainability challenging.

We would like to thank everyone who has supported this project, including the CEOs and other stakeholders who gave their time to provide input, the Building Societies Association, and all the sponsors without whom this work would not have been possible.

Overview

Summary infographic

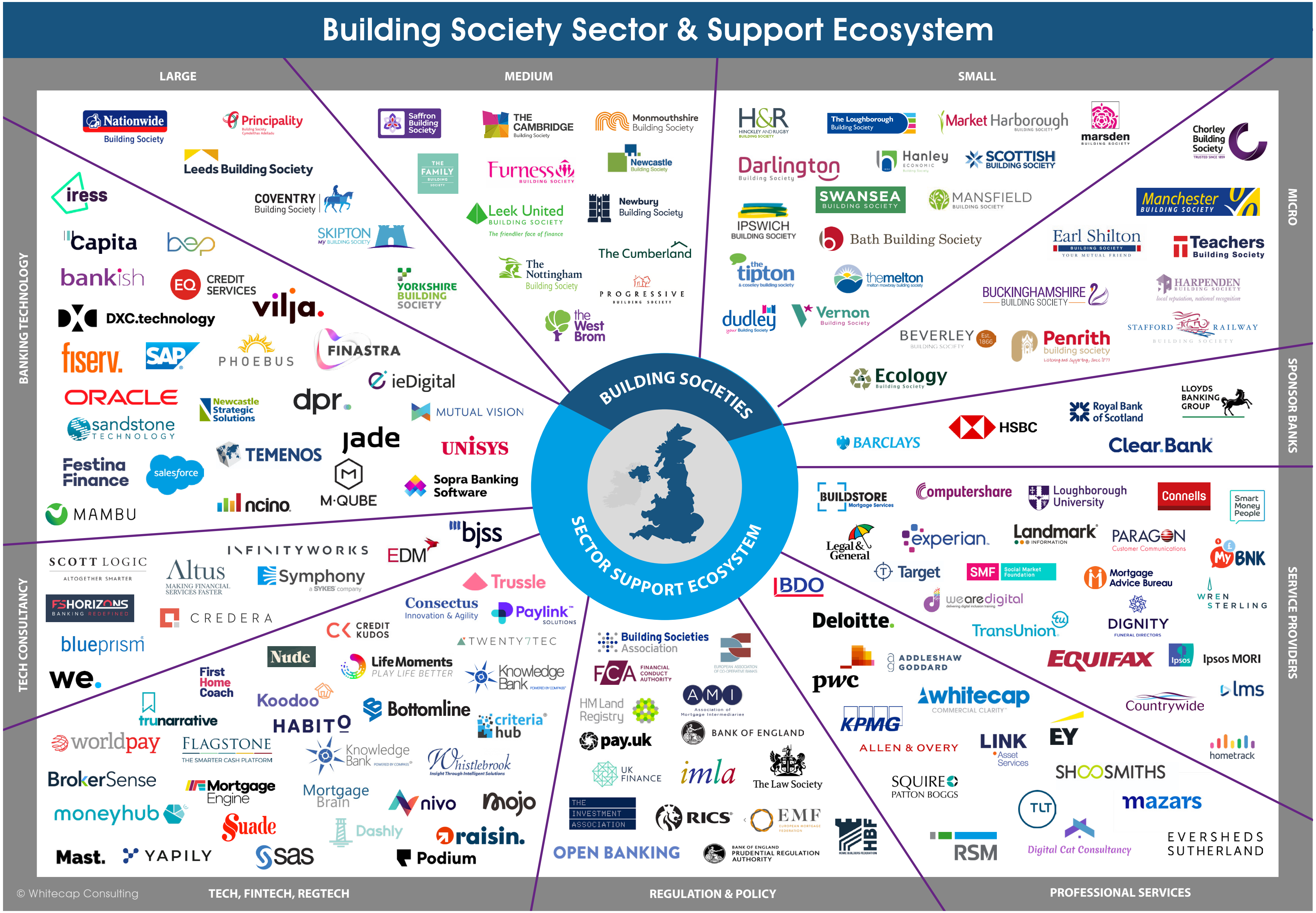
Executive summary

Key themes, implications and potential actions

Sector summary, statistics & insights

Summary of key findings, by research area

Summary Infographic



Building societies are categorised by Total Assets: Large: £10bn +, Medium: £1bn to £9.9bn, Small: £0.3bn to £0.9bn, Micro: Less than £0.3bn.

Executive summary

In this project, we set-out to understand the extent to which building societies perceive and utilise mutuality, regionality and technology within their business strategies. We found that the role, significance and importance of these components varies across societies.

We have observed that mutuality influences both corporate governance and culture as well as member engagement; evidenced in operational decision making and service delivery. However, whilst fundamental to all societies, mutuality itself does not appear to be the primary source of customer-facing differentiation within the sector.

In contrast, regionality and technology appear to have greater significance and play more important roles in the business strategies and the strategic decisions of societies.

Regionality, by which we mean a focus on, and a strong sense of connection with a specific location or area, plays a leading part in the heartland of most building societies. The local branch network continues to play a major role in customer and community engagement, as well as major contribution to savings performance. Regionality is of particular importance for those societies, the minority, who are liabilities (savings) rather than asset (mortgages) led organisations, as their purpose is anchored in their 'home' community.

Technological change, and specifically digital transformation, is being experienced in all market sectors, and this is evident in building societies in both the mortgage and savings markets; however, the pace and nature of technology adoption and utilisation varies across societies. Barriers to adoption have been identified as budget and resource constraints, dependency on legacy systems, risk appetite, and a confusing technology partner landscape.

In reality, of course, the strategies that societies actually execute will in many cases be a blend of planned delivery, which may encompass aspects of all the themes noted above, and also opportunistic or reactive actions to unfolding events. Typically, the clearer a society is on its purpose and the more explicitly it has been able to prioritise and focus in alignment with that purpose, the better it is able to execute on the various strands of its strategy.

We have grouped the key themes from our work under four headlines:

1. Strategy & planning
2. The role of mutuality
3. Regionality & community
4. Technology & digital transformation

These themes are described on the next page, where we also highlight the implications and potential actions associated with each theme. Additionally, within the main report content, a number of key questions for building societies have been highlighted in respect of these themes.

Key themes, implications and potential actions

Theme	Implications for future competitiveness	Potential actions
Strategy & Planning **Whilst building societies share in a common heritage and most occupy broadly a similar space in the wider financial services market, there is divergence in respect of purpose, strategic prioritisation and commercial focus. And unlike many shareholder-owned organisations, growth, as defined by asset base, profit or enterprise value, is generally not pursued as an end in its own right.**	**There is a range of proposition-led strategies from which societies can choose; but individual societies can't pursue them all, so selection and focus are critical** Plans that depend on financial services sector-leading, efficient cost:income ratios, or easy access to secondary sources of capital are not viable options for the vast majority of building societies. However, there are a range of proposition-led strategies which could continue to provide the basis for sustainability and strong performance. These include increased regional focus; pursuing a higher proportion of specialist lending; expanding the liabilities strategy to provide a more comprehensive savings and investment offering; focusing on access via digital channels and possibly API links to other providers. Very few building societies have either the budgets or management bandwidth to be able to pursue all of these, and other options at the same time.	**Prioritise and focus** All societies should ensure they actively test and demonstrate clear alignment between purpose, strategic vision, and key investment and activity plans. Prioritisation and focus will be critical, and success is as likely to be about the effective implementation of the chosen strategy, as much as it will be about differences in strategic vision between societies.
The role of mutuality **Mutuality is reflected in the internal governance, purpose-led strategies, operational decisions and the culture of societies, creating the potential for a genuine customer orientated approach. And whilst mutuality itself is not well understood externally by customers, its outcomes are well aligned with the increasing focus on social purpose in society in general.**	**Mutuality can become point of difference with greater relevance to customers, possibly with a modernised focus on social purpose** There is potential for the concept of mutuality to be 'refreshed' and modernised in the minds of current and potential customers (either at society or sector level), focusing on the consequences and tangible benefits of a mutually focused organisation. Building on this, and reflecting societal trends fuelled to some extent by Covid, there may be an opportunity to align and orientate mutuality to social purpose, which could help attract new customers to building societies. It is also expected that mutuality's current impact on internal culture and the employee proposition will remain a strength for the sector, playing a part in helping societies attract and retain talent.	**Test, learn, refine** Actively test and refine the impact of mutuality messaging, via research and proposition testing, and in particular the hypothesis that there is a virtuous circle linking mutuality, social purpose, and consumer behaviour. Establish whether a clearly defined social purpose can be a motivating acquisition and retention driver for a new generation of savers and borrowers.

Key themes, implications and potential actions

Theme	Implications for future competitiveness	Potential actions
Regionality & Community **Regionality is an important feature of the sector, and can be closely linked with mutuality. This is especially for small and medium sized societies, where a strong commitment to supporting local communities is evident. This is more than CSR, and for many smaller and medium sized societies the strength of loyal savers through the branch network is a strong driver of performance.**	**Meaningful community engagement is core to regional success, for customer engagement and branch-based savings** Links to the local community, specifically what is perceived as the traditional heartland, currently support both the purpose of the society and a lower-cost source of liabilities. This is especially true for the small and micro societies who often rely on a large proportion of regional funding." This commitment to a community, generally most visibly manifested via the presence of a branch network, is expected to remain an important driver of the sector's business model and many societies are both actively considering how to make more of their branch estate and considering how to extend their physical footprint in an agile and low-cost way. It is expected that for most societies, their region will continue to provide an important source of customers and balances, but that they will also draw in customers from beyond their heartland on both sides of their balance sheet but especially for mortgage lending.	**Strengthen regional relevance** Development of a deliberately designed and distinctive community proposition, linked to social purpose and the broader theme of mutuality, and going beyond the utilisation of the branch network and contributions to local charities. Use engagement with local customers (within target segments) to understand their perspective on the possible role their local building society could play as being most valuable.
Technology & digital transformation **As with all organisations today, building societies need to continually evolve digitally and remain relevant to current and potential customers. This is widely acknowledged across the sector and is being addressed as a near-medium term priority by many societies across both broker and savings markets.**	**Societies need to invest for a digitally enabled future, for customer engagement, distribution and operating efficiency** For most societies, the ability to compete in the mortgage market at sustainable margins is achieved by a combination of non-standard products and criteria, manual decision making, and a strong and efficient broker proposition. In the short and medium term, societies must continue to take steps to enhance digital capabilities and data connectivity in key areas for their specific propositions. For most, this will initially involve focusing on elements of savings functionality and mortgage broker interfaces. The mortgage broker market can be more efficiently served using technology and data more effectively, but bespoke service and decision making will be retained in the short and medium term as a point of competitive advantage. In the longer-term, societies need to ensure their technology and data management capabilities are modernised to enable more efficient ways of working; automated processes; internal efficiency improvements; data analytics and regulatory reporting; and meeting the needs of a customer base increasingly turning to digital channels.	**Develop the roadmap** Develop a clear short, medium and long-term roadmap for digital change and data connectivity requirements based on market insight and needs. Common requirements will mean adoption of similar technology solutions will be viable, and communication (possibly collaboration) with other societies should be considered.

Sector summary, statistics & insights

Building Society Sector

43 building societies

1,383 branches

more than **43,000** employees

91% of assets and **90%** of members are accounted for by the largest six societies

24% of branches and **18%** of employees are held by the other 37 societies

Strategy

- 81% identify their building society as asset/ lending led; 19% as liabilities / savings led.
- 43% consider their society is pursuing a niche, national lending and regional savings strategy.
- 94% state their strategy will be maintained for the next 2-3 years.
- 30% of CEOs interviewed are undertaking activities to diversify income streams.

Mutuality

- 70% agree that mutuality is acknowledged by members but not understood.
- 66% consider mutuality is about culture, values and social purpose.
- 33% of CEOs interviewed believe mutuality has the potential to resonate more with younger demographics.
- 93% say that mutuality affects decision making.

Regionality

- 71% consider the branch network is a critical part of regionality.
- 90% believe community involvement is a commitment to regionality.
- 48% of CEOs see a link between regionality and mutuality with regards to keeping local branches open to serve communities
- 64% of all survey respondents agree that regionality is a critical part of the identity of the building society sector.

Technology

- 67% identify digital transformation as the primary challenge to the sector over the next 5 years.
- Risk, legacy technology, budget and resource constraints are cited by CEOs as key barriers to adopting the latest technology.
- 46% of non-building society stakeholders feel cultural factors are a key barrier to tech adoption whereas only 12% of building societies see this as a barrier.
- 65% consider Open Banking to be an opportunity for the sector (55% of building societies, 75% of industry stakeholders).

The statistics on this page are drawn from Whitecap's CEO interviews and online survey responses from building society respondents unless otherwise stated. Building society sector data was drawn from the BSA Yearbook 2020/21.

Summary of key findings, by research area

Sector

- An established and stable sector containing 43 building societies of a wide range of sizes and locations across the UK.
- The six largest societies have 90% of the customers, but 24% of branches belong to the rest of the sector.
- The breadth of savings products offered is highest in larger societies, but on average smaller societies have broader mortgage product ranges.
- Covid has caused an acceleration in the use of technology, but not a fundamental change in strategy or business models.

Strategy

- The sector is not homogenous, and societies adopt a range of different strategies and business models.
- Growth is not always viewed as a primary indicator of success in the sector.
- The need to evolve digitally and remain relevant to current and potential customers of all ages is acknowledged as a priority, but not necessarily an immediate one.
- Communication and relationships between societies are strong, but collaboration on joint initiatives is rare.

Mutuality

- Mutuality is primarily a concept that influences decision making and internal culture rather than a key customer facing proposition.
- The purpose-led approach reflected by mutual status means the decision-making process of societies is more considered and long-term than that of other shareholder-driven financial organisations.
- The ethos that underpins mutuality is believed to be well aligned with the increasing focus on ethics, sustainability and purpose in society in general.
- Actions and contributions to regional and social communities during the pandemic have reflected a commitment to mutuality.

Regionality

- Regionality is important to all societies, but especially for the small and medium organisations, and is seen as a key commitment to local communities.
- The local branch network continues to play an important role for customer engagement, especially for savings, and brand profile, and the repurposing of branches towards a 'community hub' proposition is seen as a logical and desirable development by some societies.
- A focus on regionality frequently manifests itself as local community involvement aligned to the specific needs of the region.
- Some building societies offer specific products or pricing options that are limited to their heartlands.

Technology

- Societies acknowledge a requirement to enhance digital capability to meet customer needs and deliver operational efficiencies.
- Approaches to modernisation range from augmenting existing systems to the complete replacement of core banking systems.
- Many societies aspire to adopt an API driven approach to deliver modern tech solutions alongside legacy core banking platforms.
- The highly competitive technology and FinTech supplier / partner market is challenging for societies to navigate but is recognised as a source of new ways to deliver a modern customer experience.

Summary of key findings, by research area

Mortgages

- Most societies have chosen to compete in underserved niches to enable mortgage lending at acceptable margins.
- There is a significant reliance on the broker market for new mortgage lending, leading to a requirement to align with the evolving technology requirements of this market.
- Manual underwriting is a key USP in the mortgage proposition, and one that will be retained as the mortgage lending and servicing processes benefit from increased efficiency, driven by technology.
- The opportunities of tech developments such as APIs and process automation are being actively explored by building societies.

Savings

- Societies are enjoying strong savings performance and do not currently face significant issues attracting new deposits.
- The importance of financial resilience and the benefits of having savings have been highlighted during the pandemic.
- The requirement to provide online savings propositions is acknowledged and being acted upon by societies.
- However, there is the potential that digital channels will drive commoditisation of the savings market, fuelling tactical customer switching, representing a threat.

Key challenges

- The imperative to remain relevant to their members is front of mind for CEOs of building societies.
- Societies need to continue to protect their margins in light of rising costs, particularly in terms of regulatory compliance.
- Successfully navigating the requirement for digital transformation is a key challenge societies must address.
- Attracting and retaining high quality and appropriately skilled employees can be an issue for many societies.

Statistical analysis

- There is no consistent strong relationship between the broader size of society, financial performance, and breadth of product range categories across the sector.
- On average, the largest building societies are the strongest performing segment within the industry.
- In relative terms, some small and medium sized societies demonstrate stronger performance than the strongest performing large societies.
- Micro and small sized societies have broader specialist niche product ranges than the medium and larger societies.
- There appear to be positive relationships between net interest margin, profit over mean assets and the breadth of product range.

Online survey findings

- Niche lending and regional savings strategies are the most prominent among building society respondents, with the majority of societies identifying as primarily being lending led, rather than savings led.
- Broad agreement that mutuality and regionality are significant for building societies, across building society and external organisation participants.
- Building societies are focused on improving intermediary facing digital functionality in their mortgage propositions.
- Open Banking is seen as an opportunity by building societies.
- Budget and legacy technology are the primary barriers to technology adoption.

Stakeholder perspectives

"Building Societies are sometimes seen as a 150-year-old safe pair of hands with branches that are part of the community, which is their USP compared to banks. Their core products, however, don't naturally lend themselves to apps or web-based services as part of a customer's daily financial habits. This means developing these tools is often not a priority for the sector. Going forward, building societies will need to develop digital tools that will engage their customers and not just the younger demographic. The challenge will be how the sector integrates digital into the branch network."

Keith White, Director, Credera

"Building societies are one of the key pillars in the UK's financial services market. Their commitment to their members highlights their customer-centricity and focus on high quality customer service. We see an opportunity to help this sector in a way that maintains their culture and service. The right technology enables the natural evolution of new engagement channels and experiences, both in the physical and digital world. At Mambu, we're well positioned to support building societies in their future growth."

Richard Morgans, General Manager UK & Ireland, Mambu

"People want to buy products and services from a more ethical perspective - particularly Gen Z and Millennials. Building societies are really well placed to offer this, however they risk losing out on the digital front. The market is coming to them, but they need be better positioned digitally to take advantage of their increased relevance to the younger generations. "

Richard Wainwright, Chief Executive, Mutual Vision

"Most building societies are focused on their own markets and often don't feel like they need to compete with the big players. They don't need to just grow and grow with no control. They also have a regional advantage and banks have helped by removing branches from high streets."

Stephen Dawson, Partner & FS Lead, Shoosmiths

"Organisations are having to adapt to the new normal and digital transformation, especially Open Banking and Open Finance, are key to this. The ability to rapidly deploy customer consent driven services; leverage ecosystems and improve cost efficiencies can all be achieved through APIs outside of core IT and whilst preserving scarce IT resources. Moneyhub's digital mutual solution delivers what building societies have always stood for but with light touch SaaS implementation."

Sam Seaton, CEO, Moneyhub

"The world in which we live has changed dramatically over the last 12 months. Increasingly members are relying on digital services to fill the gap between visiting branches and face to face meetings. It's no longer sufficient to have simple 'it will do' online services, as members and customers now depend upon these services."

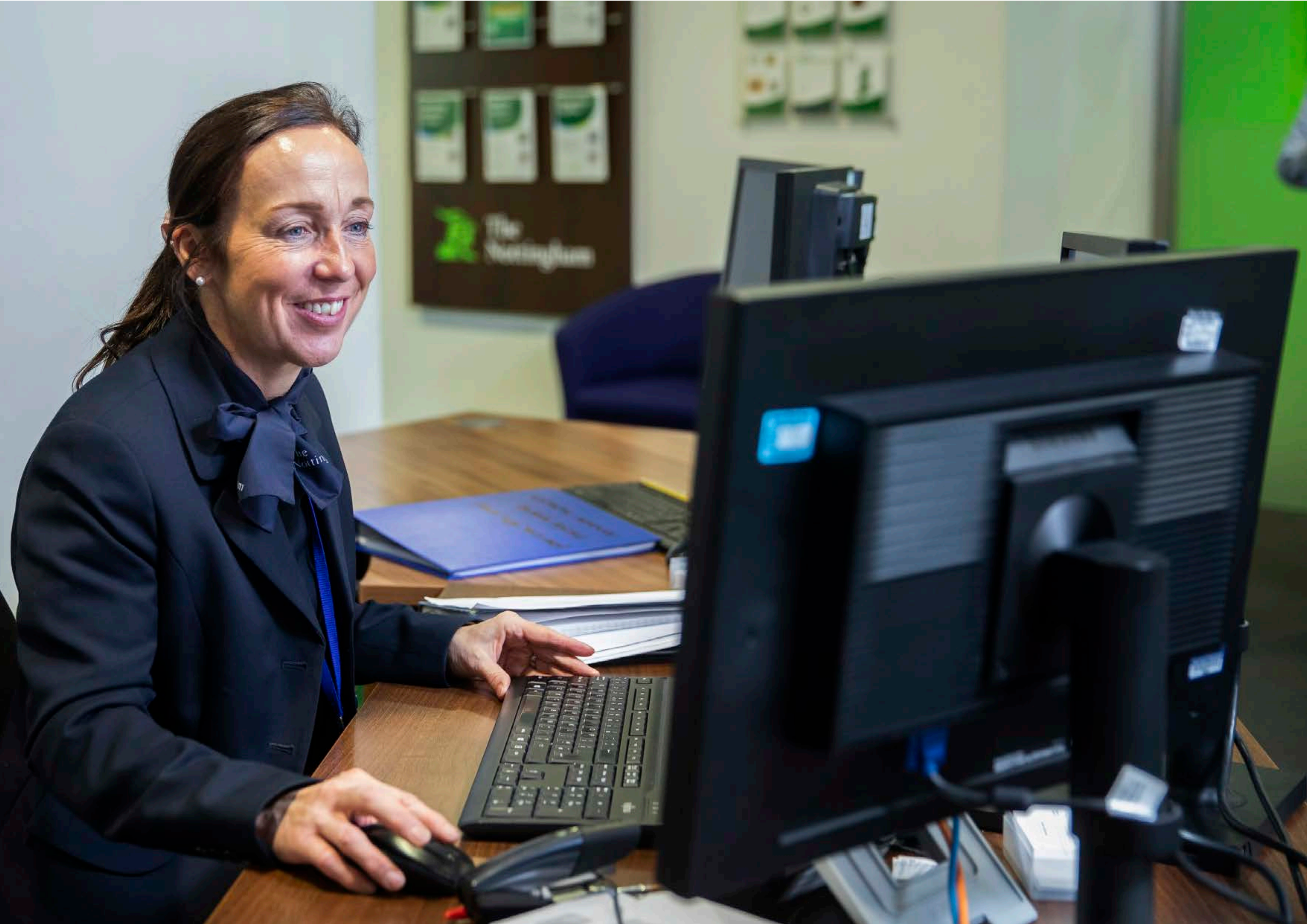
Colin Rankin, Sales Director, Sandstone Technology

"Historically, the greatest strength of building societies has been their ability to create intimate relationships with their customers to meet their exact financial requirements. If we look to the present day, we find that very little has changed. Societies have a real opportunity to combine their digital and human touchpoints into a true 'Omni-channel' experience which reflects the needs of members as we come out of lockdown to consume highly personalised local services. This ranks building societies as worthy alternatives to both the new challengers and incumbents."

Jerry Mulle, Sales and Propositions Director, Sopra Banking Software

"We always start by asking new lender clients about their problems and hear the same themes: to look more modern, to make life easier for customers and brokers, to have a mobile presence, to digitise complex processes while maintaining a human touch, and to avoid the need for complex technology programmes; so we focus obsessively on developing our products to solve for these needs in the non-mainstream lending market."

Matthew Elliott, Co-Founder, Nivo


The Nottingham

Building Society Sector Analysis 2021

Economic landscape for building societies

Sector overview

Strategy

Mutuality

Regionality

Mortgages

Savings

Technology

Key challenges

Economic landscape for building societies

Andrew Gall
Chief Economist
Buidling Societies Association

The Covid pandemic has caused economic and social upheaval across the world, just over a decade after the financial crisis rocked the global economy. The policy response to the pandemic in the UK has been unprecedented, with the Government supporting people's jobs and providing loans to businesses, while the Bank of England cut the Bank Rate to 0.10%, a record low. As a result, although UK economic output finished 2020 almost 10% smaller than 2019, the Office for Budget Responsibility expects unemployment to peak at just 6.5%, considerably lower than in previous recessions.

The housing market was shut down completely for over two months in the first national lockdown, and over the course of 2020 building societies granted over 450,000 mortgage payment deferrals to borrowers who had been affected by the pandemic. Demand from homebuyers rebounded quickly when the market re-opened as people sought to move to properties with outside space or home offices, buoyed by a cut to Stamp Duty. Building societies entered the pandemic in a strong position, with robust capital ratios and good levels of liquidity. The Government's support for jobs and the strong recovery in house purchase activity meant that they have recently reported solid performances for 2020.

But there remains huge uncertainty about the economic outlook. While there is optimism that the vaccine rollout will enable the economy to rebound sharply as lockdown restrictions are lifted, new variants of the virus could disrupt the recovery. Several of the emergency policy measures have been extended into Autumn 2021, when it is hoped they can be removed without a sudden stop, but there will be considerable differences across sectors. And it is very unclear how households and businesses – some heavily indebted – will respond as life gets going again. For example a substantial proportion of households whose incomes were maintained through lockdowns but whose spending was curtailed have accumulated significant additional savings. It is unclear how much of this will be spent. In the housing market, to what extent will the demand for more spacious, less urban, properties persist?

As well as increasing uncertainty, Covid has compounded the challenges that the UK faced before the pandemic struck. Since the financial crisis, economic growth has been slow and productivity growth weak. Added to this, the longer-term scarring impact of Covid on the economy is hard to predict, but in March 2021 the OBR estimated that the UK economy's supply capacity would be reduced by 3% due to the pandemic. Covid has also brought into sharper relief the inequalities in society, as its impact has been spread unevenly. Adjusting to the UK being outside the European Union adds another dimension.

But there are also opportunities arising from the challenges, with the potential for radical reforms aimed at boosting growth. Investment by government and businesses will build on technology. Before Covid, substantial digital innovations were not always feeding through into higher productivity. In coming years, as use cases develop, there may be greater application of these innovations. In the building society world Open Banking and Finance are a case in point. Widespread investment will also be required across the economy to achieve Net Zero carbon emissions by 2050, with many societies looking at the opportunities to provide finance to make homes more energy efficient. Plans to support local communities, with a greater role for regional economic development, can align well with business that engage local members and employees.

In their past, building societies have proved resilient yet adaptable. They will need to demonstrate these attributes again as they meet the changing needs of society in a post-Covid economy.

Building Societies Association

Sector overview

An established and stable sector containing 43 building societies of a wide range of sizes and locations across the UK

The six largest societies have 90% of the customers, but 24% of branches belong to the rest of the sector

Covid has caused an acceleration in the use of technology, but not a fundamental change in strategy or business models

The breadth of savings products offered is highest in larger societies, but on average smaller societies have broader mortgage product ranges

There are 43 building societies in the sector today. Within the sector, the largest societies dominate, with the top 6 by asset size accounting for 90% of the customers (members). Interestingly, the other 37 societies account for 24% of the branches, illustrating the strong commitment to local markets that has been evident throughout the process of conducting this research.

We have seen a cluster of similarity across societies of varying sizes around a clear purpose driven approach whereby success and sustainability are about continuing to provide their core offering to their local community into the future. For these societies a branch presence is an important manifestation of their connection and commitment to the local community. The branch estate is not seen just as a legacy overhead from a previous era, but as an asset to be invested in, albeit performing a different / broader role in the future than in the past.

The difference in the scale of organisations is stark. Nationwide accounts for more than half of the sector on most measures, while the Coventry and Skipton were acknowledged in the Sunday Times 25 Best Companies To Work For list in 2020. At the smaller end of the table, societies such as Penrith and Beverley have one branch and fewer than 25 employees each. In 1995, there were 80 building societies. Of the largest 10 building societies in 1995, only Nationwide remains in the sector today with 20 of 1991's top 30 building society names no longer active in the sector due a combination of mergers and demutualisation. The smaller societies have seen proportionally less change since 1995, with 13 of the smallest 30 societies from 1995 missing from the sector today.[1]

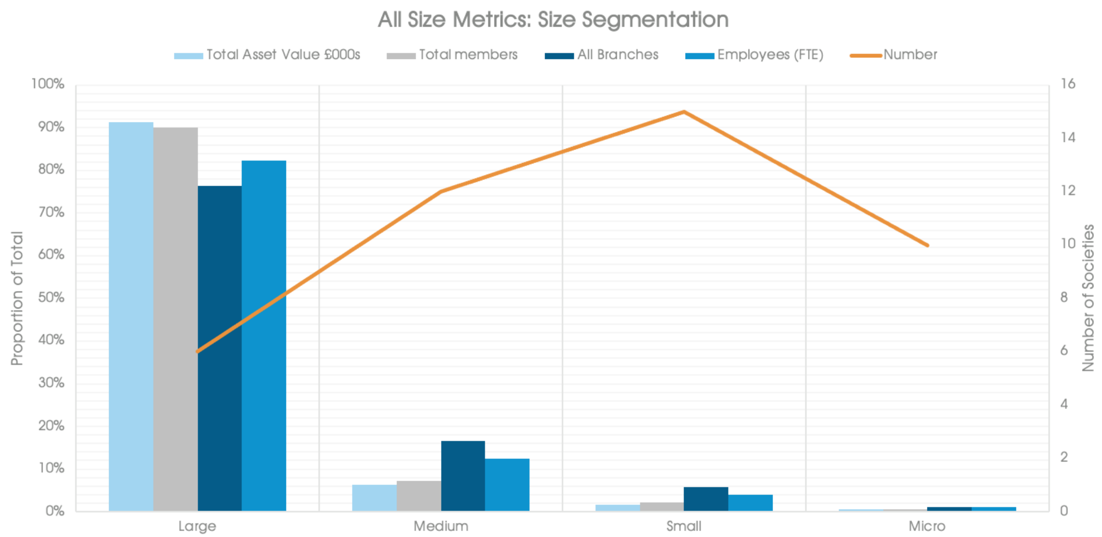
As the findings of this research and the history of large and small societies outlined above illustrates, however, size is not the only measure by which the sector should be judged. The pursuit of stability as opposed to an imperative to grow enterprise value is one area where the mutual model is perceived to bestow a particular advantage for all societies, or a least a distinct difference to the shareholder-owned model.

The CEO interviews conducted during the course of this research clearly showed that the sector has been subject to the same pressures as other industries in terms of adapting to new ways of working and accelerating digital adoption. We did not, however, find any examples of fundamental changes in strategy as a result of Covid. Research conducted by the BSA this year found that being at the forefront of technology is generally less important to consumers than other aspects of behaviour by their banking providers. It also revealed that the proportion of people that like new technology being implemented in banking had grown only slightly since 2019 (from 42% to 46%),[2] having been broadly flat in prior years.

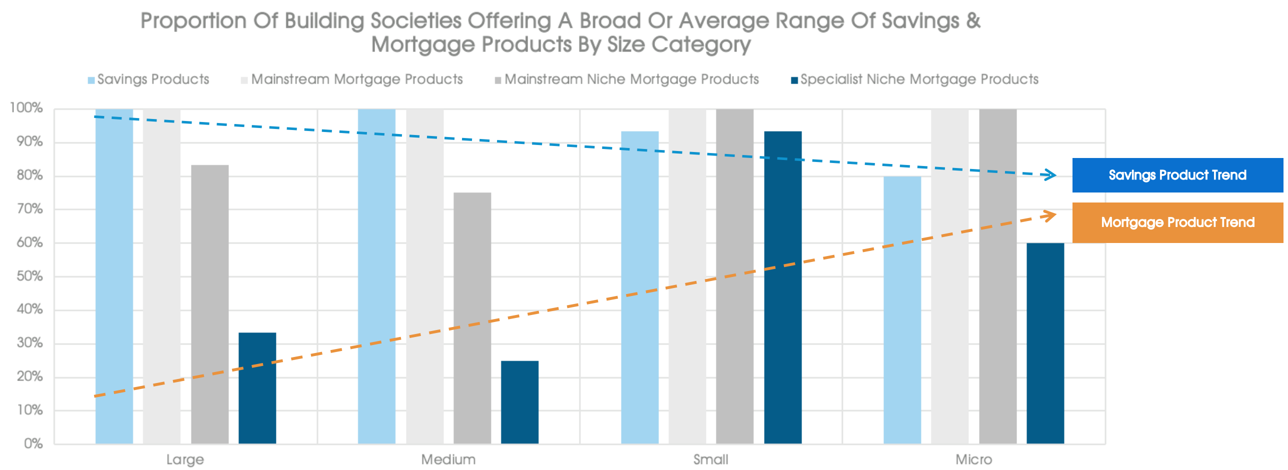
[1] Wells, J. 1997. Changing Times for UK Building Societies

Sector overview contd.

For the purposes of this research, we have broken the sector down into four categories based on their size: Large (6), Medium (12), Small (15), and Micro (10). The table below shows the breakdown of key sector metrics across each size category:



As part of this research we analysed the breadth of product ranges across all societies, identifying that savings ranges broaden as organisational size increases, while with mortgages the inverse is true. This analysis only reviewed product categories, not the number of individual products within each category, so it can only be viewed as a measure of breadth rather than depth of product offering:



[2] BSA. January 2021. Customer Attitudes 2021

Stakeholder perspectives

"Big banks are automating, increasing efficiency and taking the mass market share which is causing the bigger building societies to look at our market segments."

Karl Elliott, CEO, Beverley Building Society

"The more a business grows, the less it sometimes acts in accordance with its underlying purpose and proposition. As a sector, we know what we do well, and we don't want this to be diluted by over-prioritising perpetual growth."

Gerard O'Keeffe, CEO, Buckinghamshire Building Society

"We're here for the long-term, you see through periods of crisis that the sector has been consistent and resilient."

Jeremy Wood, CEO, Dudley Building Society

"Building societies need to look beyond their existing suppliers for solutions that can address their ambitions. They need to be more daring in their approach to the future and not just in product design."

Neil Williams, Director, Neil Williams IT Consultancy Ltd

"Digital Transformation: In my experience, the drive and steps needed for digitisation is both slowed and perhaps unclear to many societies due to legacy systems, budget constraints and internal resource/expertise."

Peter Toole, Strategic Relationships Director, Paragon Customer Communications

"Whilst there are a myriad of challenges facing the building society sector, there is no reason to believe that the societies do not have a very positive future if they can continue to adapt."

Jon Pepper, Partner, RSM

"I believe Building Societies are increasingly relevant to younger generations (Gen Z / Millennials) due to their ethical, values drive, mutual ethos but, to date, they are simply not grasping this market opportunity. This is partly because they are used to servicing their existing, more mature customer base and partly because they do not have the required digital capabilities to service a younger demographic."

Richard Wainwright, CEO, Mutual Vision

"I think the building societies should be pooling / sharing ideas to enable cost effective digital tools with fintech firms."

Ian Shaw, Manager, Yabber Global Ltd

"Rising expectations for digital services from members, but at a time of increased regulations, low interest rates, lots of competition, lower margins. Internal departments often don't have the bandwidth to look at the technology that is available to help them to transform their back offices and to improve the customer journey."

Dave Wilson, Director, Paylink Solutions

"Covid-19 has magnified the focus on regionality and supporting each other on a local basis. We predict this will mean more going forward."

Paul Denton, CEO, Scottish Building Society

"There is a strong place for regional building societies serving their traditional customer base but the consumer experience they provide needs to change if they are to attract business from the next generation and the generation beyond that let alone appeal to new customers, wider a field, which they must do to grow and compete."

Simon Little, Director, Autumn Life Retirement Solutions Ltd

"As a sector we need to build on what we do already through modernisation. Some people still see building societies as old-fashioned organisations who need to move forward, progress and become more innovative, but I think many societies have made significant progress in this respect."

Will Carroll, CEO, Monmouthshire Building Society

"Looking back at the effect of the pandemic on building society operating models, we estimated that 4 years of digital innovation happened in six months. We observed a culture of openness, a willingness to embrace new methods and a laser focus on the needs of the member. It is clear that the sector as a whole is exceedingly well placed to support the changing needs of a country in flux. The society model underpinned by the personal underwriting touch means it is often able to offer a more suitable product that is a better fit to the members' individual circumstances than many competitors."

Jerry Mulle, Sales and Propositions Director, Sopra Banking Software

Strategy

The sector is not homogenous, and societies adopt a range of different strategies and business models

Growth is not always viewed as a primary indicator of success in the sector

The need to evolve digitally and remain relevant to current and potential customers of all ages is acknowledged as a priority, but not necessarily an immediate one

Communication and relationships between societies are strong, but collaboration on joint business initiatives is rare

When conducting the research, we observed that the sector is not homogenous; each society has a distinct mix of strategies and set of objectives that are based upon the individuality of that society and the long-term ambitions of its leadership team.

While there is a common core focus on mortgages and savings, the focus of individual societies can vary, with our online survey revealing that 81% of societies consider themselves to be assets/lending led, and 19% being liabilities/savings led. This finding may reflect the fact that the lending side of the business is more complex and requires more resources and processes. Looking beyond these core markets, there are many examples of building societies diversifying their revenue streams through ventures such as subsidiaries, joint ventures, investments and commercial partnerships, of which there are multiple examples later in this report. Within mortgages and savings, there are a wide range of examples whereby the strategic focus of the building societies reflects heterogeneity. For instance, 36% of CEOs interviewed consider their society to be primarily serving national lending and savings markets; 27% are focused on national lending markets and regional savings markets, 18% are pursuing regional lending and savings markets; and 9% are focused on regional lending markets and national savings markets.

An additional finding from our research is that in the building society sector, growth is not the primary indicator of success. Growth is desirable to help ensure long-term sustainability, but it is not the key driver in the way it is for privately owned organisations where there is an expectation of perpetual growth and profit maximisation in order to increase shareholder wealth. In the CEO interviews, the difference was often explained by a comparison of the different decision-making dynamics of building societies and banks. This is a comparison these CEOs are well placed to make, with many having come from a shareholder-owned banking background. When analysing the current and future strategic goals of the sector, we observed a strong focus on ensuring each building society can be there for its members and future generations rather than a desire to achieve ambitious growth targets or implement radical innovation.

There are signs of increased digital adoption in financial services, particularly in transactional banking (ie current accounts, which are deliberately not offered by the vast majority of building societies). Research shows that unsurprisingly, the highest proportion of users of internet banking are those aged 18 – 24 (91%).[3] and their use of mobile banking apps has increased from 44% in 2019 to 64%. Of those that represent the majority of building society customers (aged 55+), the uptake of internet banking is also noticeable at 43%; their use of mobile banking apps however has remained flat at 32%.[4] This data suggests that society is moving towards digital but at a faster pace amongst the younger demographic and throughout our research we found that the actions of building societies are in accordance with this as the sector acknowledges the need to increase their digital capabilities in order to be sustainable, however, because digital adoption is slower amongst their core member base, it is not an immediate imperative. With regards to savings, the typical member profile tends to skew towards the over 50's, and often have large savings deposits, reflecting the distribution of cash wealth in wider society. Behaviourally, there is some evidence that building society savers, especially those with branch-based savings, are loyal to their provider.

Conversely, there is a younger generation who are digitally native, unaware of the historic context of building societies and who have little or no savings. Although this generation may not require the services of a building society right now, eventually they will become the target market of the sector and because their expectations and behaviours are so different to previous generations, understanding their needs and adapting the proposition accordingly may determine which building societies successfully establish long-term sustainability.

[3] Office for National Statistics, 2019. Internet Banking by Age Group
[4] Building Societies Association. 2021. Consumer Attitudes 2021

Strategy cont.

The opportunity for collaboration in the sector is an area of interest not only to building societies, but also to providers to the sector who see an opportunity to deliver collective solutions. Noting that societies can and would only collaborate on non-competitive topics permitted under competition law. We found that collaboration is currently primarily reflected in open communication and discussion that takes place between societies, both directly and via the BSA.

The CEO interviews highlighted the fact this group in particular is a strong peer network, but relationships also exist across other management levels of societies, often fostered at BSA events. The opportunity for more formalised collaboration within the sector is acknowledged but is not currently prevalent in the sector, and whilst there are many areas where societies seek the same services / technology from the same suppliers, they will usually contract on an individual basis.

For mortgages, from the building society perspective, survey respondents believe that other building societies will be their key competitors over the next two years in both the mainstream (77%) and specialist (80%) markets. This could be preventing the sector from collaborating as they perceive each other as core competitors as so may be less encouraged to engage in knowledge transfer and resource sharing.

Strategy clusters

Building on the insights from this research, it has been possible to identify 4 strategic clusters of societies that, based on our interpretation, demonstrate an emphasis in a particular direction, as outlined below. These are not mutually exclusive clusters, with a number of societies featuring in more than one cluster:

'Regionally focused'
Those societies who can be characterised as seeking to retain and develop the branch presence and offering, with some considering evolving branches into community hubs. Select elements of the mortgage product range are only available locally, for example for first time buyers and other specialist lending, including selected commercial lending. In some cases there are enhanced interest rates available to local savers. These societies tend to be medium to small in terms of asset size, for example: Cumberland, Newcastle, Scottish, Swansea, Monmouthshire, Beverley, Dudley, and Furness.

'Underserved and complex niches'
There is a cluster of societies that have a higher than average presence across underserved and complex niches, indicating a focus on specialist lending. These societies expect that there will be increasing complexity of customer needs in existing and new market segments, reflecting changes in employment patterns and customer circumstances. These societies tend to be medium to micro in size, such as Ipswich, Dudley, Tipton & Coseley, Loughborough, Bath, and Penrith, although Leeds also falls into this category.

'Technology advocates'
Societies who are demonstrating proactively driving technology change, experimenting with new capabilities to improve internal efficiencies, distribution partner connectivity and the customer experience. These societies are testing automation to support the mortgage and saving process and working with third parties, including established technology providers and FinTechs.

They are typically the large to medium societies, for example Nationwide, Yorkshire, Coventry, Skipton, Principality, Monmouthshire, Nottingham, Newbury, Hinckley & Rugby, Market Harborough.

'Diversified business model'
Societies who have developed material revenue streams from non-core activities, including whole of market mortgage advice, investment advice, car finance, SME finance, estate agency, technology services provision, property and business investment activity. These societies tend to be medium in size, with some large societies, including Skipton, Nottingham, Newcastle, Cumberland, Saffron, Melton, and Family.

As noted, some societies appear in multiple clusters. This should not be considered to reflect a lack of strategic focus, as it is perfectly viable for societies to be active in more than one cluster.

Examples of diversified activities by building societies

- **Family Building Society** has made an equity investment into **Smart Money People**, a consumer review platform. The review data is used by multiple financial services providers, including several building societies.

- **The Family** has also invested in property, co-investing with one of its members to create a buy to let portfolio.

- **The Melton** is also an Appointed Representative of MAB, using this relationship to provide whole of market mortgage advice across the products of multiple lenders, thus generating commission-based income for the society.

- **MBS Lending** (MBSL) is the broker-only specialist lending division of the Melton and provides impaired credit mortgages.

- **Nationwide** has created an investment arm, **Nationwide Ventures**, via which it is investing £50m into FinTech businesses that are aligned to its strategic priorities. Investments to date include **Moneyhub** (financial data aggregation, inteliigence and payments), **Bunk** (digital lettings), **Scaled Insights** (Behavioural AI), and **Acasa** (shared bill payments).

- **Newcastle Building Society** has a technology subsidiary (**Newcastle Strategic Solutions**) which supplies outsourced savings technology and servicing to a range of UK banking providers.

- **Nottingham Building Society** operates a whole of market mortgage broker, Nottingham Mortgage Services, which is an Appointed Representative of **Quilter Financial Planning**.

- **Penrith** provides mortgage advice (on its own products only) via **Cumbria Mortgage Centre Limited**, its subsidiary which is and Appointed Representative of Mortgage Advice Bureau (MAB).

- **Principality** has a secondary commercial lending business, including portfolio buy to let and commercial lending in industrial and retail, including self-build.

- The society also funded a property development scheme of 800 homes in Cardiff.

- **Saffron Mortgage Finders** is the mortgage advice arm of **Saffron Building Society,** offering advice across more than 50 lenders. The service is free for Saffron Members.

- **Skipton Building Society** is part of **Skipton Group**, which includes organisations such as **Connells** (estate agency), **Skipton Business Finance** (factoring and invoice discounting), and **Skipton International** (offshore banking). It also owns a majority stake of its core mortgage and savings systems provider, **Jade Software**.

- **Wren Sterling**, a national IFA, provides pension, investment, protection and estate planning advice via partnerships with **Nottingham, West Brom, Darlington, Saffron, Leek United, Vernon, Tipton, Melton Mowbray, Mansfield** and **Loughborough**. Wren Sterling's independent financial advisers provide a branch and telephone-based service to the members of these societies.

Key questions for building societies in respect of strategy:

1. Are you able to succinctly describe your organisation's purpose. E.g. how you will make your members' lives better in the future?
2. Do you have a clear view of what you want the shape and size of your member and customer 'portfolio' to look like over various time-horizons into the future?
3. Do you have a clear view of the promises you will need to make and keep to current and prospective customers in order to build / maintain that portfolio and to deliver on your purpose?
4. Do you have a clear view of what financial performance metrics you need to achieve in order to have confidence in your long-term sustainability?
5. Do you have a clear view of the operational and behavioural competencies you will need in order to deliver the above outcomes?
6. Are you clear on the nature and magnitude of any gaps between your target state and your current state?
7. Have you costed, prioritised, and sequenced the actions you need to take to make meaningful progress towards your target state?


Young Adult
Welcome
Newcastle
Building Society

emmaus
Leicestershire & Rutland
working together to end homelessness
Second-hand furniture & household bargains:
Furniture
Household goods
Electricals
Retro/Vintage
Coffee shop
Shabby chic
Bric a brac
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BUILDING SOCIETY

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#alwayswithyourinterestatheart
#savingssorted


Hand
sanitiser.

Stakeholder perspectives - strategy

"We have national distribution of our mortgages through brokers, and we lend in specialist markets that give opportunities for good margins. For savings, we continue to look at local markets and focus on the local members who are investing in us."

Jeremy Wood, CEO, Dudley Building Society

"We're a national but segmented lender. Our savings are also national and largely deposited in branch with some online transactions."

Richard Fearon, CEO, Leeds Building Society

"We've restricted our savings markets to only Wales and 85% of our mortgage book also originates in Wales. We're classed as a niche mortgage lender."

Alun Williams, CEO, Swansea Building Society

"With regards to mortgages, we only have heartland distribution. With savings, 95% of our funding is regional. Before Covid, we were looking to create a community space that people could use for free."

Tim Bowen, CEO, Penrith Building Society

"Successful digital transformations require a shift in work processes and conventions, ensuring that they are aligned to a new digital system, rather than moulded to fit familiar, antiquated legacy systems. Additional resources may be needed to facilitate implementation, and the internal transitional period between migrating from one system to another."

Nick Lawler, Sales Director, DPR

"Our mortgages are just for Scottish residents, so we only lend in local markets and interestingly, most of the mortgage growth we've seen has been 70% in prime markets. With regards to savings, our focus is also now primarily regional."

Paul Denton, CEO, Scottish Building Society

"We offer financial advice from our advice subsidiary which doesn't exist simply to make a profit; it also exists because it's part of our long-term commitment to our customers and our communities and it aligns with our purpose."

Andrew Haigh, CEO, Newcastle Building Society

"We have a secondary commercial lending business. We do portfolio buy to let which are big portfolios and our commercial includes industrial, retail and self-build. Over a number of years, we've provided types of funding to enable a scheme of 800 mixed tenure homes in Cardiff."

Julie-Ann Haines, CEO, Principality Building Society

"We have made an investment in Smart Money People and we also have a joint venture buy-to-let portfolio."

Mark Bogard, CEO, Family Building Society

"Growth is a strategic focus but on a safe and sustainable basis. Last year the strapline was - Simple Sustainable Growth."

Paul Denton, CEO, Scottish Building Society

"To continue to be sustainable, we need to continue to grow."

Steve Fletcher, CEO, Vernon Building Society

"As we look ahead to the next 12-14 months, a priority is to achieve sustainable and balanced growth."

Colin Field, CEO, Saffron Building Society

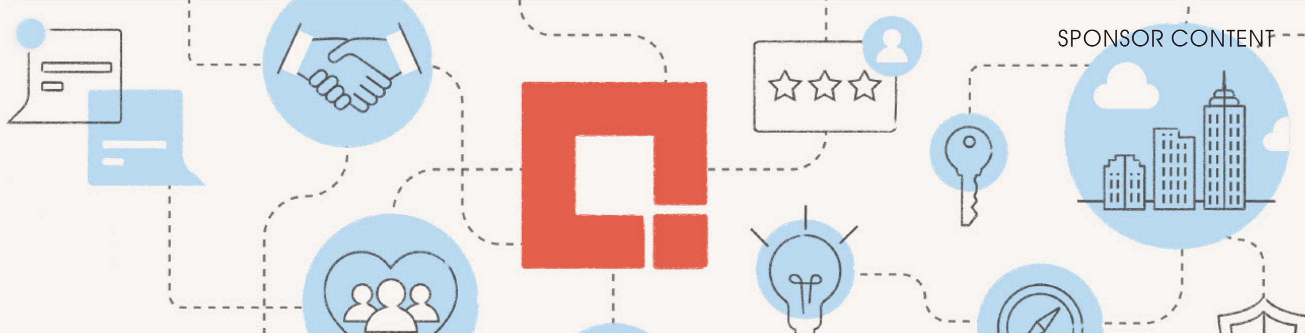
"Younger customers are looking for a different banking proposition than the one we currently offer. For example, they're smartphone driven, and often don't save large amounts, so our challenge is to establish what we could do to get them interested in our Society?"

Paul Wheeler, CEO, Mansfield Building Society

"We have an older member base who presently are not that digitally demanding. This doesn't mean to say we have them forever, we remain conscious Covid 19 has changed digital behaviours of all ages, but I consider we have more time than maybe other High Street Retailers . We have to satisfy our existing member base but also make it so that the younger customers want to come to us and that means modernising, whilst retaining the special personal touch.. There's a whole generation that's coming up that have no desire to go into a branch, they don't use pass books, they do everything online. The clock is undoubtedly ticking."

Mike Smith, CEO, Stafford Railway Building Society

CREDERA



Digital: it starts at home

Digital is a word that encapsulates the technology aspirations of most organisations yet eludes many. Organisations still miss opportunities due to the pace of change and many technology projects are labelled failures due to a perceived lack of ROI (return on investment) or an inability to get to the finish line. Our advice to building societies who are about to embark on a digital transformation journey is: digital starts at home.

What do we mean?

Building societies need to have a more strategic mindset.: ‘know thyself’ and be honest about their current state; the starting point for any digital aspiration. To do this effectively, building societies should impartially assess their internal skills, ways of working, and maturity across architecture, cloud, and data. Whilst there is no silver bullet for digital success, having a more deliberate approach to transformation will set the cornerstone for it.

This may mean building societies are marginally slower out of the blocks but ensuring these assessments are done in parallel to kick-off (i.e. running an agile discovery phase) will maximise the output.

This may sound like common sense but doing this effectively requires investment and an organisation to have a level of purposeful patience.

Knowledge is power!

Having this knowledge will set the foundations for accelerated and sustainable digital success for building societies. It will enable informed decision making and clarify the art of the possible, such as the remediations or innovations that must take place. It frames realistic ROI measures and maps out the tactical actions required to meet strategic goals. Having a tactical layer to strategy is vital as incremental actions result in a more manageable digital pathway and a faster, more regular realisation of benefits.

Comprehensive assessment will provide building societies with:

- An understanding of their digital strengths and vulnerabilities. Knowing where help is needed puts them in a position of strength. Leveraging experts to supplement strengths will allow building societies to focus on what they are best at;
- A roadmap for tailored value-adding business transformation;
- An implementation plan for better ways of working and instilling an innovation culture. Retaining a consistent focus on innovation creates the impetus for regular manageable change, keeping building societies ahead of the game.
- An enhanced development strategy which truly aligns to business goals;
- A determination on where efficiencies can be gained;
- Technology recommendations tailored to the organisation.

> **“...getting independent, vendor neutral advice is a catalyst for greater and accelerated digital success”**

When coupled with an Agile mentality of continuous improvement, this approach could also pay dividends well into the future. By adding further detail to their digital map as they progress, building societies not only set themselves up for future digital success, they create a platform for managed iterative business change. This approach brings an organisation’s people along for the journey too, and not doing so is a common reason why projects fail.

Final thoughts

The survey results show that building societies are at critical transformation juncture. Now more than ever, lines are becoming blurred: people and technologies are becoming progressively more co-dependent and intertwined, and so digital strategies must reflect this to ensure technology and people are not siloed.

In our experience, getting independent, vendor-neutral advice, both in conducting a capability review and in determining the future roadmap, is a catalyst for greater and accelerated digital success. Taking a little extra time to set their compass and mapping out the terrain will get building societies to their destination more efficiently than setting off a little earlier with only the north star to guide them.

Mutuality

Mutuality is primarily a concept that influences decision making and internal culture rather than a key customer facing proposition

The purpose-led approach reflected by mutual status means the decision-making process of societies is more considered and long-term than that of other shareholder-driven financial organisations

The ethos that underpins mutuality is well aligned with the increasing focus on ethics, sustainability and purpose in society in general

Actions and contributions to regional and social communities during the pandemic have reflected a commitment to mutuality

99% of building society online survey respondents agree or strongly agree that mutuality is less about the concept and word itself and more about the culture and values held by each society and its employees, a finding also strongly supported by the CEOs.

It can be difficult to communicate an abstract concept to consumers without providing tangible proof-points, which may explain why most building societies consider mutuality to be more of an internal conversation that influences culture and decision making, rather than being seen as a customer facing proposition. As one society stated, "all the people who work for us are the sort of people who care about these values and these are the people that we attract." However, although the concept of mutuality may lack member understanding, supported by 70% of survey respondents who confirmed that mutuality is "acknowledged but not understood", a number of building societies argue that their good savings rates and their ability to serve complex, niche markets could provide tangible examples of mutuality that resonate more with members than the word itself. For example, during the CEO interviews, it was explained that mutuality often benefits savers through long-term value and to borrowers through catering to underserved markets with specialist lending products.

As well as influencing culture and values, 93% of building society survey respondents stated that mutuality also impacts strategic and operational decision-making, a sentiment echoed by over half of the CEOs (67%). Due to the mutual structure and the absence of the requirement to create shareholder value, leadership teams have the ability to make decisions that are purely for the benefit of their members and in relation to the previously mentioned finding that growth is not always a key driver of success, not for the purpose of maximising shareholder wealth. This does not mean to say that the sector does not acknowledge their need to be commercially viable, but unlike privately owned companies whose decisions are often governed by the constant pursuit of growth and profit delivery, building societies can make more considered decisions that are based on long-term sustainability. Recent research by the BSA supports this finding as the sector consistently outperforms competitors on a number of service metrics with trust being one of their key differentiators (81% against the banks' 68%).[5] Therefore, suggesting that decision making is primarily focused on member benefit and as a result, members appear to reward the sector with their loyalty and trust.

There is a wider move in society towards ethical business and sustainability. A study by Deloitte [6] found that as a consequence of Covid-19, there has been over a 20% increase in the interest and engagement of banking providers social responsibility policies, even taking precedence over interest in environmental policies. A study conducted by Capgemini,[7] also found that high net worth individuals aged under 40 rate ethical corporate governance as a priority before environmental risks when making investment decisions. In support of this, the recent BSA research also found that 40% of people would prefer to deal with a business that has a strong reputation for good conduct, double that of four years ago (20%), and the highest proportion of people that agreed with this sentiment were aged between 25–34.

[5] BSA. 2021. Consumer Attitudes 2021

[6] Making Banking Better: How consumers' expectations have shifted (2021)

[7] Capgemini. 2020. Generation Green is leading the sustainability agenda. [Online]. Accessed 16th February. Available at: https://www.capgemini.com/2020/08/generation-green-is-leading-the-sustainability-agenda/

Mutuality contd.

This, along with the fact that ethical consumer spending has also almost quadrupled from £11 billion in 1999 to £41bn in 2018,[8] would suggest that as more people become committed to the ethical business agenda, building societies, as mutual organisations, are well placed and aligned to a social purpose agenda, reflecting the direction that society is moving towards. Therefore, this offers the opportunity for societies to reflect on their social purpose and positioning, and potentially increase their attractiveness and competitiveness, especially in relation to a younger demographic.

A final tangible example of mutuality that was highlighted during the CEO interviews was the sector's contributions to society during Covid-19 and the support that each building society has given to its local community. For example, all building societies kept branches open during the pandemic, albeit with a reduced number of branches and opening hours, despite the cost implications and reduced staff levels. Further examples that were given include offering transport to vulnerable members who could not get to their local branch, making financial donations to hospitals to fund PPE and medical equipment and providing a drive-through cash access facility; all of which were mentioned within the context of mutuality.

Key questions for societies in respect of mutuality:

1. Are you clear about the role that you want mutuality to play in delivering your purpose?
2. When bringing the concept of mutuality to life, are you clear about who your key audiences will be?
3. Do you have any evidence or insight into what aspects of mutuality might be genuinely motivating for these audiences?
4. Are you clear on how you can demonstrate these aspects and benefits of mutuality, to your key audiences, through real 'proof-points'
5. Are you clear on how to integrate these proof-points into the other components of your proposition design and delivery?

[8] UK Ethical Consumer Markets Report (2020)

Examples linked to mutuality

Large

- **Coventry Building Society** was receiving over 10,000 calls a day from members at the start of the pandemic, 1,000 of which were handled in branches. In response, the society focused on ensuring its telephony service was as efficient as possible in order to provide the support that its members needed.
- In 2020 **Leeds Building Society** committed to not utilising the furlough scheme, not cutting staff pay, and not making any redundancies in the branch network despite the challenging economic conditions. In 2021 the Society extended the suspension of arrears fees until the end of the year.
- **Nationwide Building Society** have a partnership with the anti-bullying Diana Award charity. The three-year partnership will result in an extra 10,000 Anti-Bullying Ambassadors being trained in over 660 primary schools up and down the UK.

  Nationwide Building Society is also launching an incubator to help combat the challenges people face when living in poverty, in partnership with **Fair By Design**. It will bring the startups together with charity experts to jointly explore the problem and co-develop the solution.
- **Principality Building Society** has committed that as long as members are using their branches then they remain committed to having a strong presence in communities.
- **Yorkshire Building Society** kept virtually all its branches open throughout the pandemic, despite the reduced staffing levels. It also wrote recently to 1.6m savings members to inform them it was increasing their interest rates.

Medium

- **Newcastle Building Society** has increased its support to the local community through Covid-19 and continued to keep its branches open whilst offering members financial advice.
- **Nottingham Building Society** chose not to reduce its savings rates despite the economic backdrop and the commercial implications.
- **Monmouthshire Building Society** took over the operation of its Brecon branch from Leeds Building Society, transferring all Branch colleagues into MBS, which helped to achieve a positive outcome for colleagues, members and the wider community.

Small

- **Darlington Building Society** offers a shared ownership product, in partnership with Housing Associations, in order to support members with getting on the property ladder. The society has also committed to expanding its branch network further to increase its reach and accessibility.
- **Dudley Building Society** has been raising funds for local hospitals and providing them with the kit and equipment that they have needed during the fight against Covid-19.
- **Hanley Building Society** maintained its service to its members despite having almost half of its staff out of work due to Covid-19. Having to go briefly from 7 open branches down to 2, the society contacted every member aged over 70 years old to ensure that they had access to cash and if they didn't, offered to arrange this through providing transportation to the branch.
- **Market Harborough Building Society** has provided funds to local people and businesses that were making PPE during the pandemic.
- **Vernon Building Society** was one of a small number of societies to continue to offer 95% mortgage products through the pandemic.

Micro

- **Beverley Building Society** donated the money that it would usually spend on the AGM to the Royal Voluntary Service in order to help support vulnerable members of the local community through Covid-19.
- **Chorley Building Society** has been providing a drive through cash access facility from its branch window for its members throughout the pandemic to ensure that they had access to funds.

Stakeholder perspectives - mutuality

"All the people who work for us are the sort of people who care about mutuality and these are the people that we attract."

Steve Fletcher, CEO, Vernon Building Society

"We think mutuality is really important, whilst banks are worried about short-term performance, we can think about being here for the long-term."

Andrew Craddock, CEO, Darlington Building Society

"The culture and values that come with being a mutual bring an advantage."

Peter Burrows, CEO, Cambridge Building Society

Mutuality sits at the heart of our culture. Honesty, fairness and being passionate about our members is important to us. It's more than just mutuality, it's about the actions and purpose of what we do."

Darina Armstrong, CEO, Progressive Building Society

"In March/ April, we donated money to people making PPE, Covid-19 has put our community involvement in sharper focus"

Mark Robinson, CEO, Market Harborough Building Society

"Mutuality is not something that you can easily package and sell to consumers. Very few people can explain what a mutual is."

Karl Elliott, CEO, Beverley Building Society

"The expectation as a mutual is that you are putting something back into the community."

Sarah Howe, CEO, Harpenden Building Society

"As a sector we could take a more collaborative approach and work together to promote mutuality. Its fundamental in how we run the business. I wish I'd have moved to a mutual sooner; the decision-making process is so different."

Tim Bowen, CEO, Penrith Building Society

"Being a mutual plays out to savers through long-term good value. With regards to mortgages, being a mutual is about picking the markets that are underserved, where there is genuine need for financial support."

Jeremy Wood, CEO, Dudley Building Society

"Mutuality means we can give members better savings rates and better mortgage products. Covid-19 accelerated our need to move forward with online savings, and in mortgages we want to utilise our manual underwriting skills by moving from being a traditional vanilla lender to a more specialist lender and have a wider range of criteria led products."

Mike Smith, CEO, Stafford Railway Building Society.

"We want to increase our engagement with the younger customers who are emerging with a social conscience; there could be a link to mutuality to explore."

Paul Wheeler, CEO, Mansfield Building Society

"We hear lots about gen Z and millennials valuing businesses with a social purpose, but we still have a long way to go in promoting this."

Tim Bowen, CEO, Penrith Building Society

"It's interesting because generation Z are more socially aware and engaged with social purpose, so mutuality should resonate with them."

Simon Taylor, CEO, Melton Mowbray Building Society

"Mutuality is about what you do for your local community and how you contributed during the pandemic. I think people will judge businesses on what they did during this crisis. Going forward, we plan to continue supporting charities and our local community, even more so than we have been doing."

Rob Pheasey, CEO, Marsden Building Society

"We've had a drive through facility open through the pandemic where members can access a cash point through the branch window and do their cash transactions there. It was extremely popular for those who couldn't interact digitally. To provide cash access during the pandemic and support our vulnerable members was really important to us and we were really busy."

Stephen Penlington, CEO, Chorley Building Society

"Many people, particularly younger customers, don't know what mutuality means, so it's important we demonstrate the difference our ownership structure makes in the way we treat our members."

Mike Regnier, CEO, Yorkshire Building Society

MUTUAL VISION

In recent years, and especially since the pandemic, consumers have increasingly sought to engage with purpose driven businesses that share their values and ethics and with which they share an affinity.

This trend has been especially evident in younger generations – Millennials and Gen Z's. Being mutuals, Building Societies embody these principles and values so are exceptionally well placed to attract younger consumers. However, as digital natives, Millennials and GenZ's expect a slick and seamless digital user experience and will not engage with organisations that cannot deliver this. If Building Societies are to benefit from their increasing relevance and particularly to younger consumers, they must deliver an engaging and immersive digital experience. Mutual Vision (MV) believes that the best way for Building Societies to deliver a digital experience that matches and indeed surpasses that provided by the challenger and tier 1 banks is through collaboration.

The Digital Mutual

Building Societies were originally formed within local communities to enable working people to pool their savings to buy and build homes for their members. As the Digital Mutual, MV adopts the same collaborative business model by pooling Societies' investment in technology to create a digital platform and ecosystem of technology solutions designed specifically to meet the needs of the sector and its customers. Through collaboration, the Digital Mutual enables Building Societies and specialist banks to deploy digital solutions that would otherwise be beyond their reach if operating independently. A great example of this is the latest version of MV's Online Banking platform which delivers industry leading levels of digital efficiency for consumers. The graphic displayed to the right represents the speed to onboard by number of clicks, putting MV ahead of the high street banks and rivalling the challenger banks.

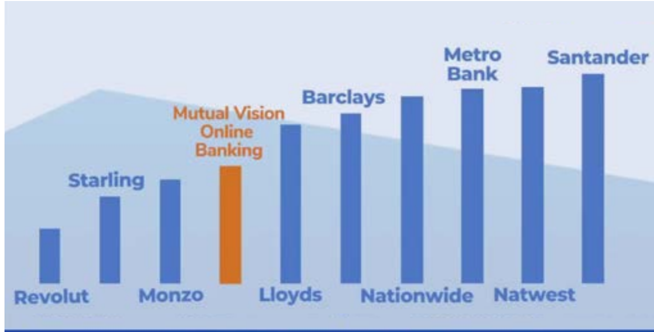
Community driven values

MV is founded on the same community-owned business model as the sector it serves in that it is owned by a number of its Building Society customers – the Digital Mutual. MV shares the same mutual ethos and values and is committed to doing business in a fair, ethical and equitable manner – achieving a "win-win" outcome for all. MV's unique structure provides the perfect basis from which to provide a digital platform and ecosystem that is wholly focussed on the needs of the sector.

Accelerating progress through collaboration

MV is already the strategic technology partner to over 50% of the Building Societies in the UK and is continuously developing a thriving ecosystem of technology partners and FinTechs that offer increased choice and capability to the MV customer community. Looking forward, MV is committed to working collaboratively with customers and technology partners to meet the ever- accelerating demands for digitisation – from automating business processes to digitally enabling customer engagement at home or in the branch or to delivering enhanced analytics insights.

As the Digital Mutual, Mutual Vision's mission is to ensure that Building Societies remain relevant, innovative, vibrant and sustainable for many years to come.



Regionality

Regionality is important to all societies, but especially for the small and medium organisations, and is seen as a key commitment to local communities

The local branch network continues to play an important role for customer engagement, especially for savings, and brand profile, and the repurposing of branches towards a 'community hub' proposition is seen as a logical and desirable development by some societies

A focus on regionality frequently manifests itself as local community involvement aligned to the specific needs of the region

Some building societies offer specific products or pricing options that are limited to their heartlands

The sector makes a clear connection between regionality and branch networks, and there are numerous examples of significant investment and refurbishment within the branch estates which support this statement. In stark contrast to the evident trend of high street bank branch closures, regionality is important to most societies, and they remain dedicated to maintaining (and in some cases extending) their high street presence, taking into account commercial and non-commercial considerations.

Last year, TSB closed 91 branches, Barclays closed 60 and HSBC closed 28.[9] This however does not appear to be a trend that the building society sector plans to follow, with 27% of CEOs highlighting the potential opportunities to expand their branch network either through new or upgraded branches, mobile pop-ups or agencies. Results from our online survey echo this trend as 73% of respondents identify the branch network as a reflection of regionality, second only to 87% of respondents suggesting an active role in the community is critical. The sentiment from the CEO interviews is that the sector feels a duty of responsibility to ensure that their members have an accessible branch within their local communities where they can undertake basic transactions but more importantly where they can engage with branch staff, especially during testing times.

We also find the role of branches is in the process of changing, with their purpose becoming less transactional and more value and engagement driven. One factor driving this change is the increase in online retail and the demise of the local high street which has caused a dramatic drop in footfall. High street footfall had been steadily decreasing since March 2019, but this was severely accelerated by multiple lockdowns and by July 2020, footfall had decreased by 48.1%[10] Examples of future propositions for the branches include making them into community hubs which can be used for recreational activities or a collaborative working space; creating an ecosystem environment which hosts other independent businesses and incorporating digital into branches which could see virtual advisors and various technology interfaces. Also known as the "phygital concept", by integrating digital into physical branches, building societies may also become more aligned with the needs and capabilities of both a younger demographic and wider society. At the end of 2020, 76% of people in the UK were using online banking[11] and by 2024, it is expected that 71% of people will be conducting their online banking through their mobile phones.[12] Although this may not be an immediate concern for the sector as the majority of their current member base still relies on making branch-based deposits, society is increasingly becoming more digitally demanding and in order to ensure future competitiveness and sustainability, the sector does acknowledge that the role of branches will have to become less traditionally transactional, and more value driven whilst also fulfilling the digital needs of society.

Our interviews with CEOs, also reflected in our survey results, highlighted the importance to building societies of being part of their local communities which manifests in a number of ways. For instance, donations of financial support to local charities and causes, sponsorship of local sports teams and involvement in local schools are just a few examples of how building societies integrate into their local communities. In support of this finding, research conducted by the BSA found that 72% of current customers consider building societies to be a crucial part of their community, considerably more so than big banks (52%).[13]

[9] Which? Money Team. 2021. Bank branch closures: is your local bank closing? Which? [Online]. Accessed February 2021

[10] ONS, 2020. Year-on-year change in retail footfall in high streets in the United Kingdom (UK) from January 2019 to July 2020. [Online]. Accessed February 2021.

[11] ONS, 2020. Online banking penetration in Great Britain from 2007 to 2020. [Online]. Accessed February 2021

[12], J. 2019. Mobile banking to overtake high street branch visits in two years. Accessed February 2021

[13] Building Society Association. 2021. Consumer Attitudes 2021. BSA. [PowerPoint]. Accessed 16th February

Regionality contd.

As well as this, and referenced earlier, 87% of our online survey respondents identified building societies being an active part in the community as a reflection of regionality. There is a sense amongst some societies that in the future, their community involvement may need to have more alignment to their commercial goals as well as being genuinely meaningful to their local communities, but the overarching aim for building societies is to ensure their community support directly meets local needs.

Regionality is also a factor in product design and distribution. 42% of CEOs interviewed stated that they offer postcode restricted products and 65% of building societies who responded to the online survey agree that specific products for their local heartland in either mortgages or savings are a reflection of their commitment to regionality. Regionality can also positively influence performance, and we have heard from a number of CEO interviews that local branch-based savers were more loyal and demonstrated stronger retention compared to savers using other channels.

Interestingly, a large proportion of postcode restricted products are for first-time buyers which could be attributed to the alignment between the social purpose of the sector and supporting younger generations to buy their first homes. Additional examples of postcode restricted products include key worker and self-build mortgages as well as affinity saving accounts, all of which could be argued to support the social purpose of the sector.

Together with heartland specific products, over a quarter of CEOs highlighted that they have a large proportion of regional savers who make branch-based deposits which also refelcts the commerical benefits regionality.These tended to be the building societies located in small and mid-sized towns rather than the societies located in large cities, but this was not exclusively the case. In addition, the most recent BSA's Consumer Attitudes Survey also concluded that even though the traditional transactional role of branches is steadily changing, members still appreciate the reassurance that a branch provides over the convenience of an app or other online channels.[14] This further supports the idea that at least for now, branches are critical for the success of the sector.

Key questions for building societies in respect of regionality:

1. Are you able to clearly articulate what role(s) your connection to a given location will play in the delivery of your purpose?
2. Have you identified what responses (emotional, behavioural, transactional etc) you are looking to generate, from which audiences, in response to these evidenced connections?
3. Have you identified all the 'levers' you can pull in order to establish and strengthen these connections?
4. Do you have a feedback mechanism in place to enable you to understand their perspective on the most valuable role you could potentially play in your region?
5. Do you have a clear vision on what you see as the future role of your branches, and how you will use the branch to engage with the local community?
6. To what extent have you considered exploring and developing innovative and complementary regional partnerships with local organisations to support your purpose?

[14] Building Society Association. 2021. Consumer Attitudes 2021. BSA. [PowerPoint]. Accessed 16th February

Examples linked to regionality

Large

- **Coventry Building Society** invests in local causes such as food poverty in Coventry and digital financial education across Warwickshire. The society takes a targeted approach that is aligned with local needs.
- **Leeds Building Society** has been the sponsor of Leeds Rhinos for the last 20 years, the longest sponsorship deal in Super League history. The society also has a charitable foundation, which makes donations to smaller charities and local causes.
- **Nationwide Building Society** is the stand-alone sponsor of England Men's football matches on ITV covering all of the team's friendlies and FIFA World Cup qualifiers until the 2022 tournament.
- **Principality Building Society** has a long standing relationship with a number of organisations such as Business in the Community, the Welsh Rugby Union and partners with schools across Wales to improve financial capability and confidence.

Medium

- **Monmouthshire Building Society** has a charitable foundation that allows it to distribute funds to local causes. The society was also the headline sponsor of the Dragons Pro-14 Regional Rugby Club for three years.
- **Newcastle Building Society** partnered with Newcastle United Foundation and has committed £1.1m to help the Foundation deliver a new community hub and support its valuable work in the community for at least the next six years.
- **Nottingham Building Society** focuses investment and support on three local causes that are aligned to the region's biggest challenges including homelessness, employment and financial education/ awareness.
- **Progressive Building Society** provides each branch with funds to distribute to local charities of their choice. It has also entered into a 3 year sponsorship with Disability Sport NI.
- **Saffron Building Society** have signed a three-year partnership with the Essex Cricket Club and will be their official Building Society Partner until at least the end of the 2022 season.

Small

- **Bath Building Society** has sponsored a financial education programme for secondary school and sixth form students in Bath. The Society has also provided online resources for parents wanting to teach their children about money management.
- **Darlington Building Society** launched a 95% LTV mortgage for local borrowers who fit certain employment criteria. The high-LTV offering is postcode limited to first-time buyers where one mortgage holder works in a key worker role.
- **Ipswich Building Society** has rebranded to Suffolk Building Society to widen the Society's appeal and promote growth. The rebrand is based on feedback received from research which found that the proposed new name is more inclusive, sustainable and appealing to people within the Society's home county and beyond.
- **Mansfield Building Society** considers itself as a responsible corporate citizen and an integral part of the local landscape, and has nurtured close ties to community groups, businesses and the district council. The Society continues to invest time helping to create a sustainable economic future for the region, including active participation in the Mansfield & Ashfield 2020 business forum, and by taking a lead role in helping the council attract over £13m of inward investment through the Government's Towns Fund initiative.
- **Market Harborough Building Society** provides financial support and practical assistance to local charities and organisations through its associated Charitable Foundation and the Society's Charity Day Off scheme, which gives all members of staff a day off each year to work with local charities and good causes.
- **Marsden Building Society** supports local charities that address the needs of the community, as well as aligning to its values, supporting causes who deal with financial wellbeing, vulnerability/isolation in later life and the local environment. The society also has affinity accounts for members where donations are made to local causes on the members behalf.
- **Swansea Building Society** allows its staff to choose local charities that they would like the society to support, and donations are then distributed to these charities.
- **Vernon Building Society** has developed financial education resources for parents and schools in the local community in order to facilitate the understanding of personal finance and ensure young people are financially capable.

Micro

- **Beverley Building Society** sponsored new shirts for Beverley Grammar School Sixth Form's football team.
- **Buckinghamshire Building Society** has been recognised as a key community investor by Heart of Bucks, the community foundation for Buckinghamshire.
- **Chorley Building Society** supports its local food banks as well as the local children's hospice.
- **Harpenden Building Society** has a community endowment trust fund from which it donates annually to local causes and seeks opportunities to engage in volunteer work. The Society also engages with the local MP to better seek to understand the local issues where the Society can make a difference.
- **Penrith Building Society** supports Penrith RUFC Juniors through Junior Affinity Saver accounts. The society makes an annual donation to the club based on the average balance held in the Junior Affinity accounts. The society also has affinity accounts with the sunbeams music trust, red squirrel charity and eden valley hospice.
- **Stafford Railway Building Society** has begun sponsorship of the Saturday AM Breakfast show with Fern on Stafford FM.

Stakeholder perspectives - regionality

"We have 9 branches and we're in the middle of a refurbishment programme across all the branches. Once they are up to date, we'll look to expand the network."
Andrew Craddock, CEO, Darlington Building Society

"We were opening a new branch every 2 years but the branch due to open in 2021 has been delayed by at least 12 months because of Covid-19."

"We have a relationship business model. Employees know members within the radius of the branch and it's regionality that makes the relationships work."
Alun Williams, CEO, Swansea Building Society

"We have a very branch led strategy. It's about the provision of services and what your members want. We want the community to use the branch space which is why we also offer independent advice in our branches."
Simon Taylor, CEO, Melton Mowbray Building Society

"Every branch has to be part of a community and long term commitment, supporting lasting, authentic customer relationships. We've opened new branches in locations where the last bank has left town but where we see potential to build on our community led approach. We're developing some really innovative models around how you put a branch back onto a high street, including libraries and other community hubs. How can you not be interested in putting your branch into a vibrant community space where there's so many other things going on?"
Andrew Haigh, CEO, Newcastle Building Society

"We like the association of being linked with other smaller independent businesses in the regional towns where our branches are located."
Rob Pheasey, CEO, Marsden Building Society

"We won't close branches; we might look at agencies. I know other lenders are pulling out of this but we're not discounting it. Pop-up branches are also a fantastic opportunity for us."
Stephen Penlington, CEO, Chorley Building Society

"Branches are really important to us, and we'll continue to invest in them, but their role is changing. They are a place to deliver brilliant service and meet the needs of Members, rather than sell them products as in a traditional distribution channel."
Steve Hughes, CEO, Coventry Building Society

"Living to community credentials is really important, we don't try to be all things to all men, we have clear community priorities. We focus on two or three areas and do all we can in those areas - these are attached to our region and purpose"
David Marlow, CEO, Nottingham Building Society

"Our local heartland is our key supplier, so we need to make sure we're relevant and remain relevant to our local community."
Mike Smith, CEO, Stafford Railway Building Society

"We have a location specific advantage as Wales is very focused on regionality and localism, which helps us build and retain our regional membership base."
Will Carroll, CEO, Monmouthshire Building Society

"We have a lot branches because we do very little lending through intermediaries. The majority of it is direct - through our branches."
Des Moore, CEO, Cumberland Building Society

"Whilst we are a national player we have a specific focus on the communities of Coventry and Warwickshire - whether tackling key social challenges such as loneliness or food poverty, or creating opportunities for young people and improving digital financial education . We will commit and contribute wholeheartedly to key initiatives like the UN Sustainable Development Goals, by making a real difference in our heartland and through our national partnerships."
Steve Hughes, CEO, Coventry Building Society

"We make money nationally and invest it regionally to support our local communities through employment, community groups and charities. We share tangibly through local monetary contributions or through knowledge, skills and experience sharing."
Colin Fyfe, CEO, Hinckley & Rugby Building Societies

"There's something around being regional and part of the community which Covid-19 has accelerated. There are people that want to engage with their branch digitally which is a huge shift for building societies. The sector has been so reliant on branches, but now people also want to interact with them through computers and mobile devices."
Maria Harris, Director, Digital Cat Consultancy

"Societies have a great opportunity to expand their customer base in their heartland regions and beyond. Mortgage and savings products can be tailored to support local people, including criteria and lending rules designed to fit with the local community, while digital capability and branch presence can be blended with the support of a technology solution that can scale and allow societies to grow."
Nick Lawler, Sales Director, DPR

Technology

Societies acknowledge a requirement to enhance digital capability to meet customer needs and deliver operational efficiencies

Approaches to modernisation range from augmenting existing systems to the complete replacement of core banking systems

Many societies aspire to adopt an API driven approach to deliver modern technology solutions alongside legacy core banking platforms

The highly competitive technology and FinTech supplier / partner market is challenging for societies to navigate but is recognised as a source of new ways to deliver a modern user experience.

There is a widespread acknowledgment within the sector that investment in the modernisation of technology is required, to enable more cost efficient and effective ways of working and to meet the needs of a customer base and distribution partners that are increasingly turning to digital channels.

The provision of technology in the banking sector is breaking a 30-year-old mould and moving from a monolithic towards a cloud-based modular approach, with an API driven, flexible and customisable application architecture. There is already evidence that Covid-19 is impacting this area, and a recent survey found more than 40% of financial services organisations have already accelerated their investment approach as a result of the pandemic.[15] A new generation of cloud-based core banking systems has introduced competition and the new pioneering FinTech/challenger banks have almost exclusively gone down this route. Legacy systems are a widely acknowledged issue within the financial services sector, with more than 90% of firms relying on legacy technology in some form.[16] For the long-established building society sector, legacy systems add a significant layer of complexity when looking at future technology plans. Adopting the modern, scalable, agile, flexible cloud-first approaches now driving the growth of the FinTech sector is a significant challenge, and technology change has been found to be the root cause of 24% of high severity customer-facing incidents[17], so this is understandably an area where CEOs tread cautiously.

From our online survey, we found key barriers for the sector adopting the latest tech are budget constraints (60%) and legacy systems (57%). Interestingly, non-building society respondents also cite uncertainty around decision making (58%) and cultural factors (46%) as key barriers to technology adoption for the sector, however, building societies did not consider these to be significant issues (16% and 12%, respectively).

Societies are faced with a choice of modernising their legacy systems with their incumbent providers, offering bespoke and potentially costly integrations with 3rd party applications, or undertaking a phased or complete overhaul of their core systems. There are examples of each of these approaches being deployed by societies, but at this early stage in the sector's digital transformation there is insufficient evidence to evaluate the effectiveness of these options. The direction of travel is clearly showcased by other tech-transformed sectors, who have adopted a modern, cloud computing powered and API-driven agile, flexible and scalable application delivery model.

One of the primary challenges facing the medium and smaller sized societies in particular is the limited availability of the internal resources and knowledge required to identify, plan and deliver significant changes to their technology infrastructure, in addition to limitations around their appetite to invest in technology. For example, 32% of building society survey respondents stated that the availability of inhouse resource is a key issue with regards to increasing digital capability. A further key challenge is the perceived inflexibility of legacy core banking platform incumbents to match the flexible SaaS delivery model of key challenger providers. The larger societies are proactively driving their technology and digital plans, whereas at the smaller societies, the technology development plans are driven by the roadmap and pace of their technology partners.

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[15] Equinix (December 2020). Future of Banking-as-a-Service

[16] FCA (February 2020), Implementing Technology Change

[17] FCA (February 2020), Implementing Technology Change

Technology contd.

When considering digital technology, societies are acutely aware of the development of the increasingly prominent role APIs are playing in modernising the financial sector fuelled by the continued and growing success of FinTech and Open Banking. This research found that while Open Banking is an area of strong interest for societies, it does not currently feature in their immediate priorities, with most CEOs adopting a 'watch and see' approach. In support of this, only 10% of building society survey respondents consider Open Banking to be a threat for the sector, whilst 55% consider it to be an opportunity.

Additionally, building society respondents were twice as likely to suggest that they had not fully assessed Open Banking's potential (35%) over non-building society respondents (14%). Where Open Banking has been deployed within the sector, this has mainly been to fulfil basic tasks such as electronic provision of banking transaction data in lieu of bank statements.

According to our online survey respondents from both within and outside the sector, the largest opportunity from Open Banking lies with enhancing customer experience/ engagement (60%) and data connectivity (51%). Interestingly, only 13% of building society respondents consider Open Banking to be an opportunity for product distribution compared to 57% of non-building society respondents. FinTech firms consider the use of Open Banking by building societies to be at a very basic level, and there are opportunities for societies to adopt it to help streamline key processes such as ID and verification, dynamic data capture, and the evaluation of mortgage eligibility. A further driver to increase the need for API is the growing need for data analytics and automated regulatory reporting.

Competition to provide technology solutions to the sector is strong, with 13 different firms currently providing core banking and front-end systems to the 43 societies. The largest six societies all use different core banking system providers, but across the rest of the sector there is a higher degree of uniformity with Sopra and Mutual Vision combined providing for nearly 60% of the overall sector. DPR, Unisys, Phoebus, Sandstone, IRESS, BEP and Salesforce have multiple clients across core banking and front-end platforms.

Several technology providers can offer a complete solution covering mortgage and savings front end as well as core banking, but there are also a number of different scenarios whereby different providers work with each other to configure the overall solution. The incumbent firms are facing increased competition from newer cloud-based providers seeking to enter the sector, including Mambu, nCino, EQ Credit Services and other UK and international providers. The wide range of technology providers to the market presents a challenge to societies when looking to assess their potential future options. This, combined with a cautious approach to risk, means the decision-making cycle can be a long one, albeit CEOs recognise the longer term need to embrace modern ways of working and modern tech provision to maintain their market relevance.

Key questions for building societies in respect of technology:

1. Before you progress your technology strategy, are you crystal clear on your business strategy?
2. Have you created a prioritised and sequenced list of business outcomes, that technology change can help deliver?
3. Do you have a clear understanding of your target future technology operating model?
4. Have you identified the areas of your business where new auxiliary applications connected via APIs could make a meaningful impact on the efficiency of your operations?
5. Have you considered introducing automated workflow process to improve the user experience and also remove multiple data entry and inefficient workflow?
6. Have you evaluated the positive impact modern data analytics and reporting platforms could have on your and regulatory reporting requirements?
7. Do you have a clear understanding of the emerging requirements of the mortgage broker market, specifically with regards to how technology could modernise and streamline the mortgage origination process?
8. Are you clear on the expectations of your members in terms of offering a modern user experience and self-service capability for your e-savings capability, and do you have a plan as to how you will meet them?
9. Have you considered collaborating with other building societies on non-competitive technology opportunities?

moneyhub®

Current applications of Open Banking and Open Finance

Building societies provide a broad set of solutions to their customers - often across multiple audience segments - so the use cases for Open Banking and Open Finance are wide-ranging and Moneyhub already offers today:

- Digital banking solutions that provide a rapidly-deployed banking app for customers, allowing them to see all of their savings, investments, pensions, property values, mortgages and more in one place, as well as move money between their existing current accounts.
- As Moneyhub's Open Finance data presents the full picture of an individual's financial situation, it allows building societies to provide budgeting tips and tools to help customers with day to day finances, ultimately helping support financial wellbeing.
- This holistic view allows building societies to identify those who may begin to struggle with mortgage payments before it actually occurs. Through a defined set of algorithms, risk factors can be flagged and help and advice offered automatically - long before these factors become an issue.
- Open Finance allows building societies to instantly see the full picture of each customer's net worth. Other savings accounts and mortgages can also be identified, meaning personalised offers could be sent with better savings and mortgage rates – which may lead to increased rates of take-up than blanket offers.
- Using a customer's current and historical Open Banking data for credit checking, affordability and income verification allows fast, efficient and cost-effective credit decisioning.

"It is encouraging that 65% of respondents consider Open Banking to be an opportunity for the sector (55% of building societies, 75% of industry stakeholders). What many don't realise is that any building society can already leverage the benefits of Open Banking and Open Finance today.

By capitalising on the Open Banking opportunity building societies can and will overcome their cultural and technology legacy issues, whilst also gaining a competitive advantage over their peers.

In addition, to competitors in their own space, investing in Open Banking technology now will keep building societies ahead of those new intermediaries that are developing solutions that otherwise could better serve their customers. For building societies, embracing Open Banking and Open Finance, will help them to both survive and thrive in this new environment. And this is where Moneyhub can help."

Sam Seaton, CEO, Moneyhub

Examples of FinTech and Tech activity

FinTech partnerships and related activity:

- Artificial intelligence is powering **Bath Building Society's** drive to improve its direct mortgage sales process, not only speeding up its internal systems and processes but also helping it to better engage with customers. The Society has partnered with Copenhagen-based fintech Festina Finance, which has developed an AI-based system to help the direct mortgage team with their customers mortgage journey.
- **Consectus** provides a mortgages & savings app as part of a digital platform and Robotic Process Automation (RPA) to building societies directly and via banking technology suppliers to the sector.
- **Broker ID**, part of **DPR Group**, is an independent, modern, technology platform for frictionless onboarding and verification of mortgage intermediary firms and individuals.
- **Dudley Building Society** has partnered with financial services technology specialist ieDigital to create a new online service to help members manage their savings and mortgage accounts. Members can view personal accounts, apply for new products, transfer money between Dudley accounts, deposit funds from a debit card or from a nominated bank. The new service also includes features such as savings goals.
- **Hinckley & Rugby** has engaged with **Festina Finance**, a Danish FinTech provider, for its direct-to-consumer mortgage platform.
- In partnership with **Iress**, **Leeds Building Society** embarked upon the journey to enhance its mortgage-related systems. The goal was to provide brokers with online functionality from application to completion and a simpler and more efficient experience. The first stage, rolled out during summer 2020, saw the Society implement Iress' MSO (Mortgage Sales and Origination).
- **Mortgage Brain** built a set of affordability calculators for Harpenden Building Society.
- **Mutual Vision** is developing an ecosystem of FinTech and technology partners to accelerate customer digitisation strategies. Integrating through a single platform, the MV ecosystem enables its customers to innovate whilst FinTechs can gain access to the sector.
- **Newbury Building Society** has developed 'NBS Money' in partnership with **Moneyhub**. NBS Money is an app that provides secure but easy access to Newbury products alongside 'virtual' current account banking features, whereby customers can see their accounts with banks and transaction data from these accounts as well as transfer money directly from the NBS Money app.
- **Newcastle Building Society** has partnered with **Paylink Solutions** to assist customers in financial difficulty by launching a digital debt help service, with integrated Open Banking technology.
- **Nivo** is a secure messaging solution designed to make it easy for financial services organisations to offer a market leading mobile experience, to automate complex processes, and to allow for brokers and lenders to engage more effectively through the course of a mortgage journey. The service is popular in the credit union sector, gaining traction in secured lending, powers apps for lenders such as United Trust Bank, Together and Optimum Credit, and has earned over 2,000 reviews with a 5-star customer rating.
- **Nude** is a new FinTech app which helps prospective first time buyers save for their first home by building up their deposit, opening a Lifetime ISA, and taking on challenges to help them achieve their goal sooner.
- **Podium** and **Koodoo** have worked with building societies on mortgage holiday payment calculators.
- **Principality** has partnered with Life Moments to deliver a First Time Buyer proposition (First Home Steps) which helps customers through the journey of saving for and buying their first home. The proposition is powered by the FinTech firm's digital coaching platform, LifeHub.
- **Raisin** is a savings marketplace which connects consumers with a range of savings product providers, enabling consumers to manage their savings across multiple brands. Raisin is working within the mutual sector and already partners with Teachers Building Society.
- **Sandstone Technology** has harnessed AI to automate and streamline mortgage origination assessments. Sandstone's Digital Intelligent Verification Assistant (DiVA) takes unstructured data and automates tasks ranging from indexing and interpreting information to identifying missing data, verifying data, redacting and extracting information and presenting it in a logical flow format for mortgage assessors.
- **TruNarrative** is engaged with a number of societies (and is live with Leek United) in respect of providing more streamlined customer verification and onboarding processes.
- **We Are Digital** provides digital and financial inclusion training for banking customers by helping them with the basics of getting online, as well as more advanced skills such as using online banking.

Examples of FinTech and Tech activity contd.

Examples of technology developments:

- The six largest building societies are all using different core banking technology platforms. 9 of the smallest 10 building societies use the same platform (**Mutual Vision**), whilst over half of the building societies in the UK use at least one technology product from Mutual Vision.
- **Darlington Building Society** has chosen **Iress**' mortgage processing software to underpin its mortgage service for intermediaries. The software, which includes open API technology, will significantly improve Darlington's efficiency and the user experience, making the application process seamless for intermediaries.
- **DPR** has been responsible for two core banking migrations within the building society sector over recent years: The **Cambridge Building Society** (in 2015) and also **Hanley Economic Building Society** (currently in progress).
- **EQ Credit Services** entered the mortgage market in September 2020 with an API-led digital platform for digital end-to-end mortgage origination, servicing and post completion.
- **Family** migrated a stand-alone loan book to Mutual Vision's ProVision core in 2019, over a period of approximately 6 months.
- **Mambu** is a SaaS banking and lending platform which has a proven track record working with all types of financial organisations globally - from new entrants just launching to large established institutions undergoing transformation projects - all in aid of helping them keep pace with customer expectations.
- **Moneyhub**'s Open Banking and Open Finance platform can be white-labelled or integrated with existing technology via APIs, covering a wide range of use cases such as affordability and income verification for mortgage, financial wellbeing, personal financial management and digital banking for individuals and solutions aimed at landlords and tenants.
- **Monmouthshire Building Society** has taken its first steps in rolling out Blue Prism's turnkey cloud platform, for a change programme that could see as many as 170 processes improved through intelligent automation. Blue Prism's platform provides access to a pool of intelligent digital workers straight from the cloud.
- **Phoebus**, a provider of solutions to building societies, banks, lenders and third-party administrators, has developed a self-service customer portal which can be deployed standalone to interface with any account servicing platform, allowing customers to digitally access their account data to undertake basic enquiries and transactions themselves, thus reducing inbound calls and correspondence into client operations.
- **Progressive Building Society** is implementing a CRM system across the business which will enable them to digitise processes, automate tasks, and improve the efficiency and effectiveness of their service. The society also launched the facility for customers to carry out product switches online at the end of 2020. This year, they will be launching a brand-new Intermediary Portal and online savings functionality for their members.
- **Sandstone Technology** has developed API gateways and Open Banking onboarding as part of its digital and mobile banking proposition across current accounts and saving accounts.
- **Skipton Building Society** is looking at enhancing their website through personalisation to give customers and colleagues a tailored experience online. The society is developing efficiencies by automating some of their backend processes. They have also developed a mobile app and later this year, customers will be able to open an account via the app.
- **Sopra Banking Software** is building secure API centric platforms and combining them with digital elements to transform the homebuying and ownership journey. It is also creating a mortgage marketplace where it will curate a fintech community and support them with resources so Sopra's clients can accelerate their digital ambitions.
- **Stafford Railway** migrated onto the **Mutual Vision** core banking platform during 2016-17. Manchester Building Society is in the process of migrating to Mutual Vision, with training well advanced and data already populated into ProVision Core for testing and verification purposes.
- **Tipton Building Society** is the first building society to launch a distribution channel through a mobile app. The society has used Robotic Process Automation (RPA) through the app and for the branch account opening process. This year, it hopes to utilise RPA further to remove the more mundane repetitive tasks.

Suggested actions for providers to the sector:

The building society sector is served by a wide range of organisations, and is courted by many more, especially in terms of tech and FinTech providers. During the course of this project we have identified a number of important considerations for organisations seeking to engage with the sector, and we have articulated these as a set of guiding principles:

1. Do not assume all societies are the same – take time to understand the nuances of a society's strategy and business model.
2. Acknowledge the impact mutuality has on a building society's decision making. Products and services that can achieve outcomes such as fast growth, create new revenue streams, or dramatically streamline operational processes can all represent significant changes which may carry significant risk - do not assume these outcomes are more attractive to building societies than stability and sustainability.
3. Do not assume that digital transformation is an urgent imperative. Building society CEOs have been hearing this for many years, and whilst they do not deny the importance of digital transformation, the sector does not have the burning platform that some might assume.
4. Provide wider context for technology solutions. The tech provider landscape is difficult for societies to navigate, and they are constantly approached by technology and FinTech providers. Helping societies understand where a product or service sits in the market is important to progressing meaningful conversations. Critical factors to consider include: compatibility with existing technology and gaps where other solutions will be required.
5. Be clear on the requirements you have of a society's resources. Many building societies are small organisations, with limited resources. If the successful implementation of a product or service requires specific skills or availability, be clear on this from the outset in order to set realistic expectations.

Stakeholder perspectives - technology

"Right now, the entire business is currently focused on digitisation and creating a more contemporary business model. We're going from an offline and analogue branch network to offer the choice of both branch and online. Behind that is the agenda to create a sustainable long term viable business and technology will give us a more contemporary operating model."

Mark Selby, CEO, Hanley Economic Building Society

"Our business model is perfectly aligned to the sector in that it enables building societies to collaboratively invest in technology to compete with the larger players. When acting independently, many smaller building societies simply don't have the resources, capacity or expertise internally to evaluate and select technology solutions. In acting as the Digital Mutual, MV enables societies to pool their investment in technology in the same way that they enable their members to pool savings to buy and build homes, thereby achieving greater impact".

Richard Wainwright, Chief Executive, Mutual Vision

"I'm certain that E and mobile apps will become the way of life, but I wouldn't sign the death warrant of high street branches just yet as they still currently play an important role. The world is moving towards electronic rather than physical though and we will experience more of this on the savings front."

Jeremy Wood, CEO, Dudley Building Society

"We like the idea of a pick and choose menu where we can select the tech services that interest us not only from our existing provider but also other providers and bolt them onto what we have already, not only from our existing provider but also other providers."

Steve Fletcher, CEO, Vernon Building Society

"Moving to cloud-based IT is part of the future for all of us. You cannot get the breadth of service and all of the data memory from conventional ways of operating."

Jeremy Wood, CEO, Dudley Building Society

"Our plan is to develop a digital savings proposition so that members can become less reliant on branches and access their savings at any time that is convenient for them".

Chris Harrison, CEO, Furness Building Society

"Our difference is that the concept of 'upgrades' doesn't exist at Mambu. Once implemented, you don't have expensive change requests or large implementation costs. We're also fully agnostic. If building societies want to build in-house, they can. We're all about options and giving our customers the freedom to operate their organisation the way they want to."

Adam Archibald, Enterprise Account Executive, Mambu

"We're going to come up with a set of applications for customers and employees and we're building lots of different reusable services that will connect these applications to our core banking system. This means that when it comes time to switch out our core, it should be more plug and play."

Richard Fearon, CEO, Leeds Building Society

"With regards to FinTechs, having open APIs means we can go to any partner and say we like that service so we can plug and play. A tech priority is to develop our API capability so that any partner can tap in."

Will Carroll, CEO, Monmouthshire Building Society

"We have a transformation programme that is based on technology that is more open with more up to date tools and more connectivity to organisations - an ecosystem."

Principality, CEO, Julie-Ann Haines

"EY and McKinsey have recently validated that best-of-breed ecosystems should be a major consideration in a delivery model, and this aligns with our published strategy of many years. In a true ecosystem, societies should be able to choose their preferred solutions for mortgage and savings originations underpinned by a compliant and accurate account servicing platform that's provides high levels of operational automation. That's what we deliver"

Richard Pike, Sales & Marketing Director, Phoebus Software

"We need to work out how we engage in open banking – this was on our medium horizon before, but this might be something we now need to consider sooner."

Karl Elliott, CEO, Beverley Building Society

"It's about incremental change and taking the manual processes even in underwriting – the decision will always be made by a human but there's lots of parts of that journey that could be automated."

Richard Carter, Managing Director, EQ Credit Services

"By harnessing technology, building societies are able to make their services available to all members on-demand, and it's then up to the customer to take advantage of those services as it fits their individual needs."

Ross Watts, Chief Customer Officer, Sandstone Technology

Customer first, always

Elliott Limb, Chief Customer Officer, Mambu

While the emergence of fintech has brought many positive changes to the financial services industry, innovation has been largely focused on mainstream payments and accounts, missing out building societies and their loyal member base. However, as digital native generations look to save money or buy their first house, rate driven bias will only go so far. Ease of servicing and flexible offerings, combined with the ability to provide a personalised, local touch will be where building societies can prosper and differentiate.

Playing catch up with emerging technology

There are many fintechs looking to help customers manage their finances by offering more personal and integrated experiences as an alternative to traditional banking. However, building societies tend to be risk-averse and are often held back by the burden of legacy systems. It's no longer enough to just have a website and access to accounts online. To address the problem of modernisation, building societies are turning to new technologies to bridge the gap between legacy systems and consumers' desire for accessible banking.

Our partnership with Tandem, one of the UK's earliest digital banks, is a great example of a financial institution adapting to keep up with consumer demand. Tandem wanted to quickly introduce new financial services within their existing product and also support open banking. And via Mambu's cloud-native, API-driven platform and composable approach Tandem were able to achieve all that within 3 months.

"When you look at the Mambu proposition, designed as it is in a way that's very easy to use, very configurable, it gives you a lot of power as well as a low cost base."

Chief Operating Officer of Tandem

Democratising tech

APIs have become a democratising force within financial services, acting as the enabler for innovation and value creation in the industry. This provides a cost-effective way to create nimble ecosystems in which fintechs, banks and building societies are on a level playing field.

The cost of serving a financial customer varies by sector, but can be several hundred pounds per year. Technology can reduce this significantly, allowing providers to better support segments that were previously underserved. This can be a motivator for building societies to put a dedicated focus on innovation. In order to meet the challenges presented by the fintech revolution head on, they must take advantage of emerging technologies and make innovation the core of their long-term business strategy.

Transparent consumption or bust

Building societies may remain shy of change due to a variety of factors. However, the desire to be more nimble to gain a competitive edge is strong. The community spirit and member commitment that is unique to building societies will ultimately be the driver of transformation - so they can better serve the digital needs of younger generations of customers.

From a cost perspective, legacy systems are expensive to maintain, with the added manual burden of non-integrated and non-automated systems. SaaS removes the expensive customisation and maintenance costs by automating manual processes and giving companies a completely transparent consumption model.

The way forward

As we have seen over the last year, the future of banking is a moving target that continues to evolve. Embracing new technologies and partners, such as Mambu, will help building societies continue to deliver the customer-centric service their current members value, whilst also delivering digital services to win over new users and spearhead growth.

Mortgages

Most societies have chosen to compete in underserved niches to enable mortgage lending at acceptable margins

There is a significant reliance on the broker market for new mortgage lending, leading to a requirement to align with the evolving technology requirements of this market

Manual underwriting is a key USP in the mortgage proposition, and one that will be retained as the mortgage lending and servicing processes benefit from increased efficiency, driven by technology.

The opportunities of tech developments such as APIs and process automation are being actively explored by building societies

Within the intermediary mortgage market, building societies are often referred to as specialist lenders, but for the majority of building societies 'specialist lending' refers to borrowers with a combination of good risk profiles who have non-standard characteristics which are well-suited to manual underwriting.

Within our research, 42% of CEOs stated that they would not consider themselves to be niche/ specialist lenders and that they are "prime lenders first". Conversely, 58% stated that they have positioned themselves to be niche/ specialist lenders as they cannot solely compete within the mainstream prime markets. In order to retain and further develop non-price competitiveness in mortgages, societies will continue to seek out underserved or complex niches. Some societies have other sources of advantage such as location and strong regionality or a particularly affluent member demographic, meaning the competitive pressure to serve niche/ specialist markets is somewhat alleviated.

Most building societies distribute the majority of their mortgages via intermediary channels, so it was not surprising that the focus on the needs of mortgage brokers has remained consistent over time, particularly standards of service, consistency of underwriting decisions, and ease of access to lenders via enquiry and application processes. Today, technology and data are playing increasingly important roles in these areas. 75% of CEOs interviewed stated that they are seeking to use digitisation to improve their broker journey, a theme consistent with building society online survey respondents (81%).

The need to provide an increasingly tech-enabled service was also highlighted by a survey last year[18] which found 52% of brokers feel that technology will have a high impact on their business in the next 24 months; citing slow service and poor online systems as weak areas. As part of the same research, the demand for efficiency was also evident amongst mortgage borrowers as 62% of consumers sought "speed of completion" as a preference when looking for mortgage lenders. However, only 25% of building society survey respondents stated that they see enhancing their customer facing digital functionality as a key priority for the next 2 years.

A key challenge for building societies is to balance the adoption of technology with their core strengths relating to service and manual underwriting. Manual underwriting is a creator of competitive advantage for the sector, in particular for the medium, small and micro societies who are able to process more complex cases that large banks often reject, and at higher margins, by applying a more considered decision-making process than is possible in the high-volume process driven environments of larger mortgage lenders. It is a USP which may prove increasingly valuable post-Covid. According to the Bank of England,[19] 1 in 5 people found themselves in more complex financial situations last year as a result of the pandemic. Increased demand for non-standard mortgage cases may help building societies, who are well placed to handle complex cases and can process them quickly and efficiently. 67% of survey respondents including both building societies and non-building societies strongly agree that technology can drive efficiencies within the mortgage process whilst also supporting the human decision making that is critical to manual underwriting.

[18] Saines, K. 2020. Brokers reveal views on mortgage technology solutions and lenders' online systems. Mortgage Finance Gazette. [Online]. Accessed October 2020.

[19] Bank of England. 2020. How has Covid-19 affected the finances of UK households? [Online]. Accessed 3rd March.

Mortgages contd.

The implementation of APIs in the sector has been limited to date, but their increasing importance in the mortgage market is widely acknowledged by the CEOs, especially in relation to the digital transformation of the mortgage origination process. The ability of brokers and lenders to pass case data and decisions automatically between systems without needing to manually rekey information may offer significant efficiency gains. In 2018, Skipton was one of the first societies to trial the use of Open Banking, offering its direct mortgage customers the choice to use it in the mortgage affordability process rather than manually providing bank statements. It is possible that competition could be the key driver in taking API adoption to the next level. This is particularly pertinent at the front-end of the mortgage process, where it has been found that 83% of brokers surveyed primarily sought to understand eligibility when assessing the market for options for their clients.

The lack of a common data standard within the mortgage industry is regularly cited as a key factor holding back the ability to integrate data movement between lenders, brokers and third-party systems providers such as mortgage sourcing systems. This means lenders need to develop different APIs to integrate with different partners within the sector. In the wider mortgage market, the adoption of APIs at present has been focused on the Decision in Principle process. For building societies, another key issue is integrating into legacy technology systems. This is an area where there is evidence of Robotic Process Automation (RPA) being trialled. There are several examples in the sector of societies using RPA to handle the rekeying of data into legacy systems, where it has not been possible to put in place data integrations such as APIs. Where an existing legacy system has no easy way of exposing APIs, smart use of RPA coupled with a middleware API can enable building societies to mirror the benefits of APIs. RPA applications can execute routine, rules-based tasks (such as re-keying) without human intervention, which can also minimise and resolve errors and exceptions that otherwise require a high level of human intervention.

Stakeholder perspectives - mortgages

"We have to differentiate ourselves through complex, prime and niche lending. We can flex around standard lending criteria and use our manual underwriters to pick up the cases that the big players decline."

Stephen Penlington, CEO, Chorley & District Building Society

"There will be greater adoption of technology, brokers in particular will favour those lenders that are able to provide more integrated solutions that mean there is less re keying and less work to get mortgage cases into the lenders' system."

Mike Regnier, CEO, Yorkshire Building Society

"From doing surveys with intermediaries, we know they're looking to place business with us in a more efficient way. They want less human interaction on the day to day basics and a more straight forward process."

"Peter Burrows, CEO, Cambridge Building Society

"What we're seeing recently is there's been a bounce back to manual underwriting due to the increase in complex cases that require it. I wouldn't want to replace our manual underwriting because it's our USP, but it's important that we support and enable all the different elements that make manual underwriting quick and efficient, so that we can continue to compete."

Karl Elliott, CEO, Beverley Building Society

"When I first joined the building society, I was told we were a niche lender with niche products. However, the reality is that it's the manual underwriting that's the niche rather than the products. If you do manual underwriting, you can look at the whole picture and as well as individual circumstances such as varied income streams."

Paul Denton, CEO, Scottish Building Society

"We're investing heavily over the next 5 years to improve our broker/ customer proposition and improve our efficiency and processes."

Kevin Gray, CEO, Bath Building Society

"Our first step was to go for mortgages front end. There are so many benefits that you can gain from this and ours was previously very clunky. I think most people have chosen to tackle this first."

Richard Fearon, CEO, Leeds Building Society

"Later-life is our specialism, and our platform works really well with it. There are lots of different routes building societies could go down in later-life products and services that I think they should be interested in."

Mark Webster, Account Director, Mortgages, EQ Credit Services

"We're working on speeding up our time to fulfilment through lean but ultimately technology will have a significant role to play in this area."

Des Moore, CEO, Cumberland Building Society

"Only a few societies (e.g. Skipton, Newcastle and Nottingham) currently offer Lifetime ISAs (LISAs). As these products help people to buy a house you'd think it would sit well in their model as there's a link between mortgages and savings."

Thomas Morrison, Principal Associate, Shoosmiths

"Open Finance finally allows people to be treated as individuals. It gives underwriters access to more accurate, granular and historical information in an easy to consume format for both manual and automatic decisioning. Open Finance is based on explicit consent leading to open conversations and interactions with prospective customers."

Dan Scholey, COO, Moneyhub

"The mortgage market is broker-led, but we're seeing interest in developing better B2C propositions and we're seeing interest in personalised mortgages. The biggest issue is that a mortgage should have the flexibility to change, but traditional tech doesn't allow this. It's possible with Mambu."

Adam Archibald, Enterprise Account Executive, Mambu

"The best way to make life easier for brokers and customers is to shift off email and paper. While it has traditionally been hard to digitise non-mainstream mortgage processes, Nivo's messaging solution lets you offer the latest technologies and automate repetitive tasks within an efficient channel that also allows humans to do their jobs and maintain a personal touch."

Matthew Elliott, Co-Founder, Nivo

"Mortgage offers can be produced quickly, the delay to the property transaction is often in the offer-completion phase as transparency is lacking and the process to acquire updates is inefficient. We're focusing on making the customer journey smoother, but we need the tech providers, across all areas, to be able to talk to each other. As an industry there's work to do to deliver frictionless end-to-end integration."

Matt Lowndes, Director of Innovation, Mortgage Advice Bureau

"Integrating Open Banking during the first stage of the mortgage application process will allow for more streamlined and accurate methods of calculating affordability, real -time decisions, and fewer delays for the customer when it comes to getting a mortgage offer."

Richard Hayes, Co-Founder & CEO of Mojo Mortgages

Savings

Societies are enjoying strong savings performance and do not currently face significant issues attracting new deposits

The importance of financial resilience and the need to save has been highlighted during the pandemic

The requirement to provide online savings propositions is acknowledged and being acted upon by societies

However, there is the potential that digital channels will drive commoditisation of the savings market, fuelling tactical customer switching, representing a threat

In the third quarter of 2020, savings balances at building societies had increased by £1.9 billion, a 5% share of the £36.1 billion across the market. Savings balances outstanding at building societies also stood at £297.3 billion, equating to 18% market share of the total £1,718.1 billion across the UK.[20]

These statistics are echoed by the sentiments shared amongst the sector surrounding the strong inflow of savings and their performance outlook for the future. For the majority of the sector, attracting funding is not currently a key concern with some even stating that they are experiencing a liquidity spike. In part due to the Bank of England's TFSME scheme (which allows eligible banks and building societies to access 4-year funding at rates very close to Bank Rate), but also partly due to the accessible funding resources that core savings customers provide. For most of the sector, the older demographic profile of their core savings base means that it is often the case that savings balances are substantial and that deposits are regular.

As well as this, the member base has extremely low attrition rates and so the likelihood of savings customers remaining with the building society for a number of years is very high. To add a further dimension to this, for certain demographics, household savings are currently at an all-time high. The percentage of disposable income saved between April and June last year rose from 9.6% to 29.1%, more than double the previous record of 14.4% set 27 years ago. [21]

The coronavirus pandemic has been identified as a key contributing factor to this as consumer spending has been at an all-time low. It is important to highlight that for the younger demographic who were affected disproportionally by job losses throughout the pandemic, there has not been the same increase in household savings seen.[23] However, as they do not reflect the core savings base for building societies, this does not appear to have affected the strong inflow of funding experienced by the sector.

In relation to the increase in household savings, there also appears to be a reawakened acknowledgement of financial awareness and its importance for ensuring society has the resources to cope with an economic crisis similar to the one we are experiencing now. Research by Legal & General estimates that pre Covid-19, over one third of people in Britain had less than £1,500 in savings, and 15% had no savings at all.[23]

A report by Yorkshire Building Society found that 11 million people in the UK were non-savers and in 2019, The Household Savings Ratio reached a record low, with households saving just 3.8% of disposable income, down from 10% in 2015. For comparison, France's average was 13.9% and Germany's was 17.3%.[24]

In addition to this, ONS highlights the specific savings crisis amongst youth with 53% of 22–29-year-olds having zero savings.[25] With this in mind and the fact that 390,000 workers were made redundant in 2020, it poses the question of how well society was prepared for such a crisis and how many of those people are now in significant financial difficulty.

As a consequence of this, there is a sense amongst the sector that going forward, society may be more encouraged to save. However, interestingly, the results from the online survey reveal that only 25% of building societies are considering digital money management tools as a priority for the next 2 years, suggesting that despite an acknowledgement in the shift towards saving, the sector may miss out on positioning themselves at the forefront of

Savings contd.

this agenda. Not only does promoting effective money management suit the business model, but more importantly for the sector, it also aligns well with mutuality and the social purpose of many building societies who are committed to supporting their members, especially in testing times.

It could be argued that the savings market may come under threat from commoditisation. Research conducted by Deposit Solutions[26] shows that 20% of British savers are considering switching savings account in the next year and that British consumers report changing savings account provider on average every seven years. The research also concludes that when considering switching savings accounts, consumers are far more likely to make a practical decision with 63% identifying interest rate as a key motivator. Thus, implying that the savings market is extremely transactional, and rate driven.

However, interestingly, this research provides a stark contrast to the behaviours demonstrated by building society members who as mentioned previously, exhibit extremely low attrition rates with 73% of CEOs stating that they attract long-term, stable funding. During our research, it has become apparent that building society members possess a different set of priorities to the customers of other bank or FinTech challengers. For instance, the opportunity to make physical transactions at that branch appears to be more important to the current members of building societies in comparison to high attractive interest rates or advanced digital propositions.

In support of this, the Deposit Solutions research states that British consumers do report feeling a stronger emotional connection to their savings and investment provider (63%) compared to their lending provider (53%), suggesting that there is more at play in the savings market than just interest rate and as a result, building societies have been well positioned to benefit from this.

Looking forward however, 77% of building society survey respondents predict that digital/ challenger banks will be a key competitor for the sector over the next 2 years which would suggest that although there are no immediate concerns over funding, the sector is not complacent about their position within the savings market.

Whilst it appears that current building society members do not immediately require advanced digital capabilities from the sector, there is an acknowledgement that in order to ensure sustainability, digital adoption will be necessary for both backend efficiency and customer propositions, particularly with regards to savings. In support of this, 51% of online survey respondents strongly agree that technology adoption will be required in the savings market over the next 2 years to reduce costs and enable competitiveness.

According to ONS, the adoption of online banking in the UK was steadily rising pre-pandemic and has since accelerated resulting in a noticeable increase in adoption from both younger and older demographics. Though it is appreciated that the current saver base still largely makes branch-based deposits, the societal shift towards online banking does appear to have encouraged the sector to progress with their digital roadmaps sooner rather than later with some societies choosing to prioritise their online savings proposition ahead of other digital plans.

[20] Building Society Association. 2020. Latest BSA statistics. BSA. [Online]. Accessed 18th February. Available at: https://www.bsa.org.uk/statistics/bsa-statistics#:~:text=Savings%20balances%20at%20building%20societies,1%2C718.1%20billion%20across%20the%20market.

[21] Nixon, G. 2020. Britain becomes a nation of savers. This is Money. [Online]. Accessed 18th February. Available at: https://www.thisismoney.co.uk/money/saving/article-8790533/Household-saving-hit-time-high-coronavirus-lockdown.html

[22] Inman, P. 2020. Covid job losses hitting young people hardest in UK, study finds. The Guardian. [Online]. Accessed 18th February. Available at: https://www.theguardian.com/business/2020/oct/26/covid-job-losses-hitting-young-people-hardest-in-uk-study-finds

[23] Legal and General. 2018. How much do Brits really save? Accessed on 18th February. Available at: https://www.legalandgeneral.com/investments/investment-content/how-much-do-brits-really-save/

[24] Yorkshire Building Society, 2019. Using the Workplace to Get Britain Saving. [Online]. Accessed February 2021. Available at: https://www.ybs.co.uk/media-centre/getting-britain-saving/index.html

[25] Office for National Statistics. 2020. Britain faces a savings crisis — what can be done? The Article. [Online]. Accessed on 18th February. Available at: https://www.thearticle.com/britain-faces-a-savings-crisis-what-can-be-done

[26] Deposit Solutions. 2020. A fifth of Brits consider switching savings account in the next year, making the savings market a key battleground between incumbents and challenger banks. [Online]. Accessed 1st March 2021. Available at: https://www.deposit-solutions.com/the-future-of-british-banks/#:~:text=One%20in%20five%20(20%25),%25)%20in%20the%20next%20year.

Examples of digital savings advancements

Personal Finance Management

FinTech Futures (2019)[27] conducted research into consumer demand for Personal Finance Management tools and found that only 14% of people in the UK were using them. However, for those that were using PFM tools, they were 86% more likely to save for a future life event such as buying a home compared to non-users. According to an Insider report (2020)[28], over 75% of respondents said they would prefer to use PFM tools from their primary financial services provider while just 6% said they'd prefer PFM tools from FinTechs or neobanks. This is likely because established providers earn much higher consumer trust than their newer counterparts and even more so for building societies who have significantly high levels of trust from their members. However, interesting, over 40% of consumers also stated that they are currently dissatisfied with the PFM tools offered by their primary FS provider, perhaps providing an opportunity for building societies to offer effective PFM tools.

Automation and Roundups

A common problem for many people is that they forget to save or don't put aside money at a logical time, such as payday. Automation can offer a method to save with minimal customer input as users can create automatic rules that instruct the app to set aside small amounts of money on their behalf. Another increasingly popular automation-based approach is roundups, whereby purchases are rounded up to the nearest pound and the change is automatically diverted into a separate savings pot.

Starling and Revolut are just two examples of digital challengers giving users the option to activate this feature for everyday transactions. Many of the big banks, including Halifax and Lloyds, now offer their own equivalent 'Save the Change' feature. Nationwide provides an example of how the roundup feature has been adopted within the sector as they have integrated it into their impulse saver app functionality which provides customers with the option to save their spare change as their card transactions are rounded up to the nearest pound and automatically transferred to their savings account.

Goals and Pots

Goals and pots are a subsection or ring-fenced area within a customer's main account that separates savings from spending money. Monzo offer the option for customers to set up multiple pots within their main account which can be used for saving. This allows PFM all in one place whilst keeping savings separate from day-to-day spending. Chip goes one step further by recommending a date by which the goal can feasibly be achieved, calculated based on the user's AI-powered automatic saving habits.

Marketplaces

Marketplaces are sometimes known as Savings Platforms and they give customers access to a wider choice of products from a more varied set of providers (e.g.Monzo, Raisin, Starling and Yolt). The platform will usually have a hub account where the customer's money is stored during the times when it's not deposited in a savings product. In the case of a fixed-term account, the cash will then be sent back to the hub account once the term has finished, before being sent to an account elsewhere. As savings platforms themselves aren't banks, they should have hub accounts held by a registered bank - for instance, Hargreaves Lansdown has a hub account with Barclays.

Recent research shows the concept marketplace/platform is growing in acceptance in mortgages (perhaps as it is not dissimilar to broker relationships), but its appeal is not growing considerably in savings.[29]

[27] FinTech Futures. 2019. The future of PFM looks a lot less like a bank. [Online]. Accessed October 2020. Available at: https://www.fintechfutures.com/2019/04/the-future-of-pfm-looks-a-lot-less-like-a-bank/

[28] Green, R. 2020. Smart savings app Chip launches an interest-bearing savings account. Insider. [Online]. Accessed October 2020. Available at: https://www.businessinsider.com/uk-fintech-chip-rolls-out-interest-bearing-savings-account-2020-7?r=US&IR=T

[29] BSA. 2021. Consumer Attitudes 2021


Progressive

Stakeholder perspectives - savings

"We already have resources in place to raise funding and achieve our growth plans. We have no problem at all funding the mortgages, in fact, we have excess liquidity."

Gerard O'Keeffe, CEO, Buckinghamshire Building Society

"The sector overall has plenty of liquidity and options so I don't think societies will be looking to find new ways to raise funding right now."

Sarah Howe, CEO, Harpenden Building Society

"We believe we should have a deeper purpose than just saving, we have to help people to prepare for the future and build financial resilience."

David Marlow, CEO, Nottingham Building Society

"To be the kind of society we want to be, we need to go back to the purpose of why we're in business - not to make a profit, but to improve people's lives and make people more secure by encouraging people to save. Irrespective of what income people are on, encouraging all to save a little and often, especially younger people."

Kevin Gray, CEO, Bath Building Society

"Savings may become increasingly national, transactional and commoditised."

Karl Elliott, CEO, Beverley Building Society

"The increasing commoditisation of savings is worrying; high savings rates will attract customers but treating savings as a commodity is almost disrespectful. Building a differentiated proposition to help our savers will be key to developing long term relationship with members / customers".

Chris Harrison, CEO, Furness Building Society

"Our savings are 80% branch-based but it's increasingly becoming a digital business."

Mike Regnier, CEO, Yorkshire Building Society

"We need to support the young savers and immerse ourselves in their digital life through our Beehive proposition."

David Marlow, CEO, Nottingham Building Society

"Digital transformation on the savings side is an area that has come more into focus. We thought we had approximately 5-7 years for elements of this but in reality, we have around 2-3 years to get them right. Therefore, we've accelerated it."

Richard Fearon, CEO, Leeds Building Society

"There are definitely options to provide a more digital alternative to traditional passbooks, and through our partnership programme we have a solution to deliver this functionality to building societies."

Adam Oldfield, Head of Sales, Account Management & Partnerships, Phoebus Software

"The impact of Open Banking on savings will be very interesting. If aggregators are able to control a customer's money, then do they become the brand the customer is loyal to rather than the product provider? Does rate then become the over-riding factor in the distribution of savings across providers?"

Keith White, Director, Credera

"Open Banking unlocks a level playing field for savings providers to compete with the largest banks. Firstly analysing an individual's bank transactions to find the opportunity for them to save before safely sweeping that money from their bank account to the provider with the best savings vehicle."

Dave Tonge, CTO, Moneyhub

"In the current phase of digital transformation, we are taking a holistic view on how digital banking solutions can benefit financial institutions, as well as the consumers they serve. The savings market remains a key sector as informed consumers continue to drive competition. DPR is developing its Open Banking capabilities, with features such as payments and affordability included in its 2021 roadmap."

Nick Lawler, Sales Director, DPR

Key challenges

The imperative to remain relevant to their members is front of mind for CEOs of building societies

Societies need to continue to protect their margins in light of rising costs, particularly in terms of regulatory compliance

Successfully navigating the requirement for digital transformation is a key challenge societies must address

Attracting and retaining high quality and appropriately skilled employees can be an issue for many societies

Despite this report highlighting the heterogeneity of the sector, our research found consistencies with regards to the key challenges facing building societies. The first and most fundamental challenge relates to the need to continue to be relevant to current and prospective members, something 67% of the CEOs we interviewed highlighted as one of their key considerations for the future.

There is an acknowledgement that younger generations are digitally native and will transition through life building their savings balances and requiring mortgage services. Moreover, as the population becomes more digitally literate and the uptake of online financial services increases across all age groups, the expectations of the digital functionality building societies provide as a hygiene factor will increase. Therefore, the challenge of maintaining relevance with both the current member base and a young demographic is sector wide.

A widely acknowledged theme across the sector is the increasing pressure on margins due to rising costs and increasing competition, particularly within the mortgage market. Competitive pressures in mortgage lending are a challenge across the whole UK banking sector but building societies are particularly exposed given their legal limits, which constrains their ability to diversify into higher-margin activities beyond mortgage lending. In agreement with this, 45% of CEOs stated that increasing costs will continue to be a key challenge for the future of the sector. Regulatory requirements create a large overhead for the sector, and 30% of CEOs we interviewed highlighted the increasing regulatory costs and the lack of proportionality as sources of challenge for their organisations.

67% of all online survey respondents ranked the increasing need for investment in digital transformation as a key challenge for the future. The exact same percentage of building society respondents identified digital transformation as the primary challenge to the sector over the next 5 years. The majority of CEOs have an active interest in moving towards digital and an appetite for forming FinTech partnerships, but key challenges include not having in-house IT capability to support technology changes, as well as the difficulty in navigating the tech provider landscape. However, recent research implies banking providers don't necessarily need to be at forefront of technology, thus suggesting that a careful and considered approach to digitising may not impact significantly on their competitiveness, albeit they do increasingly need to be using technology to enable better service .

41% of building society survey respondents highlighted the challenge surrounding the sector's ability to attract and retain talent which may impact on their long-term competitiveness, a sentiment consistent with a third of CEOs. One factor that may be attributed to this is the perception of the sector to young talent and the preconceived ideas that are associated with working within a traditional financial services provider when compared to other options. Additionally, the combination of the historical traditional brand image of the sector coupled with the location of many building societies being outside large cities can be a factor. However, many building societies offer other benefits such as a better work-life balance which also often appeals more to those with families or those in the latter stages of their careers.

Additionally, the manual underwriting skills that are central to the specialist lending proposition are generally considered to be in danger of short supply, so a number of societies have developed their own training / skills development pathways to ensure they are not so dependent on outside sources for the provision of young, qualified talent. Providing a clearly defined career development opportunity within the sector could help to reconcile this challenge as local talent could be recruited and developed internally, reducing the reliance on hiring skilled resources from the market.

[30] BSA. 2021. Consumer Attitudes 2021

What is Digital Mutual?

Robert Thickett
Digital Policy Manager
Building Societies Association

The starting point of the Building Societies Association's (BSA) Digital Mutual events has been the changing face of financial services technology and the opportunity for members to share ideas from inside and outside the sector.

The BSA Council has focused on digital transformation and fintech as part of the BSA's long term strategy. As part of this, we set up an internal panel for building society, credit unions and associate members to discuss the opportunities and threats from Open Banking and digital innovations more generally.

In 2018 we also set up an external event called the Digital Mutual to bring together members, consultancies, fintechs and challengers to share ideas about what the future might look like in terms of the delivery of financial services.

Outside in to inside out

The first events that we held in 2018 and 2019 took very much an outside in perspective.

Fintechs Bud, Ecospend and Openwrks talked through the opportunities from Open Banking and Whitecap Consulting summarised innovations it was seeing from challengers into the market.

The Bank of England and regtech fintech Suade talked about regtech and the benefits from streamlining data collections and reporting.

Global technology Fiserv, Temenos and digital consultancy Deloitte talked through how technology is being transformed and the data analytical trends driving change and global buying patterns.

We also had challenger bank Monzo talking through its route to market and answer audience questions on whether it had considered becoming a mutual (it had!).

But as our members have progressed their own digital innovation plans over the last three years, we are now having more case study sessions where building societies and credit unions talk through what they are bringing to market.

For our latest virtual event that took place at the back end of 2020, Newcastle Building Society talked through the development of their mobile phone app and Nationwide and our credit union member No1Copperpot talked through how they are using chatbots to transform their engagement with their members.

Darlington Building Society also discussed how they are transforming the front end of their mortgage journey and the principle of digitising its processes while maintaining its USP in terms of how it underwrites loans.

Principality Building Society, Ecology Building and Yorkshire Building Society also shared their experiences on panels about how they are using technology within their organisations to engage with customers and reimagine what a digital mutual is.

What it means to be a digital mutual

And the truth is that for our last event we had about half a dozen case studies from building societies that we just missed out on including because they were on the cusp of launching.

We will be continuing to follow this same approach going forward, interweaving external input from the BSA's Associate Members and fintechs, with the digital innovation members are bringing to market.

In the future, we will be showcasing how are members are actively using Open Banking. And with the FCA's commitment to Open Finance off the back of its 2020 Call for Input, we will be digging into what impact this will have on mortgages, savings and customer behaviour more generally.

Likewise, with the Bank of England and FCA's 10/15 year data collection project showing the potential to standardise and, as a result, revolutionise regulatory reporting, members are already looking at how they can take advantage of some of the underlying principles.

We continue to see our work as providing food for thought as members progress their transformation programmes and imagine what it means to be a digital mutual.

Stakeholder perspectives - key challenges

"Relevance is a whole sector issue; how can we be relevant to both the younger and older demographic?"

Simon Taylor, CEO, Melton Mowbray Building Society

"The sector which we work within moves at such a fast pace and therefore we have to ensure we remain relevant to all of our customers."

Darina Armstrong, CEO, Progressive Building Society

"We want to be relevant to a wider group of people than we are right now. We need to be more relevant to a younger demographic."

Mark Selby, CEO, Hanley Economic Building Society

"The growing overhead costs and thin margins are a challenge for us and the sector."

Tim Bowen, CEO, Penrith Building Society

"The fixed cost base is going up and without scale or increased efficiency, profit margins will fall. This is or will be a challenge for many in the sector."

Colin Field, CEO, Saffron Building Society

"Keeping aligned to the way the markets are going from a tech point of view and keeping ourselves current and relevant."

Jeremy Wood, CEO, Dudley Building Society

"Relevancy to a generation that will not have grown up with a building society and its history. We can't take for granted that the heritage and history will translate to all generations and be appreciated. We cannot stand still and not act."

Colin Fyfe, CEO, Hinckley & Rugby Building Society

"Tech and staying relevant at the pace of the outside world is a challenge. We don't have the scale or resources to deliver technology innovation ourselves, so we shall need to rely on our external providers/partners."

Mike Smith, CEO, Stafford Railway Building Society

"Getting this digital transformation bit right, if you get it wrong, are you going to become less relevant? Staying relevant will be key."

Kevin Gray, CEO, Bath Building Society

"Building societies often struggle to create a comprehensive short-list of tech providers but it's a very busy space and there are lots of providers trying to get their attention."

Richard Pike, Sales & Marketing Director, Phoebus Software

"Attracting and retaining talent is a challenge – getting the right people in the right roles is really important."

Will Carroll, CEO, Monmouthshire Building Society

"Historically, like a lot of societies outside the big cities, we've had to overcome the challenge of attracting and retaining high quality people. Post-covid, we believe more people will be more receptive to the benefits of the work-life balance we can offer."

Stephen Penlington, CEO, Chorley Building Society

"Talent can be a challenge. We work hard to attract and retain the capabilities we need, because our location and other factors might mean at first glance we are not as attractive as other employers"

Colin Field, CEO, Saffron Building Society

"I think building societies should focus on getting the younger customers really early. If parents or grandparents open an account for a child then it will be easier to engage them in future. There are other related opportunities too as intergenerational products are very successful in other countries; for example China and India are huge on family support and it could work here."

Ian Goodliffe, Director, ILBA24 Limited

Data & Analysis

Statistical analysis of the sector

Methodology

Online survey data and findings

Statistical analysis of the sector

There is no consistent strong relationship between the broader size of society, financial performance, and breadth of product range categories across the sector

Micro and small sized societies have broader specialist niche product ranges than the medium and larger societies

On average, the largest building societies are the strongest performing segment within the industry

There appear to be positive relationships between net interest margin, profit over mean assets and the breadth of product range

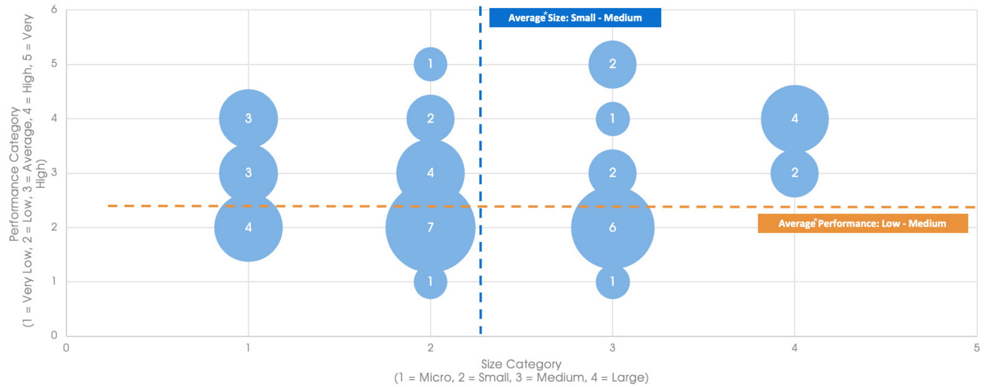
In relative terms, some small and medium sized societies demonstrate stronger performance than the strongest performing large societies

Using a combination of industry data and primary research, we have conducted a data-based analysis of size, financial performance, and product range categories across the sector. Our methodology is explained later in this section of the report.

Overall, our analysis does not show consistent strong relationships between size, performance, and product range categories. The largest building societies hold the vast majority of assets, branches, members and employees and are, on average, the strongest performing size category and are more clustered around average/ high performance. Small to medium societies, on average, hold lower performance; however, there is more variance within this segment. In relative terms, some small and medium sized societies demonstrate stronger performance than the strongest performing large societies – meaning the highest performing and lowest performing societies are found in the small to medium range.

In terms of Net Interest Margin (NIM) smaller societies are performing well against their larger counterparts. However, their cost income ratios appear to be under greater pressure – which is presumably reflective of incurring higher operating costs. The average cost income ratio across the sector has increased over time (by just over 2% annually, on average) and was averaged at 68.5% through 2015 to 2019. Across all size categories cost income ratios have increased – where micro societies have experienced the greatest increase (3.70%, on average, annually). Profit over mean assets is mixed across size categories, but it is notable that large societies hold the largest (0.53% on average) while micro societies experienced the largest reduction in average profit over mean assets from 2015 to 2019 (0.06%, on average, annually).

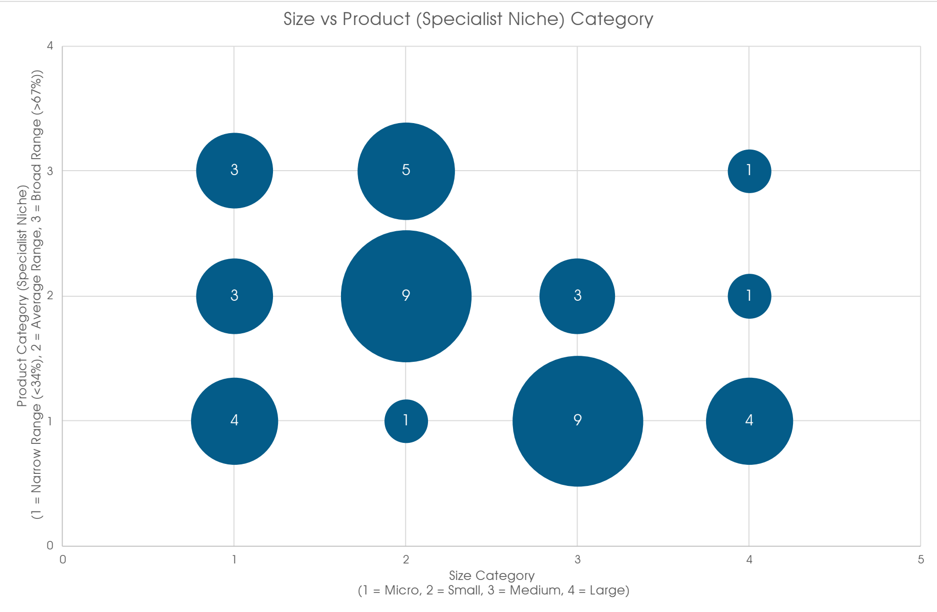
Size v financial performance

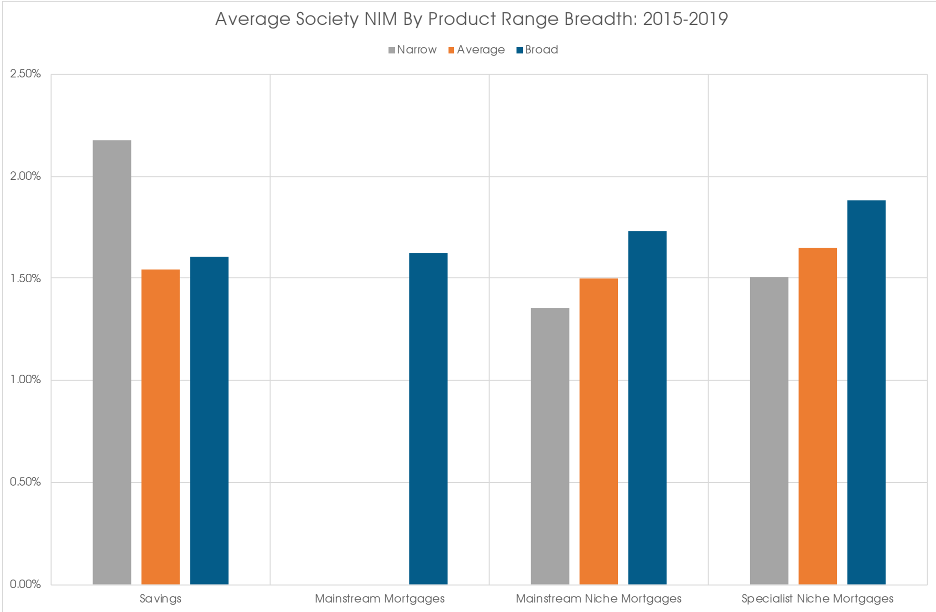


*Average: sector average based only on identified metrics used in this analysis

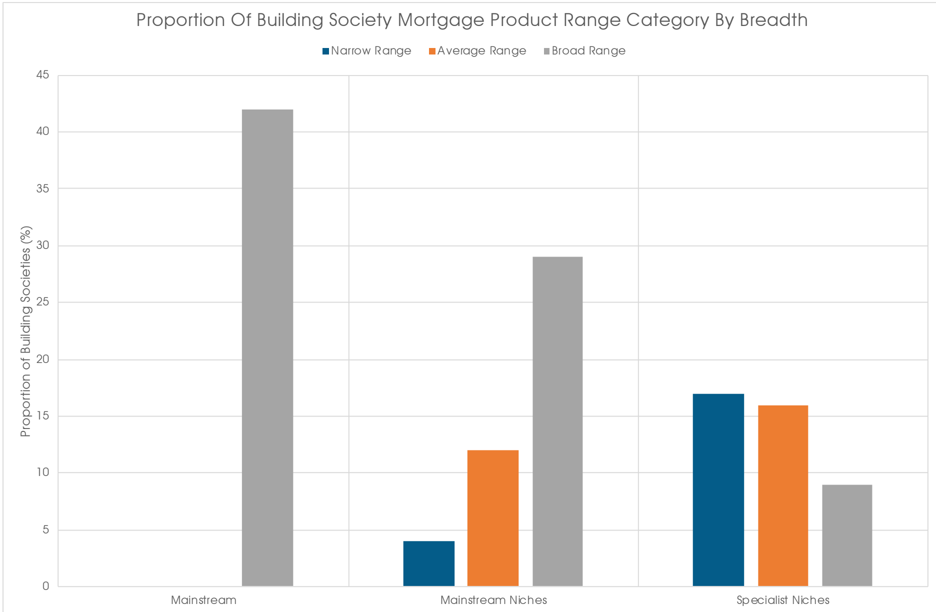
Diversity of product ranges

Micro and small societies have broader specialist niche product ranges than the medium and larger societies.





There also appears to be a positive relationship between breadth of mortgage products and the net interest margin achieved by the society. Societies with a broad range of mainstream niche mortgage products, on average, held higher net interest margin (1.73%) through 2015 to 2019 than those with average or narrow ranges (1.50% and c1.35%, respectively). Societies with a broad range of specialist niche mortgage products, on average, held higher net interest margin (1.88%) through 2015 and 2019 than those with average or narrow ranges (1.65% and 1.50%, respectively).




The Nottingham
thenottingham.com

H&R

Newcastle
Building Society


Furness
BUILDING SOCIETY

Scotland's
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society

SWANSEA
BUILDING SOCIETY
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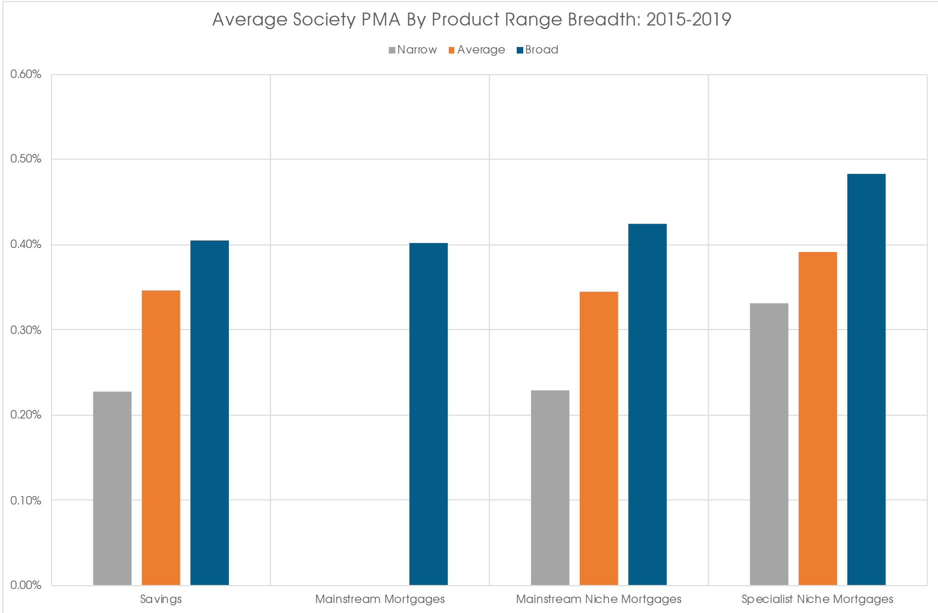
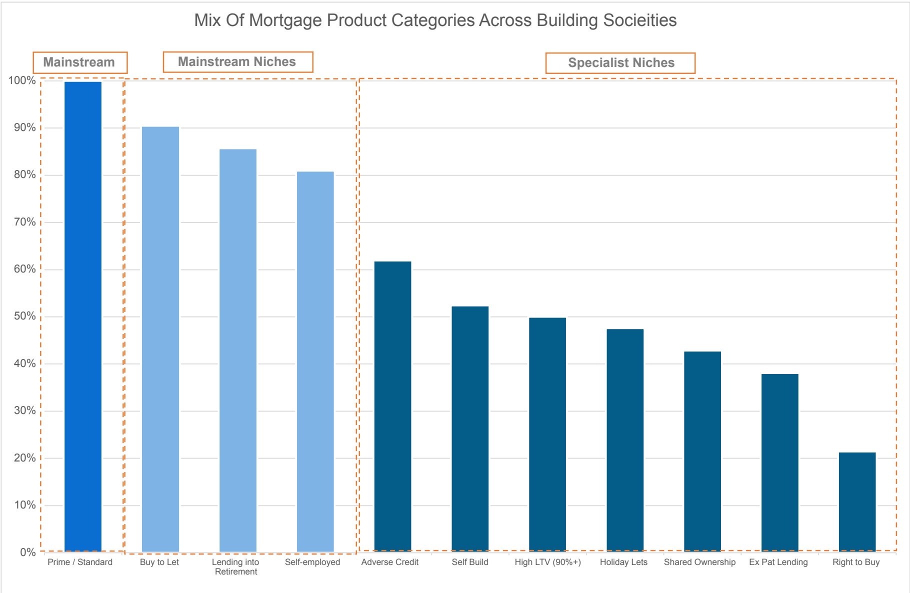
www.swansea-bs.co.uk
opening
not closing
branches


Monmouthshire
Building Society

Moreover, there also appears to be a positive relationship between profit over mean assets and the breadth of mortgage and savings products. Societies with a broad range of savings products held the highest profit over mean assets (0.40%) as opposed to those with average or narrow ranges (0.35% and 0.23%, respectively). Societies with a narrow range of savings products experienced the largest reduction in profit over mean assets (c0.07% annually). Societies with a broad range of mainstream niche products held the highest profit over mean assets (c0.43%) as opposed to those with average or narrow ranges (c0.34% and c0.23%, respectively).





There is evidence, within this analysis, that smaller societies (with lower cost income ratios, compared to larger providers) possess a greater need for higher NIM and may have been a significant driver for their tendency towards wider product ranges especially in specialist niche mortgage products.

Based on the observed relationships between NIM, PMA and product range we suggest that, certainly between 2015 and 2019, this approach is viable and is sustainable. However, in Whitecap's view, this approach will require an ongoing development of organisational competency in commercial agility, which will in turn require highly effective collaboration between product, risk and IT teams to execute consistently.

Methodology

43 Building Societies have been analysed in this report, through three broad data categories: size, financial performance and product range. A description of each category is included below. Manchester Building Society has been excluded from all industry statistics and insights due to its unique operating model.

Size classification approach:

Data has been extracted from the BSA Yearbook 2020-21, data points include: Total Assets; Total Liabilities; Number of Members; Number of Branches; and Number of Employees. Among the metrics for size exists very strong (near perfect) positive relationships between all metrics. Thus, to classify building societies based on one metric would capture the vast majority of the distribution of the other four metrics. In this analysis, size is segmented using Total Asset Value (TAV) as its key metric, as per the below:

Large: Above £10bn

Medium: £1bn to £9.999bn

Small: £0.3bn to £0.999bn

Micro: Less than £0.3bn

Financial performance classification approach:

Data has been extracted from the BSA Yearbook 2020-21 and individual society annual reports, data points include: net interest margin; cost income ratio; management expenses to mean assets ratio; and profit to mean assets ratio. There exists a lack of consistently strong relationships across the performance metrics used. Based on these results, we were unable use one metric to represent the other metrics' distribution – an approach using multiple metrics was required.

Within each metric's distribution, we assume that there exist building societies that match one of five criteria: over 1 standard deviation (s.d.) below the mean; under 1s.d. below the mean; equal to the mean; below 1s.d above the mean; and above 1s.d. above the mean. This is the basis for categorisation within each of the four distributions. By assigning a numerical scale to each building society's category within each of the four metrics, a society can be equally weighted across all four distributions. The output will provide a number that will then be compared against a set of rules, as per the below:

Example:

Criteria:	Value	Metric 1	Metric 2	Metric 3	Metric 4	Total	Rules:	Category:
More than 1 s.d. above the mean	2	x					6 to 8	**Very High**
Less than 1 s.d. above the mean	1		x		x	4	3 to 5	**High**
Equal to the mean	0			x			2 to -2	**Average**
Less than 1 s.d. below the mean	-1						-3 to -5	**Low**
More than 1s.d. below the mean	-2						-6 to -8	**Very Low**

Product range classification approach

Data has been individually extracted from publicly available sources e.g., lending criteria for each product type from each building society, or each society's website – suggesting if they do, or do not, offer each product type. We temper the usefulness of this data in that it does not reflect the corresponding volume or value of transactions, or the degree of strategic focus on each product type or category. Products have been categorised into savings and mortgage products and also, on the mortgage side, into mainstream, mainstream niches and specialist niches – as per the below:

PRODUCTS

SAVINGS	MORTGAGES	MORTGAGE CATEGORY:
Retail Savings	Prime / Standard	MAINSTREAM
Business Savings	Self-employed	MAINSTREAM NICHE
Children's Savings	Buy to Let	
Online Savings Accounts	Lending into Retirement	
	Adverse Credit	SPECIALIST NICHE
	Equity Release	
	Self-Build	
	Ex Pat Lending	
	Holiday Lets	
	Shared Ownership	
	Right to Buy	
	High LTV (90%+)	

Building societies have been classified through the breadth of products, specifically on the lending side, offered in each category – broad, average or narrow ranges as per the below.

Category	Proportion of all Observed products offered within category
Narrow Range	< 34%
Average Range	34 - 67%
Broad Range	> 68%

Online survey data and findings

Niche lending and regional savings strategies are the most prominent among building society respondents, with the majority of societies identifying as primarily being lending led, rather than savings led

Building societies are focused on improving intermediary facing digital functionality in their mortgage propositions

Open Banking is seen as an opportunity by building societies

Broad agreement that mutuality and regionality are significant for building societies, across building society and external organisation participants

Budget and legacy technology are the primary barriers to technology adoption

An online survey was published and made available to building societies and other stakeholders to complete. The survey generated 134 responses, which included 69 building society employees, 30 advisors/suppliers to the sector, 15 FinTech firms, and 14 technology providers. 67 of the respondents were CEOs or Directors.

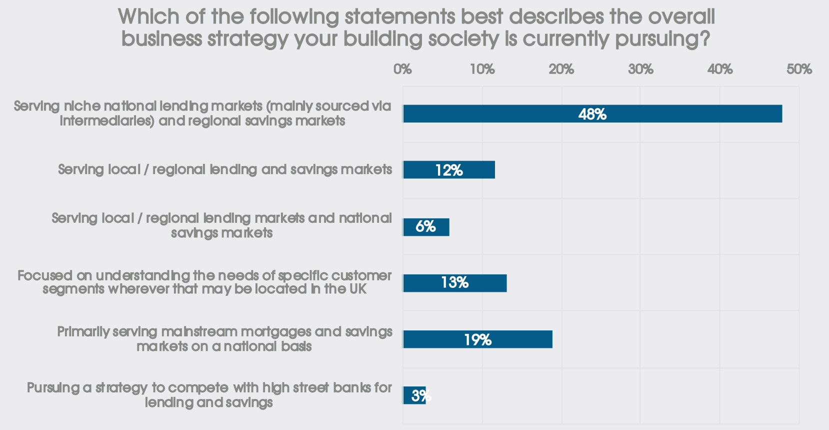
Overall, the survey findings provided further reinforcement to the importance of the mutuality and regionality concept. Moreover, it has helped highlight areas of differing opinion across technology adoption, Open Banking and the mortgage and savings markets between building societies and external organisations. Critically, however, it has helped outline areas of consensus and agreement between both types of organisation on many of the significant priorities for the sector going forward.

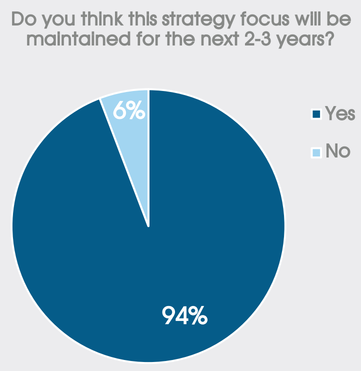
The survey was structured inline with the CEO interviews and the areas of focus of this research:

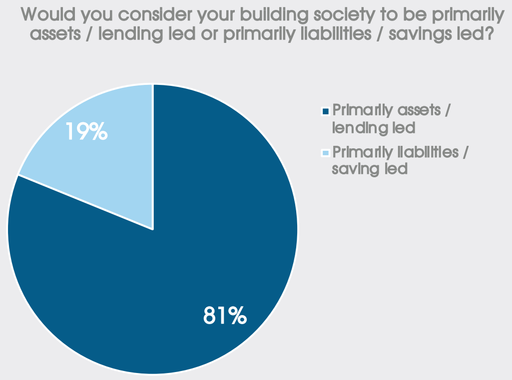
Strategy

The largest proportion (48%) of building society respondents suggest that they focus on a niche national lending and regional saving strategy, followed by national lending and saving strategy (19%) and serving specific segments wherever the geography (13%). Very few suggested they compete directly with banks (3%). Moreover, the majority (94%) of building society respondents expect their strategy to be maintained for the next 2-3 years and 81% suggest they are primarily asset / lending / mortgage led.

BUILDING SOCIETY VIEW



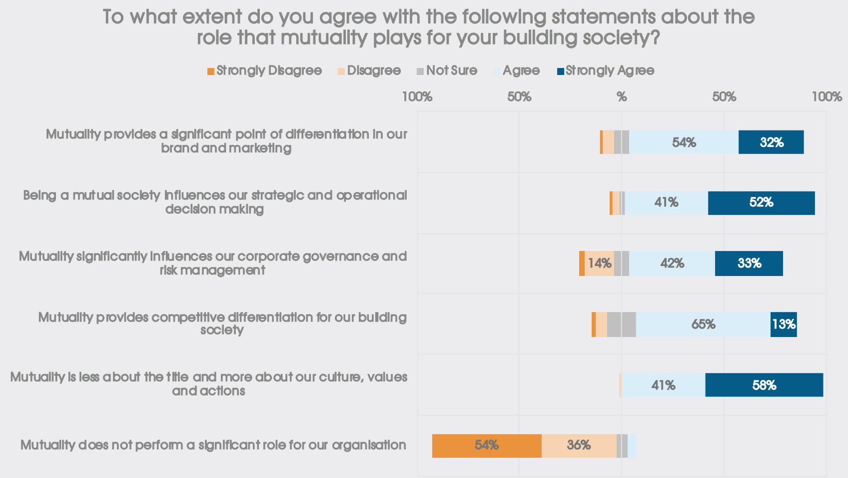


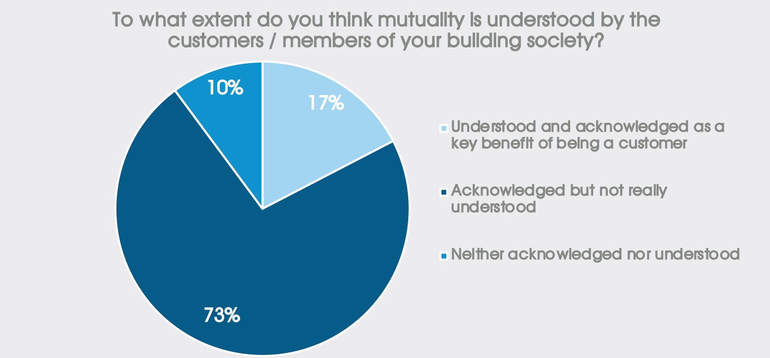


Mutuality

Mutuality is viewed as being less about title and more about culture, values and actions (99%) and influencing operational and strategic decision making (93%). The majority of building society respondents (72%) suggest that customers / members acknowledge but do not understand mutuality. The majority of building society respondents (90%) disagree or strongly disagree that mutuality does not perform a significant role for building societies, a trend also shared by external organisations (74%).

BUILDING SOCIETY VIEW

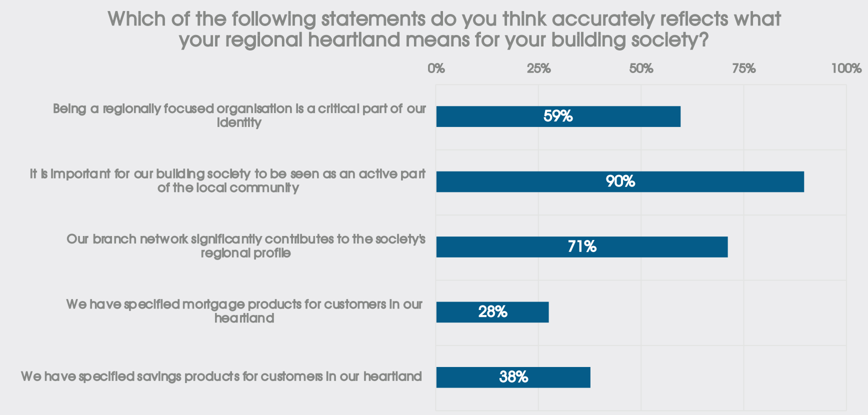




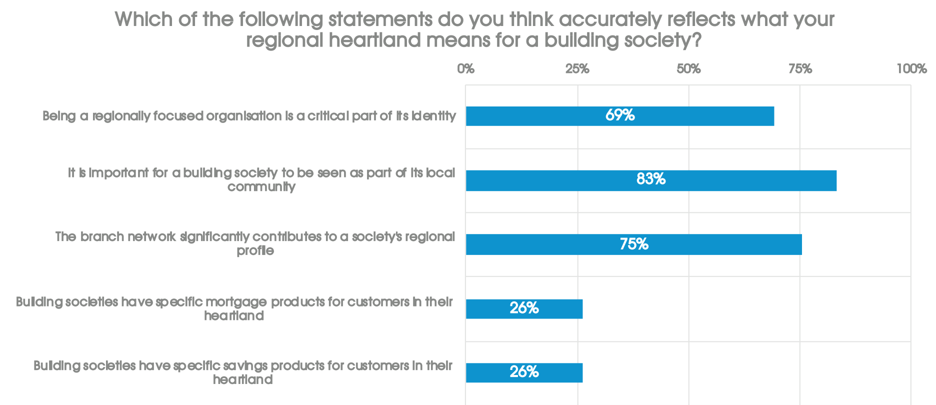
Regionality

Overall, respondents most often suggested that being seen as an active part of the community is key (87%) – a theme observed across both building societies (90%) and external organisations (83%). Moreover, building societies (71%) and external organisations (75%) suggest branches significantly contribute to regional profile second most often. There was much less support for specific mortgage and savings products within the heartland across building societies and external organisations.

BUILDING SOCIETY VIEW



INDUSTRY VIEW



Mortgages

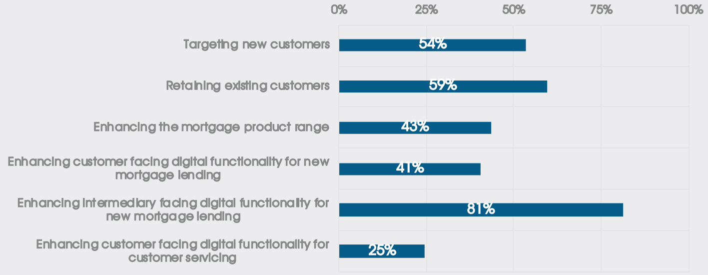
Building society respondents most often selected enhancing intermediary facing digital functionality as a key priority over the next 2 years (81%) – more often than external organisations (66%). Interestingly, external organisations were more likely to suggest enhancing customer facing digital functionality for mortgages (66%) than building societies (41%). Similarly, external organisations were also more likely to suggest enhancing customer facing digital functionality for servicing (43%) than building societies (25%).

Building societies suggest that other building societies (77%), high street banks (74%) and challenger / digital banks (57%) are key competitors in mainstream mortgage markets – where external organisations broadly agree, although the order of significance are reversed.

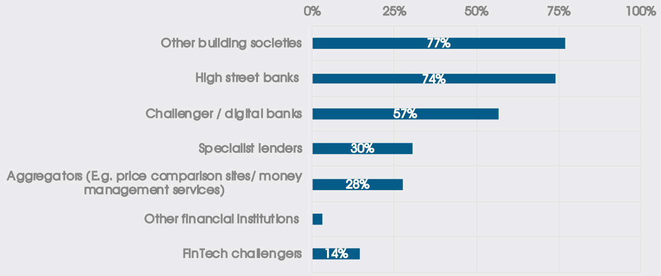
Moreover, building societies suggest that other building societies (80%), specialist lenders (78%) and challenger / digital banks (55%) are key competitors in the niche lending market – a view shared mostly by external organisations, except they do not see other building societies (48%) as significant as specialist lenders (89%) and challenger / digital banks (65%).

BUILDING SOCIETY VIEW

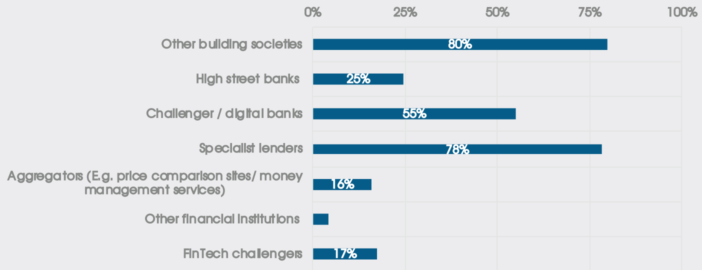
For MORTGAGES, which of the following do you feel will be key priorities for the building society sector over the next 2 years?



In your opinion, who do you think will be the key MORTGAGE competitors in the mainstream market for your building society over the next 2 years?

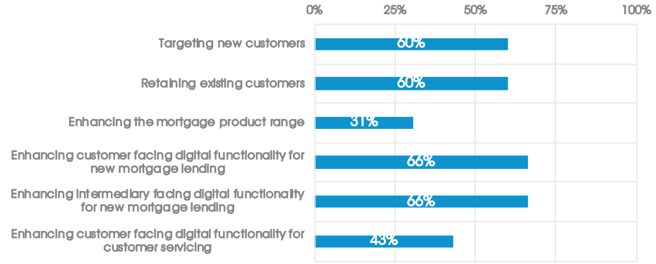


In your opinion, who do you think will be the Key MORTGAGE competitors in the niche/ specialist market for your building society over the next 2 years?

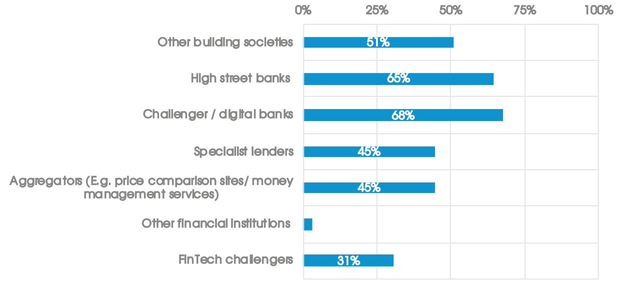


INDUSTRY VIEW

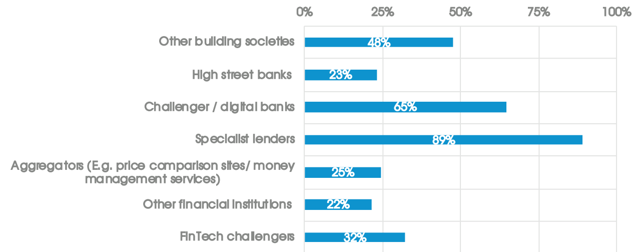
For MORTGAGES, which of the following do you feel will be key priorities for the building society sector over the next 2 years?



In your opinion, who do you think will be the key MORTGAGE competitors in the mainstream market for the building society sector over the next 2 years?



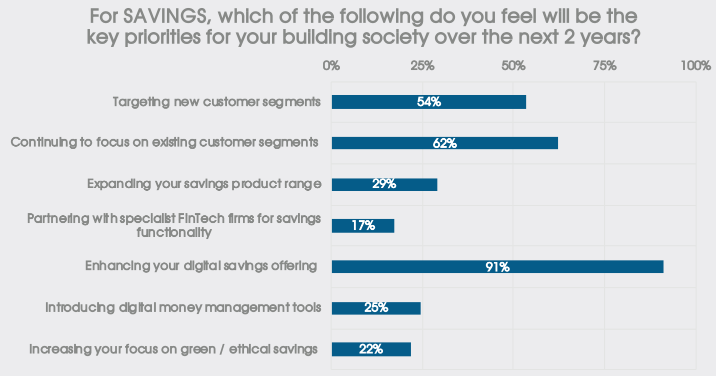
In your opinion, who do you think will be the primary MORTGAGE competitors in the niche/ specialist market for the building society sector over the next 2 years?

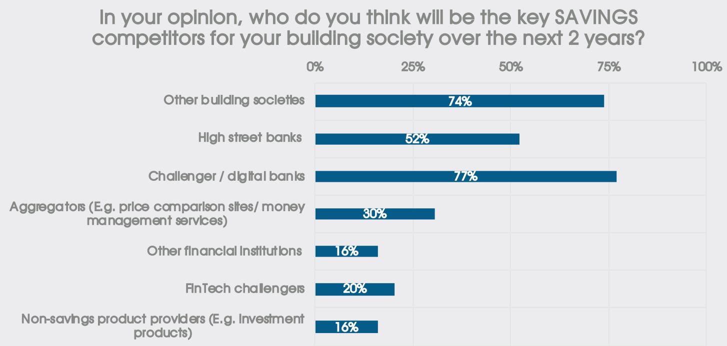


Savings

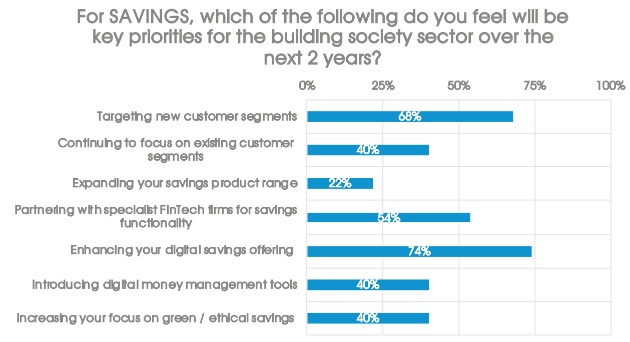
Building society respondents most often selected enhancing their digital savings offering as a key priority for the next 2 years (91%) – a view shared by external organisations (74%) however, also including targeting new customer segments (68%) and partnering with FinTechs (54%). Building societies see challenger / digital banks (77%), other building societies (74%) and high street banks (52%) as key competitors in the savings space – whereas the views of external organisations lean more significantly towards seeing challenger / digital banks as the key competitors (77%).

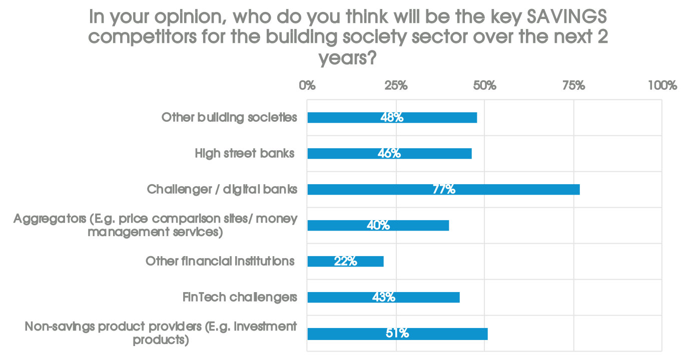
BUILDING SOCIETY VIEW





INDUSTRY VIEW





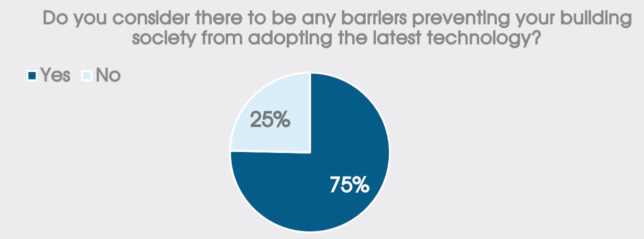
Technology

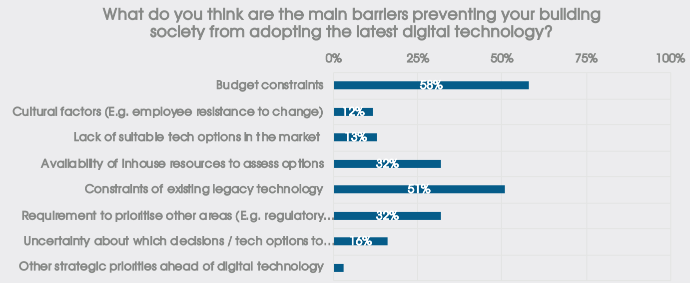
There is broad alignment across building societies and external organisations that there are barriers preventing building societies from adopting the latest technology (75% and 86%, respectively). Across all respondents, budget constraints (60%) and existing legacy technology (57%) are cited as key barriers. Culture is cited less often by building society respondents as a key barrier (12%) – a theme shared to a lesser degree by external respondents (46%).

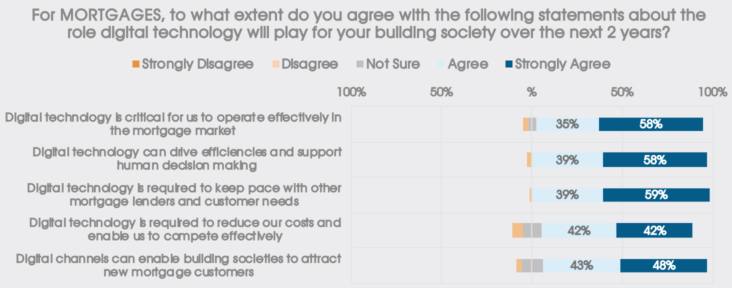
Moreover, uncertainty is also cited less often by building societies as a key barrier (16%) – a theme also shared to a lesser degree by external respondents (58%). There is broad agreement, on the mortgage side, that all provided statements about digital adoption over the next 2 years are relevant – where external respondents are skewed more towards strong agreement than building society respondents.

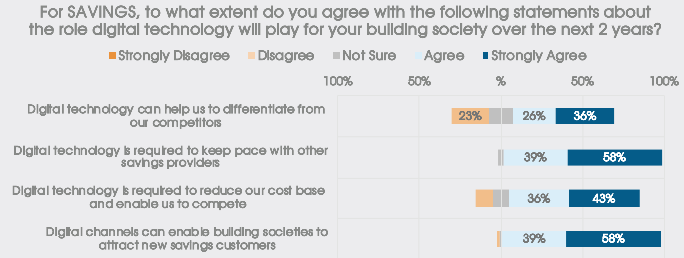
There exists less uniformity on the saving side in the role that digital adoption will play over the next 2 years. Principally, on the savings side, digital technology enabling differentiation and requirement to competitively reduce the cost base are areas of the strongest difference – although most across building societies and external organisations tend to agree.

BUILDING SOCIETY VIEW

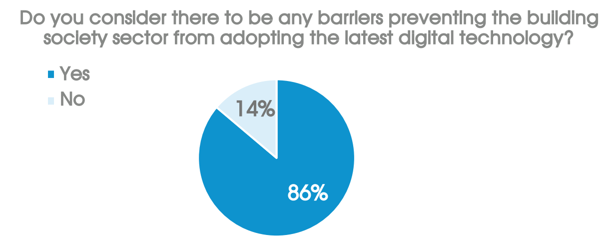


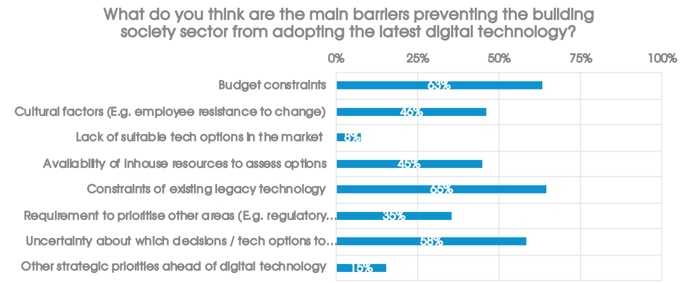


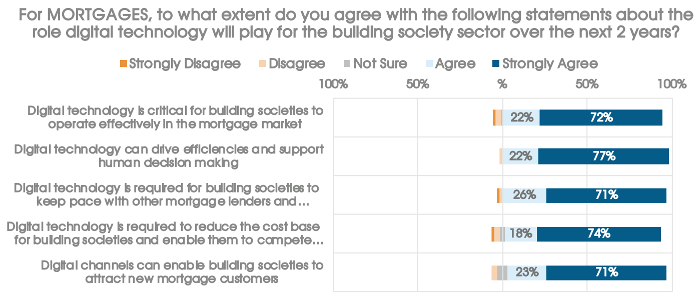


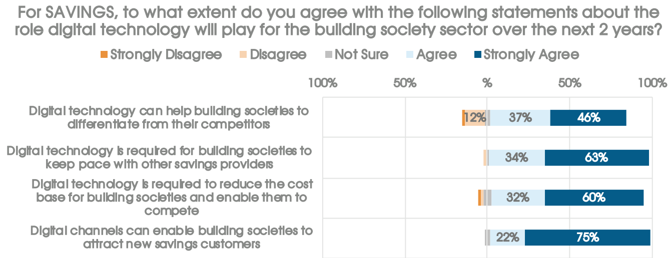


INDUSTRY VIEW









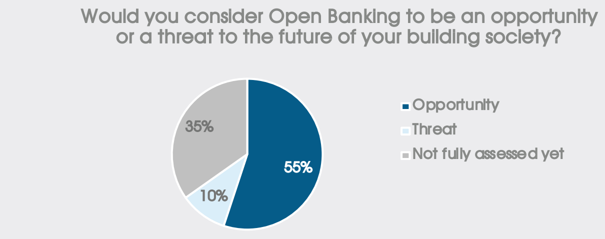
Open Banking

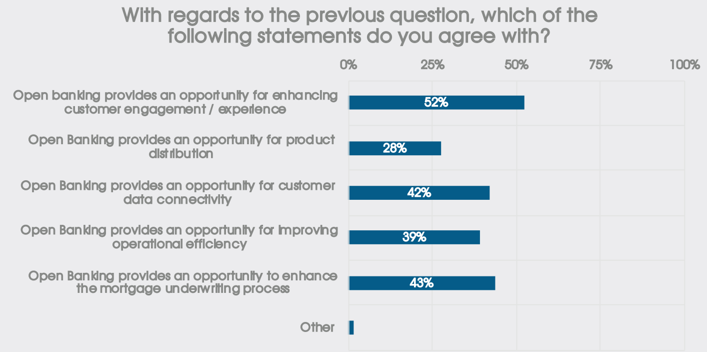
We also asked specifically about Open Banking, finding this is perceived by the majority of the survey respondents (65%) as an opportunity for building societies. The proportion of respondents that suggest Open Banking is an opportunity is more prominent in external organisations (75%) than within building societies (55%). Additionally, building societies are more likely to suggest that they have not yet assessed Open Banking (35%) than external organisations (14%).

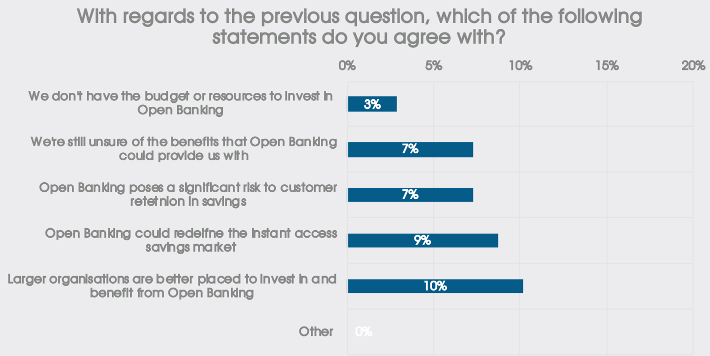
There is a clear consensus across the survey that enhancing customer engagement / experience (60% of all respondents) and improving customer data connectivity (51% of all respondents) are key opportunities. Additionally, within building society respondents, enhancing the mortgage underwriting process is seen as a material opportunity (43%) – a theme that is shared to a somewhat greater degree in external organisations (51%).

Among Open Banking's potential threats, building society respondents quote that larger organisations are much better placed to invest and benefit (10%) – a view shared to a lesser degree by external organisations (6%). Building societies reference budgetary restraints as the least prominent threat (3%) – a view shared to a lesser degree by external organisations (8%). Another observation is that building societies are more likely (7%) to be unsure of the benefits of Open Banking than external organisation's perception of the sector (2%).

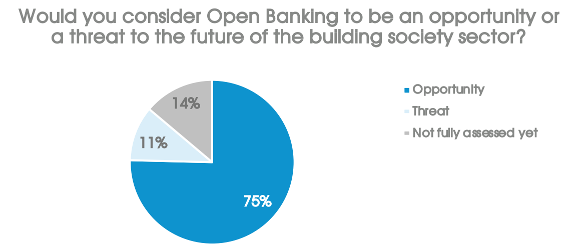
BUILDING SOCIETY VIEW

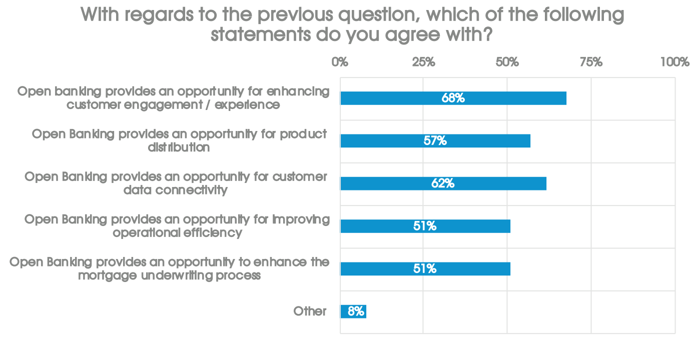


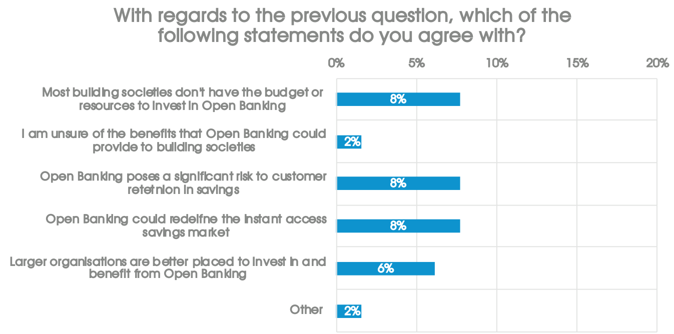




INDUSTRY VIEW







Stakeholder perspectives

"This is not just about young people; older generations are using tech now too. We want to use a goal-based, digital coaching focused approach as a catalyst for change in the building society sector. There are two key areas where we could help. Firstly, we can help make the savings experience better for a younger demographic, and secondly we can focus on the later-life market where there are customers with large savings balances."

Ben Leonard, Founder & CEO, Life Moments / First Home Coach

"The biggest challenge for the sector will be continuing to adapt to the speed of change in society and ensuring they are remaining relevant to their members. Digital has a big role to play here, alongside proposition. These are challenges that are faced to different degrees by all established sectors, but perhaps felt more acutely in the building society sector, given the demographic of its members."

Nick Moules, Head of Marketing, Wren Sterling

"We spotted a gap in the market because there were limited apps built to specifically meet the needs of the sector, which primarily relate to mortgages and savings products. We don't see ourselves as a product provider, we see ourselves as a partner to building societies and we want the sector to work with us on their journey towards a digital future."

Paul D'Ambra, CEO, Consectus

"The industry needs to recognise that it's at a tipping point in terms of digital transformation. At one end are the neobanks and challengers who have all the tech in place and the big budgets and then at the other end are those who don't have the technology in place or the budgets to implement it. Customers are experiencing the benefits of digital, and those organisations who are not using it will start feeling the impact."

Maria Harris, Director, Digital Cat Consultancy

"I've noticed an attitude shift from building societies since the disruption of Covid-19 in that the sector seems more willing to accept external advice and expertise with regards to their tech and more open to the potential for FinTech partnerships."

Andy Thompson, Executive General Manager, Sandstone Technology

"People are increasingly open to their service being digital for things like checking balances and transferring money, so building societies need to make sure they've got the basics available online. Some processes such as opening up new accounts and depositing big amounts will still require a face-to-face interaction for many people."

Ian Goodliffe, Director, ILBA24 Limited

Further Information

CEO interviews

Participating organisations

Sponsor profiles

CEO interviews

Organisation	Name
Bath Investment Building Society	Kevin Gray
Beverley Building Society	Karl Elliott
Buckinghamshire Building Society	Gerard O'Keeffe
Cambridge Building Society	Peter Burrows
Chorley & District Building Society	Stephen Penlington
Coventry Builiding Society	Steve Hughes
Cumberland Building Society	Des Moore
Darlington Building Society	Andrew Craddock
Dudley Building Society	Jeremy Wood
The Family Building Society	Mark Bogard
Furness Building Society	Chris Harrison
Hanley Economic Building Society	Mark Selby
Harpenden Building Society	Sarah Howe
Hinckley & Rugby Building Society	Colin Fyfe
Leeds Building Society	Richard Fearon
Loughborough Building Society	Gary Brebner
Mansfield Building Society	Paul Wheeler

Organisation	Name
Market Harborough Building Society	Mark Robinson
Marsden Building Society	Rob Pheasey
Melton Building Society	Simon Taylor
Monmouthshire Building Society	Will Carroll
Newcastle Building Society	Andrew Haigh
Nottingham Building Society	David Marlow
Penrith Building Society	Tim Bowen
Principality Building Society	Julie-Ann Haines
Progressive Building Society	Darina Armstrong
Saffron Building Society	Colin Field
Scottish Building Society	Paul Denton
Stafford Railway Building Society	Mike Smith
Swansea Building Society	Alun Williams
Tipton & Coseley Building Society	Richard Newton
Vernon Building Society	Steve Fletcher
Yorkshire Building Society	Mike Regnier

Other participants and contributors

AMC
AmTrust Europe Limited
AS Bankish
Autumn Life Retirement Solutions Ltd
Bath Building Society
BEP Systems Ltd
Beverley Building Society
BJSS Ltd
bpesearch
BPG Strategy
BrokerSense
Chorley Building Society
Consectus Ltd
Coventry Building Society
BGZ
DAC Beachcroft
Darlington Building Society
Deloitte LLP
Digital Cat Consultancy
DMW Group
Credera UK
DPR
Dudley Building Society
Ecology Building Society
Econans AB
Equiniti
Etronika
EY LLP
Family Building Society
First Home Coach
Google Cloud
Hanley Economic Building Society
Hazeldene Project Contracts Ltd
Hinckley & Rugby Building Society
HSBC
ILBA24 Limited
Impactws
Infinity Works
Ipswich Building Society
John Williams Consulting
Jumar Solutions
KPMG LLP
Lapetus Consulting Ltd
Leeds Building Society
Leek United Building Society
Life Moments
Lumio
Mambu
Mansfield Building Society
Market Harborough Building society
Melton Mowbray Building Society
Mojo Mortgages
Moneyhub
Monmouthshire Building Society
Mortgage Brain
Mutual Vision
Nationwide Building Society
Neil Williams IT Consultancy Ltd
Newcastle Building Society
Nivo
Nottingham Building Society
Nude
Open Banking Expo
Paragon Customer Communications
Paylink Solutions
Penrith Building Society
Phoebus Software Ltd
Principality Building Society
PwC
Raisin
RSM
RSM Risk Assurance Services LLP
Saffron Building Society
Sagis Consulting Ltd
Sandstone Technology
Scottish Building Society
Shoosmiths
SimplyBiz Group
Skipton Building Society
Slalom Consulting
Sopra Banking Software
Swansea Building Society
Sykes Digital Services
Tiley Smith
Tipton & Coseley Building Society
TruNarrative
Warren Partners
We Are Digital
Wren Sterling
Yabber Global Ltd
Yorkshire Building Society

Sponsor profiles

CREDERA	Credera (ex DMW 15/03/21) is a consulting firm focused on strategy, transformation, data, cloud, and engineering. We partner with clients including FTSE 100 companies, large government departments, and emerging disrupters. We care deeply about building trusted, collaborative relationships with our clients to deliver effective solutions and tangible business results. Our mission is to make an extraordinary impact on our clients, people, and communities.	www.credera.co.uk
dpr.	Part of DPR Group, DPR provides origination and servicing, multi-channel, fully integrated software platforms, delivering a range of solutions for Mortgages, Savings, Loans, Equity Release, Short Term Lending and Commercial Real Estate, fully managed and supported by DPR and hosted in Microsoft Azure. Our award-winning solutions and services are trusted by more UK institutions than any other technology provider, including established and challenger banks, building societies and specialist lenders.	www.dpr.co.uk
EQ CREDIT SERVICES	Part of the Equiniti Group (EQ), technology specialist EQ Credit Services provides lending platforms and outsourced services to banks, lenders and building societies. Our API-led platform, EQ Borrowbox, can provide digital journeys spanning customer origination and full account servicing. Our specialist team of experienced case management experts also provide BPO services where required.	www.equiniticreditservices.com
MAMBU	Mambu is the UK's fastest-growing SaaS banking and lending platform, with eight successful go-lives in the UK in 2020. Demand to replace legacy systems and technology is rapidly growing in the building society sector and Mambu has become the leading cloud-native alternative to incumbent systems for supporting savings and mortgages.	www.mambu.com
moneyhub®	Moneyhub is the leading Open Banking and Open Finance platform that uses the power of data, intelligence and payments to enhance the lifetime financial wellness of people, their communities and their businesses. Moneyhub's APIs and white label solutions help building societies improve customer outcomes, streamline processes, reduce costs and power propositions from digital banking, affordability and income verification, to consolidation of savings and mortgages, financial wellbeing, mortgages, and landlords/tenants support.	www.moneyhubenterprise.com
MUTUAL VISION	Mutual Vision (MV) is the Digital Mutual. We're a tech business uniquely owned by our customer community giving us an intimate understanding of the needs, values and ethics of the mutual sector. Working as the strategic technology partner, MV provides an ecosystem of digital savings and loans solutions that are robustly and securely integrated to deliver choice, innovation and differentiation.	www.mutualvision.co.uk

Sponsor profiles contd.

nivo	Nivo is a secure messaging solution built for the rigours of financial services. We can digitise and automate even the most complex processes in minutes delivering a mobile first experience that applicants, customers, partners and staff love.	www.nivohub.com
PHOEBUS	A market-leading provider of technologies for challenger banks, building societies, lenders and third party servicers, Phoebus Software Limited (PSL) delivers operational efficiencies, enables omni-channel originations and drives enhanced customer experience. Our suite of APIs and an integrated workflow solution deliver automation of any lending or savings process. Clients can utilise our Loan and Savings platforms, whilst integrating with other non-core Phoebus solutions to provide a state-of-the-art, end-to-end, digital ecosystem.	www.phoebus.co.uk
sandstone TECHNOLOGY TRANSFORMING BANKING EXPERIENCES	Sandstone Technology is an established global FinTech provider of digital origination, internet and mobile banking solutions; delivered via cloud, on-premise, or hybrid. Sandstone's most recent innovation is an AI driven document processing platform which assists in streamlining the mortgage origination process. Sandstone has also developed API gateways and Open Banking onboarding as part of its digital and mobile banking proposition across current accounts and saving accounts.	www.sandstone-tech.com
SHOOSMITHS	Shoosmiths is a leading national law firm, committed to superb client experience. We advise building societies, banks and other niche lenders across the financial services industry, delivering cutting edge transactional, commercial and regulatory advice. Our advice is delivered using industry insight and a "best in class" approach to technology.	www.shoosmiths.co.uk
Sopra Banking Software	Combining the UK's most prominent end-to-end Building Society solution with a managed cloud service gives our customers the tools to accelerate business change. Retaining and growing your members and providing them with the right service becomes easier and quicker. Sopra Banking Software – side by side with Building Societies for over 4 decades.	www.soprabanking.com

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