

# Conversations with members

MEMBER ENGAGEMENT AT BUILDING SOCIETIES

Fourth Edition





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Building Societies Association, January 2010

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# Foreword

**Lord Myners** Financial Services Secretary

The profile of corporate governance issues has increased significantly over the past two years. Viewed in the context of a financial crisis without modern precedent, matters of management, stewardship, and ownership have lately taken on greater importance. Sir David Walker's review has helped bring the issue to the forefront of the global reform agenda.

The governance of mutuals is of course different in nature when compared to other financial institutions - and has held up relatively well in this crisis - but it is no different in its critical importance to the health of organisations and the stability of our financial system. There are examples of extremely good governance within the building society sector, such as greater interaction and feedback with members using innovative and approachable techniques, which this report highlights. This report identifies some examples of best practice, which societies can build upon to deliver even stronger corporate governance.

But as the sector itself will acknowledge, the mutual model has not been totally immune to the failures of governance that have featured more prominently in retail and investment bank troubles during this crisis. There are lessons to learn for all financial institutions.

I warmly welcome the work of the BSA in this helpful review, produced specifically for the building societies sector. Recognising the distinct characteristics of the mutuals sector, in the 2009 Pre Budget Report the Government proposed a specific governance code for building societies and other financial mutuals. The current annotated version of the Combined Code produced by the BSA has provided a solid base for societies to adopt best practice governance principles. The publication of the Walker Review, and Financial Reporting Council consultation on the Combined Code, provides an ideal opportunity to build on this, and I would welcome the BSA's involvement in producing the new code for building societies and other financial mutuals.

The BSA plays a valuable role in issues affecting the sector and in representing the interests of their members. Here they have produced an important piece of work providing examples that should be followed and highlighting areas for further development. I thank Adrian Coles and the BSA for their ongoing engagement on this issue and extend a further invitation for their involvement in helping to shape an improved building societies sector for the future.

# Executive Summary

This report presents the progress building societies have made over the last two years in engaging their members, getting their feedback, and acting on their comments so that the members have more influence over the society that they own.

As mutually owned organisations, member engagement and corporate governance are closely linked. Whereas for plcs, such as banks, customer satisfaction is a means to maximise profits, for building societies listening to customers feeds into strategic decisions and the accountability of managers.

-  The financial crisis and recession have not changed the fundamental need for member engagement at building societies. However, they have changed the focus of member queries towards the safety and stability of institutions. Societies have put proactive and reactive communication strategies in place to address this change.
-  The FSA's TCF regime has also not changed member engagement fundamentally, but has formalised much of the reporting processes within societies.
-  Societies have invested a lot of effort into increasing awareness of the benefits of membership, engaging members and creating opportunities for them to get involved. Societies also engage in a wide variety of community activities to involve their members.
-  There are many ways in which societies communicate with members. Increasingly, these seek to open a dialogue rather than just to provide information. For example, member roadshows and interactive elements to society websites are increasingly common.
-  Panels made up of members are found to be extremely useful in generating deeper involvement in areas such as customer service and product development.
-  Societies are embracing new technology to communicate with a wider variety of members. A number of societies have blogs and use applications such as Twitter and Facebook that involve the members more extensively.
-  Standards of corporate governance continue to be high at building societies, evidenced by compliance with the Combined Code.
-  Societies have tried hard over recent years to increase the proportion of their members that vote at the AGM, and have made a number of changes to their procedures to make it easier for members to both vote and attend the AGM.
-  Most societies welcome member nominated directors, though few nominations have been received.
-  Member engagement is very important to building societies, with the chief executive frequently being responsible for the society's work in this area. As member owned organisations, this is perhaps understandable, but engagement is also seen as important by many societies in relation to operational and strategic decisions.
-  As well as soliciting comments from members, societies ensure that they act on the feedback they receive. The Boards of many societies regularly review member feedback and societies are keen to let members know how their suggestions have been translated into changes in products or processes.
-  The BSA helps to share best practice in member engagement, partly via this report, but also through relevant seminars and conferences and regular communications with its members.

# Introduction

This is the fourth edition of this report from the BSA, and it seeks to investigate current practices in member engagement at building societies and to share innovations and ideas that have been successful.

Member engagement occurs across many dimensions. While it certainly involves garnering feedback and comment on products and standards of customer service, it also includes the appointment of non-executive directors and corporate governance more generally.

As institutions that are owned by their customers, engaging members is fundamentally important to building societies. It is by involving members that societies can make ownership meaningful to its customers, increasing the accountability of the executive directors and providing more direction in relation to the board's strategic decisions. If building society members place greater value on being an owner of the society, then both the society and the member can benefit, as a long term relationship develops and the society better meets the member's needs.

Societies now seek to involve their members more than ever before, and offer a broader range of opportunities for members to speak to their society. The economic downturn has added to members' demands, but has changed the themes rather than altering the basic requirement to communicate.

Instead of just sending information to members, societies increasingly try to generate a dialogue, with interactive elements on their websites and opportunities to meet directors in person. Deeper involvement is also developed via dedicated member panels. Many societies have made changes as a direct result of member feedback. As further evidence of the recent development of member engagement practices, many societies now look beyond the total number of members participating to try to ensure that those that do so are representative of the wider member base.

Societies have had much success in recent years in attracting a greater proportion of members to vote at Annual General Meetings, and many have modified their procedures considerably to make it easier for members to vote. In many aspects of corporate governance societies are increasing their transparency and accountability, and the BSA and individual building societies look forward to working with the Government on its ideas for a new governance code for financial mutuals announced in the Pre Budget Report in December 2009.

Societies recognise member engagement is crucial, and have shown over recent years that they are willing to involve members in innovative ways and to adapt processes to take on best practice. This report is based on input from societies, an indication of their openness to sharing ideas in this area.

## The mutual firm

Building societies and co-operative financial service providers are mutuals, which means that they are owned by their customers. They do not have shareholders like many companies do, including most banks. Mutually owned organisations therefore do not have to pay dividends to shareholders, and as a result can offer more attractive interest rates than their publicly listed competitors. In addition, at shareholder owned banks the interests of the owners and those of the customer may conflict, but this same conflict does not occur at mutual organisations as the owners and the customers are one and the same. Also, governance of building societies is based on one member, one vote, irrespective of the size of the member's mortgage or the value of their savings.

Mutuality is especially suited to long term contractual relationships, such as mortgage lending. As the economist John Kay notes, "the special value of mutuality rests in its capacity to establish and maintain relational contract structures" by establishing a culture and ethos among their employees and staff that is difficult for plcs to emulate (Kay, 1991). The mutual model exists in financial services to reduce the transactions costs arising for lenders of ensuring that borrowers would repay loans. The first building societies solved the problem of asymmetric information between borrower and lender by use of communal monitoring, local information and social pressure (Ricketts, 2002).

Mutual firms have been found to take less risk than quoted companies. This is partly because it is difficult for building societies to raise new capital (except through retained profits), but also because their members are not inclined to take risks, particularly savers that would be subject to any downside but would not benefit from any upside (Llewellyn 2009).

The first building societies were established more than two hundred years ago by people that wanted to pool their funds to allow them to buy land and build houses. The number of societies grew to reach over 2,750 by the 1860's.

Consolidation led to the number of societies declining over the following century, but in the 1990s, there was a spate of large building societies that converted from mutual ownership to become companies with shares quoted on the stock market. Some of these demutualisations were driven by directors, but many were pushed by 'carpetbaggers' - people motivated by the windfall payments to the society's members at the time of conversion.

This experience indicated that building societies had not been engaging satisfactorily with their members, and had not informed their owners about the benefits of the mutual structure. Today all societies remain committed to their mutual status, and to communicating the advantages of membership to their customers.

Indeed, the performance in the recent financial crisis of those institutions that demutualised in the 1990s has substantially reduced any pressure to convert. Not one building society that converted now survives as an independent entity; all have either been nationalised or taken into the ownership of a larger banking group.

Generally, building societies have weathered the financial crisis better than the banks. Although some have faced problems, societies' more prudent business models have resulted in much more stable institutions.

Today, there are 52 building societies in the UK. They are owned by approximately 24 million members. Together, building societies have assets of approximately £340 billion. They hold residential mortgages of £225 billion and retail deposits of about £220 billion, accounting for almost 20% of each of these markets. They employ about 45,000 staff and have approximately 1,700 branches. The Building Societies Association (BSA) is the trade body that represents mutual lenders and deposit takers in the UK, including all building societies.

**"the special value of mutuality rests in its capacity to establish and maintain relational contract structures"**

## Mutuality and member engagement

Member engagement refers to the ways in which building society owners participate in the governance of their society. Mutuals have a disperse ownership structure, with members drawn from across the country in several cases, so good member engagement is therefore vital to ensure the board of directors understands members' needs so that the management of the society is subject to appropriate direction and control.

If the demutualisations of the 1990s were partly due to the atrophy of member control, increasing effort and resources that have since been applied to engaging members have reversed this decline. By investing in member engagement, societies seek to ensure that customers place a greater value on being the owner of the society and the control this grants them.

Member engagement is a way of increasing external accountability and of establishing greater alignment of the business's strategy to the owners' desires, while simultaneously strengthening the relational contracts on which the mutual model is based. Member engagement is therefore an important way in which societies can distinguish themselves from quoted companies.

This is the fourth report by the BSA to investigate how the needs of members feed into the direction and control of building societies. This edition examines how this has changed in response to the increasing appreciation of member engagement by both societies and their members, the crisis in world financial markets, and other social and technological developments. The findings presented in this report are based on 31 responses to a survey of building societies, together with an analysis of their websites, member communications, AGM packs and annual reports.

### CURRENT BUILDING SOCIETY PRACTICE:

## A NEW FINANCIAL WORLD

### Recession impact

Since late summer 2007, concerns have arisen over the safety of deposits with various financial institutions, and over the stability of the financial system more widely. In 2008, the UK economy entered a deep recession. Many savers and borrowers have been directly affected.

In response to the BSA's survey on member engagement, many building societies reported that while the credit crunch and recession have changed the focus of questions from members, these factors have not fundamentally changed the need for or strategic importance of member engagement. As mutuals, active engagement with members continues to be of paramount importance.

However, societies have seen both the demand increase for clear and consistent communication because of the disruptions in the financial markets, and also a shift in the areas of members' concerns. In the past couple of years members have looked for reassurance about the safety of institutions, and savings held with them, rather than raising issues such as corporate governance, customer service or product pricing and design that were prevalent before the credit crunch.

Other issues that rose to prominence during the credit crunch included queries about the extent of societies' use of wholesale funding, the levies societies have had to pay to the Financial Services Compensation Scheme in support of failed banks, and societies' continuing commitment to their mutual status. More recently, societies have had to address savers' growing concerns about low rates of interest. In some ways, this has represented an opportunity to explain the mutual model to members who might not have been as interested before.



In this environment building societies have worked hard to maintain members' confidence in their society, using both proactive and reactive communication strategies. Societies have given substantial thought about how best to get their messages across, as any damage to member confidence could have led to savers withdrawing their deposits. In particular, when societies reported their financial results, and subsequently at their AGMs, they stressed their soundness and attempted to deal with individual members' worries directly.

For example, National Counties engaged the services of communication specialists to ensure that the key messages regarding its financial results and strength were conveyed to members and the society's Chief Executive responded directly to any queries on the matter. The Chief Executive of the Furness also dealt personally with member concerns, reckoning that he had communicated directly with more members in the last two years than he had done in the previous ten. Holmesdale's Chief Executive wrote to its members on several occasions to keep them informed. Ipswich altered the format of its AGM, holding an open forum in anticipation of more questions because of the unsettled financial climate. Darlington Building Society has tried to ensure more news items about the Society appear on their website.

Many societies have also invested a great deal of effort to ensure that staff are kept up to date on market conditions and are able to explain the society's position to members. For example, Newbury Building Society's Executive Directors have held conference calls with all staff to brief them on market conditions and also provided a regular update letter for branch staff to give to interested members and other enquirers. Skipton Building Society provided staff with briefings and question and answer sheets to deal with member concerns following major events in the financial markets, and there were also feedback mechanisms to capture and respond to additional questions.

Generally, more resources have been directed at engaging and communicating with members in recent years. The extra demands stemming from the financial crisis and recession have added to the force for change. For example, Nationwide Building Society has appointed a Senior Manager for Member Engagement who heads a small team whose day to day activities are dedicated to developing events and services for furthering member engagement. The establishment of such teams demonstrates the increased recognition that member engagement is fundamentally important to building societies.

## The establishment of such teams demonstrates the increased recognition that member engagement is fundamentally important to building societies.

The credit crunch and recession may well have a lasting effect on members' demands for such information and disclosure. Now that more members are aware of their building society and their role within it, there is likely to be an ongoing demand for clear and robust communication, and comprehensive member engagement strategies will become increasingly valuable.

## Treating Customers Fairly

A separate force for change that was mentioned by several societies has been the FSA's Treating Customers Fairly (TCF) initiative. The regulator required that TCF should be embedded within financial service providers by the end of 2008. Many societies were already investing considerable resource to ensure that customers were treated fairly prior to this, but the TCF initiative has formalised a lot of the procedures and resulted in much more management information being reported within societies.

## ENGAGING MEMBERS

### Opening opportunities

Although members own their building society, the majority do not play an active role in the governance of the society. However, good member engagement can bring benefits to both the society and its members. A challenge therefore exists for each society to encourage its members to participate.

Societies noted that people become members for a variety of reasons. Some do so because of the attractive products and interest rates available, others because the society is local, and others because they want to endorse mutuality and play a role in the governance of the society. Societies aim to suit the differing needs of each group.

**...good member engagement can bring benefits to both the society and its members.**

A result of this may be that members fail to push for more active engagement because of satisfaction rather than apathy. Based on satisfaction surveys that they regularly conduct, societies suggest that members are generally satisfied with the relationship they have with their building society. When Yorkshire Building Society asked why its members don't participate, in particular looking at why members don't vote at the society's AGM, one of the main reasons was that members were happy with the way the society or their account was run, so they didn't see the need to vote. It seems that positive emotions are a far weaker drive to action than are negative feelings.

However, it is likely that some customers may not be aware of what being a member actually means. The challenge to engaging members can therefore be broken down into raising awareness of the value of membership, and then creating opportunities for members to participate and reducing any barriers that might prevent them from doing so. Newbury Building Society commented that successful member engagement was when each member who wants to participate has the opportunity to do so and chooses to participate. Encouraging participation is also common.



*Norwich and Peterborough's members' newsletter*

A further step is to try to make sure that those members that do participate are truly representative of the membership as a whole.

#### Increase awareness

Much of the communication from societies to their members highlights the value of being an owner as well as a customer. More and more societies have member magazines and electronic newsletters, separate to AGM communications, that keep members up to date with what is going on at their society and to generate the sense of membership. Some societies also get their staff to explain what the organisational structure means to new customers, and branch staff at Mansfield Building Society inform members that they are welcome to attend future meetings of the Member Forum.

#### Create opportunities

Subsequent sections will show the variety of ways that societies use to communicate with their members, whether this is a Meet the Directors session, a customer survey, a member panel, raising an issue with branch staff, a community



*Monmouthshire members meet rugby stars at their local branch*

activity, or at an AGM. As these activities develop, societies have begun to see how different member communications can work together to encourage engagement. For example, Nationwide has found its “Members’ Zone” website has helped to increase interest in its Talkback events where members can meet directors.

#### **Reduce barriers**

Some societies that have business models where they have relatively few branches for their size, or have members located far from the catchment area of their branches have found the lack of face to face contact a challenge to engaging members. Many have sought to reduce such barriers to member engagement. For example, the Furness pays the rail fare for non-local members that attend its “Meet the Chairman” sessions.

#### **Encourage participation**

Many societies seek to sell the value of active membership. Most societies make charitable donations for votes cast by members at the Annual General Meeting, but most think it would be inappropriate to pay members to encourage

them to participate in member engagement. This would represent a payment from the members in the entirety to those that participated. Some do offer small prizes, such as gift vouchers, to encourage responses to member surveys, but the Ipswich Building Society believes that the main inducement is giving members the satisfaction of “having their say”.

#### **Ensure representation**

Several societies say that they have found few barriers to getting a good level of member participation. For instance, Coventry Building Society’s Member Roadshows are well attended, application for their Members’ Council was oversubscribed and their eForum recruited 1,700 members in a relatively short timescale.

However, the Coventry has noticed that those members who responded tended to be skewed towards those in older age groups, who, as might be expected, are typically savers rather than borrowers. This type of member seems to be more interested in taking part than do younger members and borrowers. This is perhaps not surprising as

retired people might have more time to devote to such activities. An additional challenge to member engagement is therefore making sure that all groups within the membership are suitably represented.

In order to encourage more representative member engagement, Coventry is exploring ways to get younger members and borrowers involved. For example, they are investigating differentiating the messages on the invitations to their Member Roadshows so that members in different age groups get invitations that appeal to them.

Saffron Building Society has found that offering a financial incentive for attendance at its Members' Conference has helped to encourage a broader demographic than had historically attended.

## Community involvement

Building societies appreciate that their businesses and the interests of the communities from which their members are drawn are interdependent. In a report published in 2008, the BSA investigated the community activities of building societies (BSA, 2008). This found that societies forge strong relationships with causes with which their members and staff have an affinity. Many societies look to use the skills they have within their organisation to help local causes, and this can benefit the societies' business too.

**Many societies look to use the skills they have within their organisation to help local causes, and this can benefit the societies' business too.**

Community activity can take a number of forms, from direct support for local charities and good causes, establishing affinity savings accounts where part of the interest earned is paid to a charity rather than the member, to building society staff volunteering their time and expertise. One area where greater focus has been directed in recent years has been for building society employees to run financial literacy lessons in local schools and colleges.

Several societies have established Charitable Foundations that are registered as charities in their own right and are independent of the society that funds them. The trustees of the foundation, who are often drawn from the local community, then decide which causes to support.

Many societies involve their members when deciding which causes to support, asking them to nominate the corporate charity for a period, or allowing the Members' Panel to decide. Members are also asked to vote on charitable policies at some societies, for example the policy of donating 1% of profits to charities has been approved by members of both Nationwide and Norwich and Peterborough.

Many societies believe that their community activities help them to engage with their members. Marsden Building Society considers its various community activities, such as support for the local Air Ambulance, make an effective contribution to the society's profile and the engagement of its members. Coventry Building Society also views community activity as a good way of engaging with members, particularly at a local level. Each branch of the society has a nominated Community Champion, whose role is to promote and co-ordinate local community activity. Each branch also has a community noticeboard where local good causes and events can be advertised. Skipton Building Society notes that as well as engaging any members that are directly involved with the good cause, it has a wider effect in showing the society as a caring and socially responsible organisation. Darlington Building Society believes its close relationship with its community has helped it to communicate to members the actions the society has taken through the credit crunch and recession.

As a result of the various work it does in its communities, the Furness believes it has attracted many new members. Yorkshire Building Society has also received very positive feedback on its community activity, with nearly three quarters of its Member Panel respondents saying that their perception of the society was positively influenced by its work in this area.

## LISTENING TO MEMBERS

### Member communications

There are many methods that societies use to communicate with their members. Increasingly, these are not just one way communication. Instead, they are designed to open a dialogue between members and the society.

Many societies now send a newsletter or magazine to members, and the number of regular electronic publications is growing. These keep members up to date with what is going on at their society regarding new products, the society's performance and strategy, community activities, news from branches, and more general financial news. Importantly, these publications inform members of ways in which they can get in contact with the society and encourage them to do so. Some societies, such as the Leeds Building Society create newsletters targeted specifically at certain groups within their membership. Most societies still use notices in branches to communicate messages to members too.

A number of societies communicate each interest rate change to members by letter. In the financial turbulence of the last couple of years, these letters have been used to explain the context of the decision to change rates and to reassure savers about the safety of their deposits.

In recent years most societies have extensively developed sections of their websites to communicate with their customers about membership. These enable more interactive communication to be nurtured by linking to associated articles or pages, running online polls, allowing comments to be posted and allowing feedback and questions to be communicated, often direct to the Chief Executive. (See *Nationwide's Members' Zone web site overleaf*).

Member roadshows and "Meet the directors" sessions are also common. These are regular events where directors tour the society's operating area to meet members. Some are fairly large

meetings with about a hundred members attending, while others are smaller and held in individual building society branches. In many cases the members are personally invited to events to be held near them, and Nationwide also advertises its Member Talkback events in local press.

At societies' member roadshows the Chief Executive or Chairman will often present a summary of the latest business conditions, and the members will



*Since 1997 Nationwide has held 111 TalkBack Events across the UK and estimates that nearly 2 million members have received a personal invitation to attend.*

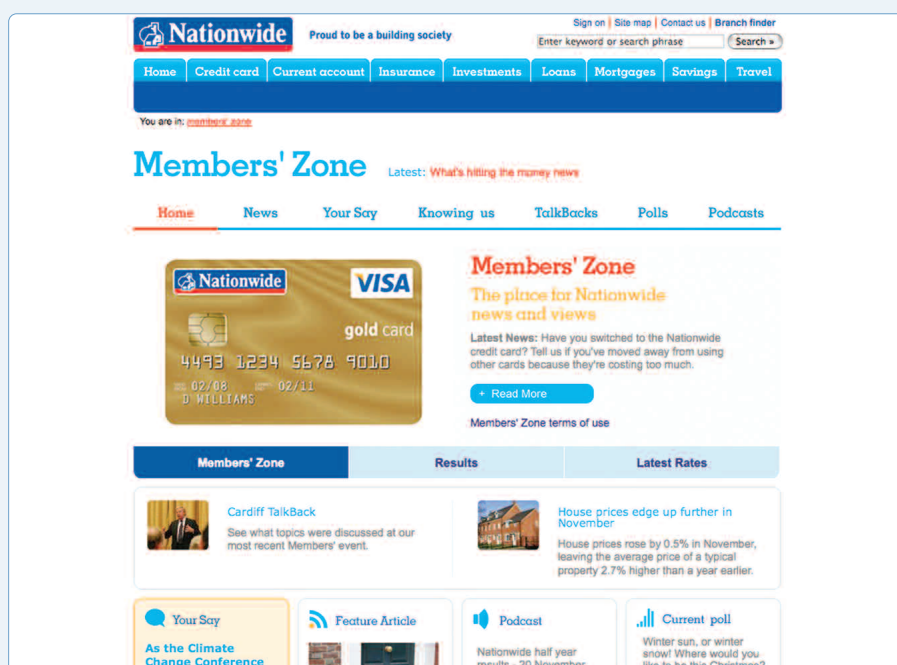
get an opportunity to ask any questions and raise issues with the directors. The Teachers Building Society regularly attends events held by the National Union of Teachers and student teacher events to maintain contact with existing and potential members.

## Nationwide's Members' Zone: A new interactive hub for member communications

In June 2009 Nationwide Building Society launched "Members' Zone" a new multi-functional web site service for members' news and views. Members' Zone engages, informs and involves members via a range of website features and functions using "push and pull" techniques:

- Interactive society news stories and features
- Video and audio podcasts
- Members' polls
- "Your Say" discussion board

Features can inter-relate to increase understanding and debate on the Society and members' news, opinions and activities.



**News** - latest Society news articles, produced by experienced former journalists based in the media relations team. Stories about the Society that previously only received coverage through support by external media can now be guaranteed to be published and easily found on Nationwide's own online platform.

**Chief Executive's view** - Members' Zone, with its clear member focus, is an

ideal outlet for important messages from the Chief Executive. It has already been used most effectively for the call for reform of the Financial Services Compensation Scheme and to initiate a members' discussion on the website.

**Podcasts** - the site's capability to store video and audio for immediate viewing or download is being used to provide members with news of the Society's financial results,

product launches and work in supporting communities and charities. Podcasts also direct viewers and listeners to read more in news articles and product pages.

**"Your Say" and "Comment"** - Nationwide encourages interactivity by inviting members to 'have a say', via posting online comments to a different discussion each week and to add comments in response to selected news articles.

**Members' Poll** - a weekly straw poll of members' views has already proved one of the most popular elements of the site and encourages return visits to view polling results.

**TalkBack events** - these members' events now have a special dedicated online area where members can view the future event programme and click to book a place. There are new post event articles and images of TalkBack events.

Launching Members' Zone during a time of unprecedented economic upheaval has helped Nationwide to proactively communicate and respond, quickly and clearly, to developing events and attitudes, meeting its members' needs.

Coventry Building Society has noticed a knock-on effect on its policy decisions from running member roadshows, in that the society now asks itself how it would explain any decision to members at the next roadshow. They have found this to be a very effective acid test.

A number of building societies now run question and answer sessions online. These are run in real time, with building society directors answering questions posted via a special portal on the society's website. Nationwide has run several such e-Talkback events.

## Member panels

As a way of getting deeper involvement from members, a number of societies have established panels of their members that they consult on a variety of issues relating to the business. Because

they are owners of the society as well as its customers, members panels are more than focus groups. They are made up of individuals that care about the society and how it is run, and as such, panels are often briefed on general business conditions and strategic matters rather than solely being used as a sounding board for customers' experience. Tasks that the panels frequently take on include ideas for new products, assessment of service standards, reviews of the society's literature and marketing campaigns. Yorkshire finds that its senior team is always aware that they could be challenged by its Member Forum, a constant reminder that whatever action is taken should be for the benefit of members.

However, it is important to recognise that member panels are not a substitute for the non-executive directors. While it makes good sense for the member panel and the directors to communicate regularly, the role of the panel is to raise issues and concerns



Coventry Building Society has established a Members' Council to critically review the society's progress in areas such as customer service, Treating Customers Fairly and new product development.

The Members' Council consists of 12 individuals drawn from the Coventry's membership. The Coventry aims to ensure the Council is a representative group of the wider membership. Volunteers need to meet a number of criteria, including an enthusiasm for mutuality, and undergo a recruitment process before joining the Council. Council members sign a non-disclosure agreement, allowing them to discuss commercial issues in confidence. The roles are unpaid, but expenses are covered by the society.

The Council meets every three months in Coventry and is chaired by the society's Chief Executive. Each meeting includes a presentation from the Chief Executive covering financial performance, risk, product design and market developments.

Between meetings, the Council is kept up to date with the society's progress and members receive copies of relevant Board papers to ensure they remain fully briefed. Furthermore, members on the Council have access to the building society's Corporate Communications team so that they can continue a dialogue with the society between meetings.

The Council has been engaged in redesigning the savings application pack, making recommendations on first-time buyer mortgage products and choosing the society's corporate charitable partner. They have carried out mystery shopping exercises, visited branches and will soon be reviewing staff training sessions and listening to advisors in the Coventry's call centre.

The Coventry has found the challenge and debate provided by the Council extremely useful in obtaining an independent view on progress and future plans, but also to validate recent decisions.

## Coventry Building Society's Members' Council

from the viewpoint of the members. This is of course important for the directors to acknowledge, but directors may also have a better understanding of the context of decisions and the longer term implications of certain strategies.

Broadly speaking there are two structures of member panels. Some societies use a small committee of dedicated members that meet regularly. In such cases the members serve a term of a few years on the panel. The stability of the panel allows a dialogue to develop and the depth of engagement has been found to be of considerable value to societies. In many cases, the chief executive or other senior directors attend to ensure feedback is noted at a senior level.

Alternatively, other societies use panels made up of as many members as would like to join, and at some of the larger societies the numbers on the panels runs into the thousands. In many cases these are operated online.

The Yorkshire Building Society finds that its Member Panel of about 11,000 members is a valuable asset, providing meaningful feedback much more quickly than if the society contacted people cold. For example, this enabled the Yorkshire to rapidly gather suggestions in relation to a new range of guaranteed savings products that directly influenced the products that were then put on sale.

Other societies have established panels of members to serve slightly different purposes. For example, Norwich and Peterborough Building Society has a specific committee comprising four members and chaired by a non-executive director that reviews customer complaints that are referred to it by members following the management's decision on the complaints. The committee also reviews the society's policy on complaints and other related Treating Customers Fairly policies.

In a kind of reverse member panel, Furness Building Society has started to engage with groups of non-members to establish why they do not use the society's products and services, which has produced some very useful information for the society.

## Questionnaires and surveys

Member surveys and questionnaires are widely used by building societies. These serve a number of purposes, including the assessment of customer satisfaction with the products and services provided, and the complaints process. Members' opinions on more general financial subjects and on mutuality itself are also sought by some societies. The prevalence of member surveys has grown in order to provide evidence of treating customers fairly to satisfy the FSA's Treating Customers Fairly requirements.

Regular surveys are run, often on an annual or semi-annual basis. These are usually posted to members, including as part of the AGM pack. Societies find the responses very useful for reviewing processes, designing future products and services, and helping societies to understand what drives customer satisfaction in their member base. They also allow members to say exactly what they think of their society, often anonymously rather than to members of staff working in the branch or call centre. Nationwide also commissions a telephone survey by an independent accredited research company that gets feedback on members' experiences from about 2,750 members each month.

Online questionnaires are also becoming more common, particularly at those societies that have large online member panels. Newcastle Building Society, for example, has used regular surveys of its online panel to develop a trust index that compares the society against other financial institutions in terms of trust and openness. Kent Reliance Building Society uses a specialist online survey provider to canvass views, paying only for the responses that it receives. A random sample is selected from its members' email addresses, and the surveys are branded with the Kent Reliance logo to increase members' trust in the process. Members of the Saffron Building Society that cast their AGM vote online are provided with a link to a member survey that asks them which charities they want to support, what worries them about financial services, as well as more traditional customer service questions.



In addition, surveys are often run in response to certain customer activity. For example, societies might speak to new customers to review the service they received. Similarly, closing a savings account or redeeming a mortgage might prompt a few questions to try to understand the reasons for the member taking their business elsewhere. Newcastle Building Society also surveys customers that enquired about the society's products but that did not become members to try to find out why. Yorkshire Building Society makes it easier for members to comment by seeking feedback via the same channel that the customer used to contact the society, be that over the phone or online.

The post transaction surveys carried out by Coventry Building Society have a number of core

questions that are constant across all surveys, covering areas such as clarity of communications and staff behaviour, enabling trends to be analysed survey to survey. In addition, there are questions that are specific to the transaction or customer type involved.

On average, the Coventry has seen a response rate well in excess of 20% from these surveys, an excellent return for this type of surveying activity. Furthermore, positive responses, evidencing the delivery of fair treatment to customers, have been in the range of 85% to 100% to date. Feedback is shared with the particular management line responsible for the specific area in each case, enabling root cause analysis to be undertaken effectively, and also with the Executive and Board.

## Yorkshire Building Society's online survey

As a multi-channel organisation, Yorkshire Building Society tries to engage with its members through their channel of choice.

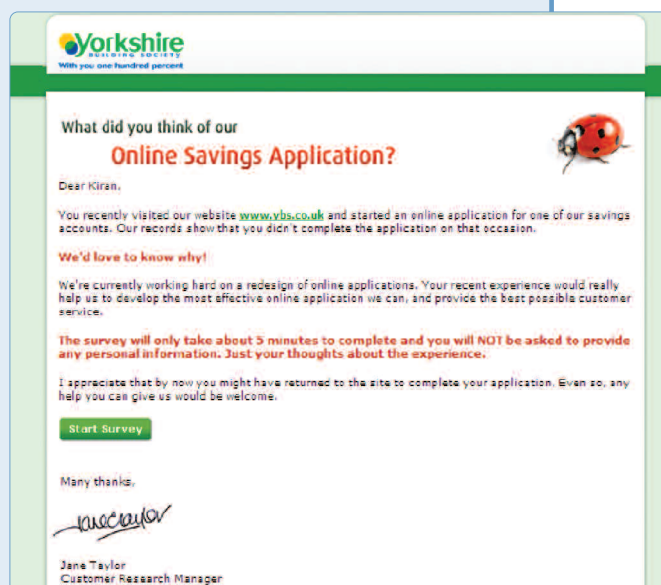
The society has licensed software that enables it to launch surveys on its website and to generate email questionnaires. Response rates are typically above 20%, and the society can collect feedback in a cost effective and timely manner. For example, with email surveys, 50% of responses are typically received within the first 24 hours.

The society found this process very useful when it looked to redesign its online savings application. It asked members who had just completed the existing application, and also those who had dropped out without completing, for their feedback. The society quickly discovered what was driving customer actions, what they liked and their suggestions for change. This feedback informed the redesign and has shaped how the process appears today.

Yorkshire has also introduced a system to collect immediate feedback from customers that speak to its call centre. The system enables the society to collect comments across a number of categories and product levels.

Following a call the member is invited to complete a short questionnaire, and if they consent, they are transferred to the Customer Feedback system where they are asked between six and eight questions.

The society has collected the results of over 80,000 completed telephone questionnaires that have helped them to improve processes and the performance of their call centre staff. All scores and verbatim messages are fed back to teams and individuals, as well as being passed onto various departments on a monthly basis.



## New technology

Societies have adapted to new technological developments and changes in the way their members communicate. A growing proportion of correspondence now comes via email or over the internet. Kent Reliance Building Society has encouraged its members to sign up to receive information relating to accounts and interest rates electronically, and encourages electronic downloads of society leaflets and stationery. Most societies now have information on their websites that describes what being a member of a building society means. Often, these provide links to AGM material, including online voting, and information on the societies' community activities. Increasingly, societies are using these sections of their website as a medium for more meaningful communication with members including online feedback and online question and answer sessions.

As mentioned on page 12, Nationwide have recently launched a Members' Zone area on the internet which has much more content, much of it interactive. As well as member polls, this incorporates a moderated discussion board called "Your Say"

that has helped Nationwide to understand its members' opinions on the Financial Services Compensation Scheme. A number of societies now post podcasts and video on their websites that can be viewed online or downloaded onto personal computers and iPods. These cover topics such as annual results announcements, product launches and helpful consumer information.

Web 2.0 is a catch-all term that incorporates social networking and mass participation technologies such as Wikipedia, YouTube, Flickr, MySpace, Facebook, Bebo and Twitter. The content on these "open source" sites is mainly generated by the people that use them. These new features of the digital age represent a fundamental and substantive change in social interaction, communities, and collaboration that align closely with the concept of mutuality (Bryant, 2009).

A number of societies are beginning to use these technologies to communicate with their members. For example, Principality Building Society uses Twitter to announce new products it has launched and to inform its followers of product reviews or articles that might be of interest.

## Ipswich Building Society's Twitter and Facebook pages

Ipswich Building Society believes that using social networking sites is another way to open up the channels of communication, and reinforces the message to members that the society is approachable and wants to interact with them as much as possible. The style of communication is cheery and accessible. Ipswich Building Society uses Twitter and also has a Facebook page.

At present, the society acknowledges that most of its followers on Twitter are local businesses and journalists, but has found it to be a really useful way to get an immediate update on events and a quick and efficient way of getting messages out. The society is currently planning PR activities to raise awareness of its presence on Twitter to members and to attract them to follow the society's tweets.



The society's Facebook page is a fan page for its mascot, Pound the Hound. Pound the Hound's Facebook friends can follow his activities, see pictures, and get updates on which community events he will be attending. It has been created to show the society can be fun and to attract a younger audience.



A number of building society Chief Executives are now blogging, including those at Hanley Economic, Saffron and Ipswich. These blogs are used to discuss news and events relating to the society and to personal finance. They can be more immediate and also a little more light-hearted than other communications.



Yorkshire Building Society uses technology to ask for real time feedback immediately after a telephone call with the society using specialist software, and they have the capability of launching website and email surveys. These techniques have made it easier for members to leave feedback and are also cost effective for the society.

Internally, several societies have invested in their feedback systems so that customer comments can be logged and then viewed by relevant staff across the society, with any action taken added to the log. The executive team or board can often review these comments. Such a system at Monmouthshire Building Society demonstrated its power when a pattern was identified from various comments that related to its Christmas Saver account, and the product was relaunched to better meet members' needs.

## MEMBERS' DIRECTION AND CONTROL

### Corporate Governance

Corporate governance comprises the processes and controls by which an organisation is operated, ensuring accountable decision-making by those running the organisation for the owners. As building societies are owned by their members, good corporate governance necessitates member engagement and the executive being accountable to the members.

The Combined Code on Corporate Governance sets out good practice in relation to the composition of boards, accountability, board remuneration and relations with shareholders. The Code applies to plcs, and all companies listed on the London Stock Exchange are required to report how they have applied the Combined Code. As building societies are not companies, they are not subject to this requirement, although the FSA encourages them to do so, and societies now follow the Combined Code in as far as it applies to building societies.

The BSA has encouraged societies to adhere to the Code, and to adopt an approach where they explain their position in relation to any provisions which they do not apply. This is generally on provisions which are not relevant to building societies, such as those concerning relations with institutional investors.

Over recent years societies have taken action to improve their compliance with the Code, but some societies noted that compliance with the Combined Code had merely formalised the involvement of members in the running of society.

Furthermore, many societies now take a "comply and explain" approach, where they explain exactly how they meet the provisions of the Code, not just the instances where they do not comply.

In the last couple of years there have been few major changes to corporate governance at building

societies, but general trends that have been observed are increased involvement of directors in member engagement activities, greater disclosure of corporate governance arrangements to members and more expansive explanations of compliance with the Combined Code.

Governance arrangements at societies are frequently reviewed. In 2009 Skipton Building Society established a set of Governance Principles to provide a framework through which the society establishes its systems and processes. As part of its review the terms of reference and composition of all the board committees were also examined.

### Turnout at the AGM vote

The most obvious and fundamental channel for member engagement is via the society's Annual General Meeting (AGM). This is where all eligible members have the opportunity to elect directors to the board, and to vote on other resolutions. Typically, well over 90% of eligible members vote in favour of each of the resolutions at societies' AGMs.

As the figures in the chart below show, member participation at societies' AGMs has generally increased in recent years, the result of a concerted effort by societies. However, the proportion of members voting has remained below a fifth. The

two most commonly cited reasons for not voting, according to Yorkshire Building Society, were that the election of directors was not contested, so there was little point in voting, and also that members were content with the way the society was run, so they did not feel the need to vote.

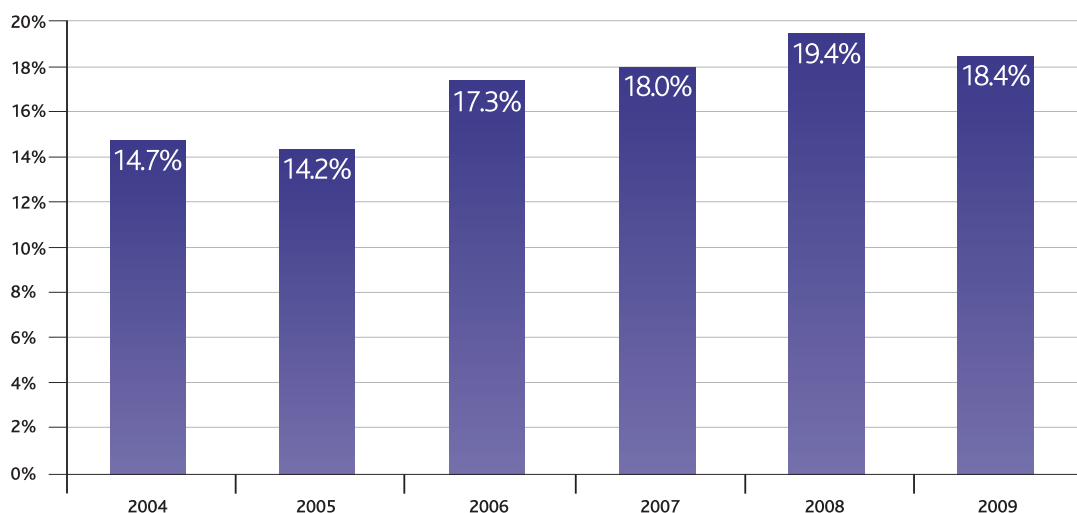
Therefore, against this background, it is always going to be difficult to get most members to vote, but many societies now put a major effort into getting the vote out, with Coventry Building Society describing the society as being placed on a campaign footing. At many societies customer-facing staff are briefed on encouraging members to vote. And a vast array of other promotional materials, such as AGM point-of-sale materials, posters, leaflets, ATM screens and staff T-shirts are produced.

A number of other changes have also been implemented by societies to try to increase the proportion of members that vote.

#### Redesigning AGM materials

Often after conducting research into member opinions, several societies have redesigned their AGM packs to make it easier to complete and more readable. Many have added in more society-related news. Research by Nationwide found that adding a newsletter to their pack engaged members, helping them to understand more about the society

Voter turnout at building society AGMs



and the charitable work it does. However, a number of societies have rationalised their AGM packs so that they are focused on the necessary information for the AGM. Most societies now issue personalised invitations and most provide pre-paid reply envelopes. Nationwide's AGM pack is also available in large print, Braille and audio formats, and these are sent to members that get their statements in these ways.

### Quick vote option

Several societies have introduced a "quick vote" option to their AGM voting form to make it easier for members. Here the member has to cross just one box, and the Board will be appointed to vote on the member's behalf.

### Different channels

Societies offer their members a variety of voting methods to try to make it as easy as possible to

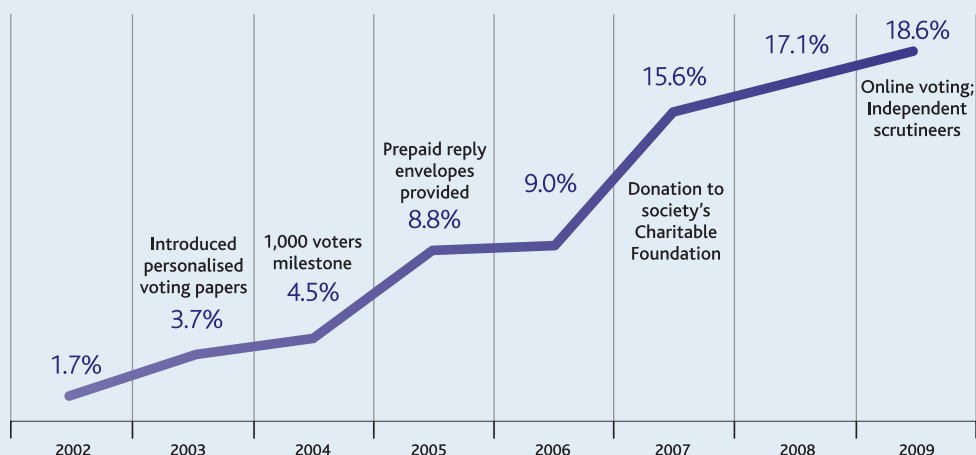
vote. These include online, in the branch, by post, by phone, and in person at the AGM. As might be expected, the internet is becoming an increasingly important channel. Of the societies that provided details of their AGM processes to the BSA in 2009, almost two thirds offered members the option of voting online. At these societies, 14.4% of votes on average were cast online in 2009. In addition, Yorkshire and Coventry Building Societies provided electronic versions of their AGM packs this year to members that opted for this method of communication.

### Charitable Donations

Almost three quarters (74%) of the 46 societies that provided details of their AGM processes to the BSA offered to make a donation for every vote that they received. The average donation was 28 pence per vote, and about £390,000 was donated by societies to good causes in 2009 as a result.

Tipton and Coseley Building Society's experience of encouraging members to vote at the AGM has been typical of many societies. In 2002 just 1.7% of the society's members that were eligible to vote did so. From this starting point, the society has introduced a number of changes that have resulted in step changes in the proportion of members that have cast a vote, with 18.6% of members voting in the 2009 AGM. These changes include the introduction of personalised voting papers in 2003, the provision of prepaid reply envelopes in 2005, making a donation for each vote cast in 2007, and providing the option of voting online in 2009, as well appointing independent scrutineers rather than overseeing the process themselves. These changes and the corresponding increases in voter turnout are summarised in the chart below.

**AGM turnout at Tipton and Coseley Building Society**  
Proportion of eligible members voting



## The Tipton's progress

Many societies used the amount donated to try to encourage members to vote by different methods. For example, the Scottish Building Society offered a donation of £2 for every vote cast in person at the society's AGM, compared to £1 for any postal votes it received. Several other societies offered larger donations for online votes than for votes made via other channels.

### Independent scrutineers

Many societies hire independent agencies to scrutinise the voting process to increase members' confidence in the voting process.

Britannia got a very high level of engagement when it sought approval from its members to merge with Co-operative Financial Services. More than 31% of eligible members cast their vote at Britannia's AGM, and of these, 88% approved the merger. This is therefore an example of members being consulted directly on a fundamental strategic decision for the organisation.



*Newbury Building Society's AGM*

## AGM attendance

The figures in the chart on page 18 show the proportion of eligible members that cast their vote. However, the numbers that attend building society AGMs in person is usually very small, typically much less than 1% of the number of eligible members.

However, many societies did notice an increase in attendance at their AGMs in 2009, with many members attending that had never been to an AGM before. Several societies put at least part of this increase down to the disruptions in the financial markets.

Many societies hold their AGM at their Head Office. However, others have chosen to hold them at other locations to try to increase attendance. For example, Earl Shilton chooses to hold its AGM at a more convenient location for members than at its offices. Newcastle Building Society held its AGM at the ground of Newcastle United, and included a stadium tour in the event. Since merging with the Mercantile which had a branch network concentrated in North East England, Leeds Building Society holds a members' forum in the North East a couple of weeks prior to its AGM so that members who might not be able to travel to Leeds get an opportunity to raise any issues. When looking for alternative venues, Kent Reliance investigated the availability of parking and other facilities to make access as easy as possible for members.

Following the closure of the venue used previously by the Coventry Building Society, the society chose to relocate their AGM to Ricoh Arena, home of Coventry City Football Club, on the outskirts of the city. This allowed the Coventry to make the format more inviting, with additional space giving more room for members to mingle with staff before and after the AGM itself. The Coventry also laid on shuttle buses to and from the railway station and central bus station in Coventry.

Many societies provide refreshments, and this offers directors the opportunity to mingle with members. Newbury held an informal "Meet the Directors" session over a sandwich lunch, and saw attendance at its AGM increase almost fivefold. Other societies, such as the Furness and Mansfield, provide entertainment at their AGM, often from local groups that have received support from the society.

In the last couple of years, Norwich and Peterborough Building Society have used a relatively informal seating arrangement, where the individual directors are dispersed around the room at tables with the members, rather than the whole Board sitting together at the front of the room. The feedback the society has received on this arrangement has been very positive.

At its AGM Nationwide has sign language interpreters and an induction loop facility for those with hearing difficulties.

Many societies accept questions in advance of the AGM, and Ipswich Building Society publishes a transcript of the questions and answers at its AGM on its website for members that cannot attend.

### The appointment of directors

Most members do not want to be involved in the detail of running their society themselves. While member engagement is itself valuable, it should be recognised that one of the most fundamental methods by which owners exercise control over managers is through the appointment of independent directors that have appropriate experience and knowledge. It is therefore important that these non-executive directors continue to communicate with members so that they understand their demands and represent them effectively.

These directors must bring independent judgement to the Board and be able to draw upon extensive relevant experience. They must be able to challenge the executive directors, so must fully understand the society's business. The FSA also lays down a test of fitness and propriety that directors must meet. Many societies have a Nominations Committee that reviews the skills and expertise required by the board, and considers any appointments to it.

Non-executive directors may be recruited because they bring useful and relevant expertise to that society. For example, teachers are represented on the board of Teachers Building Society by the President of the National Union of Teachers who brings an understanding of the demands of the society's main group of members. Smaller regionally based societies often look to recruit one or more of their non-executive directors from their locality.

An analysis of building society 2008/09 annual reports indicates the range of professional qualifications that are represented on building

society boards. The table below summarises this information and shows the variety of qualifications held by directors, although unsurprisingly many are of a financial nature.

### Qualifications present on building society boards

Qualification Type	Number	Proportion
Accounting/Finance	167	35%
Banking/Finance/Insurance	82	17%
Law	38	8%
Survey/Valuation	24	5%
Miscellaneous Management	12	3%
Personnel/Training	9	2%
Chartered Secretary	5	1%

Based on best available information in building society annual reports 2008/09. Some individuals may have multiple qualifications.

Societies strive to use fair and objective processes for recruiting suitable board members, and employ a variety of methods, including recruitment consultants where appropriate. Many societies advertise for current or potential vacancies within their membership. Earl Shilton advertises in its Summary Financial Statement and Annual Report, and members can stand to be a director by writing into the society. National Counties Building Society placed an invitation to apply for forthcoming non-executive director vacancies in its customer newsletter.



While many societies encourage applications from their members, or for members to nominate people as directors, this does not always elicit a high level of responses. Furthermore, the applicants still need to be suitably qualified to be a building society director. It does not necessarily follow that because an applicant has been a long standing member that they will be able to operate effectively on the board, nor that they will necessarily understand the requirements of other members. In addition, it is often the case that societies' rules require members wishing to stand for election to get support from a requisite number of qualifying members. Societies review the suitability of these requirements and change them where appropriate. For example, from 2010 Nationwide will no longer require members seeking nomination to the Board to collect the account numbers of nominating members as part of the process. This is in recognition of people's concerns about personal data security, which could present a barrier to members standing for election.

The latest two non-executive directors appointed at Coventry Building Society were as a direct result of their invitation for applications in the 2008 AGM pack, and Hinckley and Rugby Building Society has found member nominated directors to be very effective over the last five years.

## Board Composition

Analysis of the composition of building society boards at 2008/09 year ends reveals that on average, there were three executive directors and six non-executive directors. Unsurprisingly, large societies tend to have more directors on their board, and are comparable in size to those of FTSE 100

boards. The table below shows the average composition of boards at different institutions.

On average, building society directors had served 7.0 years. In comparison, at FTSE 100 companies the average length of service at FTSE 100 companies was just under four and a half years, indicating the greater turnover than compared to building societies (Sealy, Vinnicombe and Singh 2008).

The Combined Code on Corporate Governance requires that any director at a listed company that has served for more than nine years since they were first elected should be subject to annual re-election. Building societies generally adhere to this provision of the Code, or are moving towards this as existing directors retire. Several societies will now only allow non-executives to serve more than nine years in exceptional circumstances, and many will evaluate performance particularly rigorously after six years have been served.

The proportion of directors on building society boards that were female was 13.8% as at 2008/09 year ends. This compares to 11.7% at FTSE 100 companies. An estimate by Cranfield Business School estimates that the FTSE 100 will take another five years to get up to the level of female representation on boards that building societies are currently achieving (Sealy et al 2009).

Building society boards often have committees that look at areas such as risk, audit and remuneration. About a quarter of societies have a dedicated Risk Committee, and risk control and management is included in the remit of the Audit Committee at most other societies. In the majority of cases, these committees are chaired by a non-executive director.

### Composition of the average board

	Building Societies	FTSE 100	FTSE 250
Total number of directors on board	9	11	8
Number of executive directors	3	4	3
Number of non-executive directors	6	8	5
Proportion of all directors that are female	14%	12%	7%
Average age of directors (years)	50	57	n/a
Average length of service (years)	7	4	n/a

Totals may not add to sum of parts due to rounding

FTSE data from Sealy, Vinnicombe and Singh (2008)

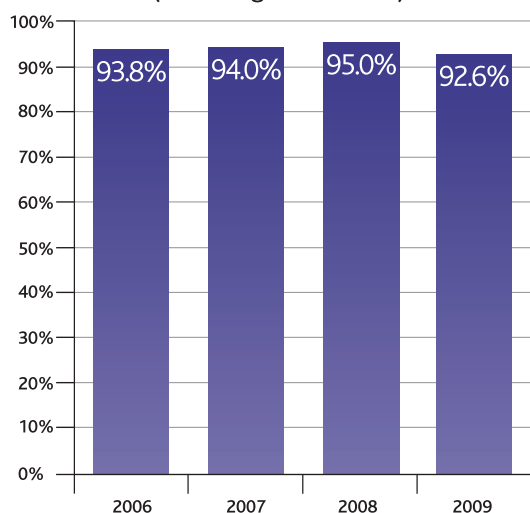


## Disclosure of directors' remuneration

Over the past few years building societies have increased the transparency of the remuneration paid to their directors. All building societies are required to disclose the remuneration paid to their directors in their annual report, and virtually all also included this information in their Summary Financial Statement. In addition, almost all building societies and mutually owned banks ask their members to vote each year to approve the remuneration package. This year, all but one building society conducted such a vote. Over recent years, the proportion of members approving the directors' remuneration has averaged between 90 and 95% (See chart below) and overall societies have received very little adverse feedback regarding remuneration. Perhaps unsurprisingly given the current conditions and the focus on remuneration of directors of financial service providers, in 2009 the proportion voting in favour across all societies reduced a little, to 92.6%, having risen to 95.0% in the previous year. This was despite many societies deciding not to pay any bonuses to their directors in 2009. Given the increased public profile of this issue, some societies have put in place arrangements for the chief executive to respond personally to any queries in this area.

**Over recent years, the proportion of members approving the directors' remuneration has averaged between 90 and 95%...**

**Votes approving directors' remuneration**  
(excluding abstentions)

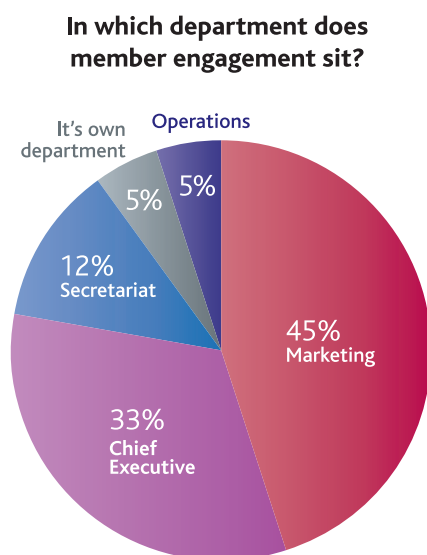


## ASSESSING PERFORMANCE

### The importance of member engagement to building societies

Responsibility for member engagement ultimately lies with the Chief Executive at almost two thirds of building societies that responded to the BSA survey. (See chart opposite; top) In around one in six, responsibility stops with the Chairman instead. At about one in eight responsibility lies with executive directors. The seniority of those responsible shows that building societies take member engagement very seriously and consider it central to their activities.

Most commonly, member engagement sits within the marketing department of the building society. This was the case at more than two fifths of societies that responded. At about a third of societies, the Chief Executive is directly involved rather than any specific department. The society secretary looks after member engagement at another 12% of societies. In a few societies member engagement even has its own dedicated department.



Building societies consider member engagement to be important for a variety of reasons, as shown in the chart opposite (middle). Almost all respondent societies think that it is very important

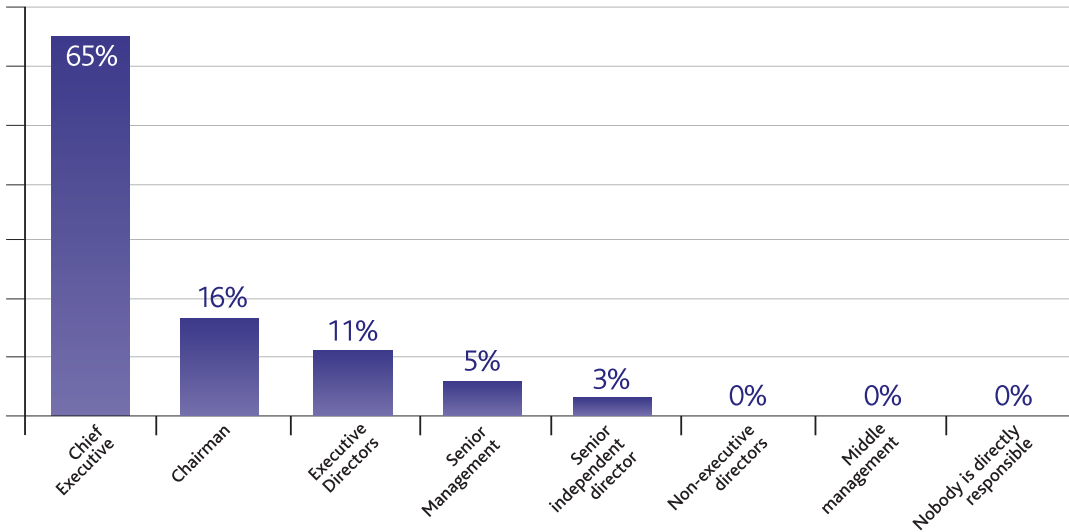
as a way to communicate with members and in relation to the societies' responsibility as a member owned organisation. In addition, virtually all think the member engagement is very or quite important to help them to understand their markets. Also, most building societies view member engagement as important for public relations and think that it is useful for product testing.

Areas where member engagement is less widely seen as important are for operational and strategic decisions. However, even here, over three quarters still consider that member engagement is very or quite important in these respects. Members' involvement is seen as less important for the control and management of risk. It may be that societies view these latter categories as roles that a board of suitably qualified and experienced directors should fulfil, rather than members directly. This might particularly be the case where the specialist risk or audit committee is tasked with assessing the quality of risk control and management. This then highlights the importance of member engagement in the process of electing suitable directors to the board and in keeping directors informed of member requirements and feedback.

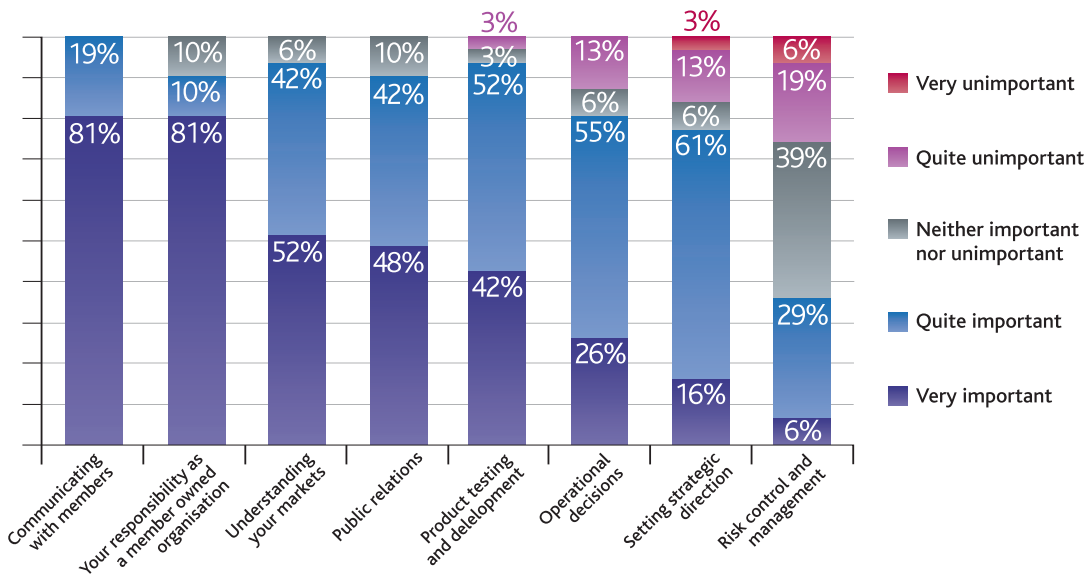
More than half of building societies that responded to the BSA survey said that they had increased the resources they had committed to member engagement over the last two years. About one in six respondents said they had increased resources a lot. The preceding two years were of course some of the most challenging for many years, so that societies increased resources in this area while trying to control costs again indicates the importance of member engagement in the recent economic turbulence. Just 3% said that they had decreased the resources committed to member engagement, and even then only by a little.

Looking ahead over the next two years, more than half of societies again said that they expected to increase the resources committed to member engagement further. None said that they were likely to decrease resources in this area.

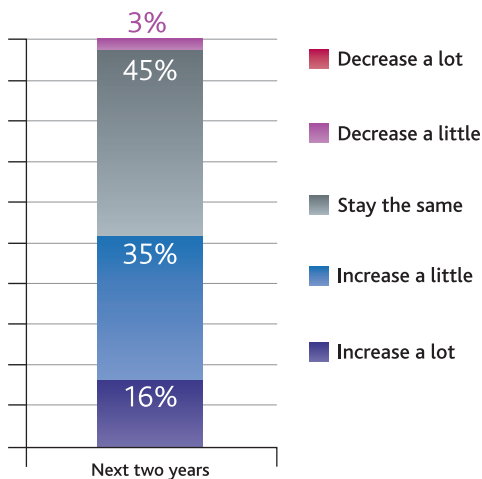
Where does responsibility ultimately lie for member engagement?



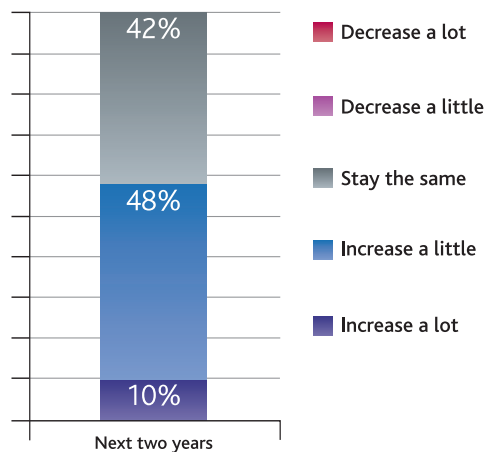
How important is member engagement to the following?



How have resources committed to member engagement changed *over the last two years*?



How do you expect the resources committed to member engagement to change *over the next two years*?



## Absorbing feedback

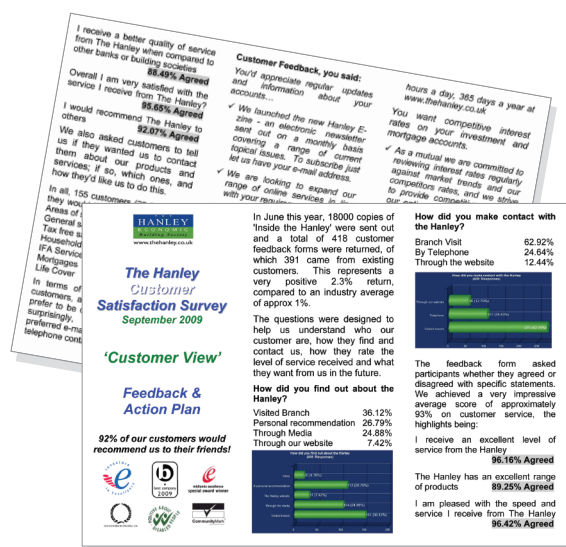
It is important that any comment and feedback received from members is acted upon appropriately. Most societies have processes in place to ensure that member feedback is brought to the attention of the Board and senior management so that improvements can be implemented.

**Most societies have processes in place to ensure that member feedback is brought to the attention of the Board and senior management so that improvements can be implemented.**

Member comments received, and often any actions taken as a result, are collated and fed into the regular Management Information packs that go to senior management and the Board. The FSA's TCF initiative has formalised much of this reporting. The Furness Building Society executive team views member comments weekly, and together with the Board, views full notes of their "Meet the Chairman" sessions to ensure any necessary action is taken. Regular reviews check that improvements are being implemented. Norwich and Peterborough have a telephone message service that gives members the ability to contact any of the society's three regional non-executive directors so that they can be informed directly of any issues or views. Any feedback received by National Counties that does not relate specifically to an individual's account is passed to the Chief Executive for a response.

Like many societies, the Norwich and Peterborough surveys its members to ask about their satisfaction with the service they receive and to ask for their suggestions. Any feedback is passed on to Regional Managers and above, and branch level scores are included in an overall performance report. Areas identified for improvement are channelled through the business and reviewed to implement any required changes.

Hanley Economic Building Society is very open about the results it receives to its satisfaction survey, and publishes a regular Feedback and Action Plan which summarises the responses and explains how new policies and product developments have stemmed from specific customer feedback. Holmesdale Building Society also prints responses to comments in its member survey in the subsequent Newsletter.



At many societies with member panels the Chief Executive will attend to hear the feedback directly, and Directors will attend Member Roadshows to hear suggestions. At Mansfield Building Society, the Chief Executive, Finance Director and Product Manager undertake a review meeting after their Member Forum and then report back to the wider management team. At Nationwide, members can read about what happened at the society's Talkback events on its "Members' Zone" area of its website.

Coventry Building Society conducts online e-forums where its members can discuss issues. When reporting back to members on the results of the e-forum, the society also describes what has changed as a result of member comments. For example, a recent discussion on environmental issues revealed member concerns about switching to electronic statements, including the need to get statements for ID or tax purposes, and worries about computers failing. As a result, the Coventry will make sure that members can always obtain

paper copies of documents for specific purposes on request, even if they have elected to receive items electronically.

Where possible, Yorkshire Building Society acts on the feedback it receives, and any actions are communicated back directly to the member that made the comment. For example, any suggestions made in the society's monthly customer satisfaction survey result in a letter to the member concerned explaining which individual or department the comment has been passed to. The society's log of comments records responses from the society to the members' concerns or suggestions, and helps the society to identify themes and trends.

Ipswich Building Society has operated a feedback system for some time which ensures all comments are directed to the appropriate member of staff. All feedback, and the associated responses, are available for all staff to view on the society's intranet. The feedback is monitored, and the society has found this system very useful in picking up trends within the feedback.

To ensure informed and consistent responses to members on key issues, Newcastle Building Society circulates certain written responses to feedback to customer-facing staff. This has been useful in the last year in relation to queries on savings interest rates.

## Measuring effectiveness

Societies generally measure the effectiveness of their member engagement activities via the level of participation, whether this is in terms of AGM votes cast, response rates to surveys or attendance at Member Roadshows, and also by reviewing achievements in response to feedback that has been received. Other metrics used include more sales-based numbers, such as the increase in customers, while others include more intangible factors such as members' opinions on the level of trust they have for the society, and several societies' regular questionnaires cover aspects relating to engagement.

Surveys of members that attended Member Roadshows are also used to uncover opinions of the events. These are generally very positive, with the vast majority saying they were glad they attended, and most believing that the society was genuinely interested in what the members thought. Some societies also seek formal feedback from the society employees that attend member events.

### Some examples of changes and developments that various building societies have introduced following specific member suggestions:

New affinity savings account for local hospices
Extended opening hours
Expanded range of online services
All communications reviewed to be clear and transparent
New electronic newsletter on personal finance
Making paper statements available to online customers for ID purposes
Altering disabled access to branches
Annual informal meeting of members and directors
Adding fixed rate ISA maturity dates to interest rate tables
Reducing the amount of information in the AGM pack to a more manageable level
Summer savings account to help save for holidays
Changes to staff uniform
Introduced a cooling-off period for bonds
Issue statements earlier
Shaping the Members Forum
Changes to how financial advice is offered
Extended hours telephone service
Targets to reduce waste and energy usage
Changed the presentation of mortgage offers to potential borrowers

Newbury Building Society said that it aimed to create member engagement opportunities in each of the communities that it serves. It therefore measures the effectiveness of their member engagement activity by the number of opportunities that it creates for members to get involved and the increase in member numbers. It has exceeded its targets on both counts.

## Remuneration related to engagement

Few building society employees have their remuneration based directly on member engagement objectives, but these do feature in the key accountabilities for some staff. In this way, member engagement does feed into the performance management and ultimately, reward, for these individuals. Member engagement also features in some society's corporate objectives, and as such, should feed through into individual employee's objectives. Also, at some societies the executive directors do have targets relating to customer satisfaction, member numbers, AGM turnout or TCF. Where these do apply to executive remuneration, however, they usually comprise part of the bonus payment, and as such have often been withdrawn in the current economic climate.

Alternatively, setting certain goals for branch employees, such as increasing the number of active members, should have the knock on effect of increasing member engagement.

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Similarly, Newbury Building Society offer all staff a 1% salary bonus if the society exceeds a target average Mystery Shopper score which encompasses measures of service, treating customers fairly, and whether the Mystery Shopper was informed about becoming a member of the society and what that means.

## The BSA's involvement

The BSA helps societies to share ideas relating to member engagement to try to encourage the adoption of successful practices across the sector. This report is part of that process, and is the fourth such report since 2002. In 2008 the BSA published a detailed report into building societies' community activities. In addition, the BSA runs a PR Forum and a Member Communications Forum that allow societies to share knowledge and discuss any issues.

As mentioned on page 17, the BSA has also helped building societies to interpret the Combined Code on Corporate Governance to help societies to apply similar standards to those that apply to listed companies. This provides a regular check for societies on their formal corporate governance processes. The BSA also encourages all societies to conduct an advisory vote on directors' remuneration and to provide details of director remuneration in their Summary Financial Statements.

The BSA also helps best practice regarding corporate governance and member engagement to spread through the sector by holding seminars and conferences. In early 2010 the BSA will be holding a seminar on corporate governance, with discussions and presentations from representatives from societies that have innovated in this area.

The BSA also plans to run a seminar for non-executive directors to help to educate them on risk analysis to help them challenge the executive directors. In addition, a conference is planned for chairmen of building society remuneration committees to help them share ideas and best practice.

## Conclusions

Member engagement continues to grow in importance at building societies. Building societies are trying to instigate greater interaction and more meaningful relationships with their members. This will result in better products and levels of service, but also improved governance and accountability as non-executive directors better understand members' requirements.

As well as greater effort and resource, societies are using more user-friendly formats, a range of channels, and new technologies to increase participation. More direct contact between members and directors, and dedicated member panels are yielding deeper insights into members' needs. Several societies are making efforts to ensure that they engage with members that are representative of the wider member base.

The recession and turbulence in financial markets have highlighted some of the benefits of the mutual model, and provided an opportunity for building societies to explain these to members. However, while the economic climate has given added impetus to the development of member engagement practices, it has not altered the fundamental importance of involving members, something that societies have recognised for many years.

Societies are working hard to make sure that members' voices are heard at the AGM. They are also improving their corporate governance, with greater compliance with the Combined Code and more disclosure to members.

Increased direct contact between directors and members is helping to make the link between member engagement and corporate governance, so that non-executive directors can challenge the society's management effectively. By doing so, ownership becomes more valuable for building society members.

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