

Why Building Societies really matter

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Adrian joined the BSA in 1979.

What was it like in those days?

In those days the job was to run the Building Society “cartel” which meant the same mortgage rates, the same savings rates and no competition from the banks. There were queues for mortgages, each building society gave 28 days notice of rate changes and informed the others. We were about to hear whether these were the good old days or the good old bad old days.

What is going on today?

Today there is no cartel. The BSA helps its members avoid re-inventing the wheel. There are 60 building societies whose assets total over £60m. There are 90 mutual insurance companies, 78 friendly societies, 567 credit unions and 40 retail co-op societies.

The largest building society is Nationwide with over 17,000 staff, the smallest has 6 staff. There are over 48,000 people employed by Bess in a total of over 2000 branches. There are around 2.8m borrowers. Legally a BS must get 50% of its funds from its members. A BS is owned by its members who are individuals not corporates. This sector now has control of 20% of the mortgage market, 10 or so years ago it was 80%. Most individuals never realised they were owner members until the windfalls of demutualisation started to come along.

Why did mutualisation happen?

Demutualisation came about because of competition, the loss of monopoly position and the supportive zeal of some of the executives to cause it to happen as they perceived rising salary packages and attractive share options.

Until the market reforms of 1986 there was no mechanism for achieving mutualisation. Abbey was the first to go. Insures demutualised as they needed access to more capital.

What were the benefits of mutualisation?

- Members got windfalls
- Executive pay increased
- Access to capital was available
- Companies were better able to restructure
- Gained wider powers as banks

What were the effects of mutualisation?

- There were branch closures; converted BSs closed 25% of branches as public companies were under more pressure to make cost savings
- Access to free capital
- Dividends paid out and not re-invested in the business

A change of culture occurred, with customers not being able to identify with the value being delivered.

Why did some not demutualise?

Member's money was seen as free money
Defensive measures were taken
Increase of minimum holding times
Charitable assignment clauses in the event of windfalls were put in place
Promotion of mutuality as meaning something of value
Active engagement of members

Where is all this leading, what have been the changes?

UK is the only country where converted BS have not called themselves banks
CEOs now do road shows
Service improvements are sought and delivered
Improved member communications and newsletters
Good corporate governance has been provoked by the conversion process

What are the signs?

Margins are lower in mutuals – the lower the better
Financial services are not competitive in the retail sector compared with say groceries, but there is more switching than before
There has been some outsourcing e.g. Kensington Mortgages are administered by Skipton BS
More readiness to cut or share costs or go it alone
The Bess have infrastructure that can support 20% of the market

What should members look for?

The one true benefit is the interest rate margin – the lower the better

What is the outlook for Building Societies?

Clearly BS have bounced back, they have stopped the decline and have taken steps to make themselves more acceptable. They have nothing like their old monopoly position but do control a significant 20% of the mortgage market