

mutual interests

ISSUE 3 SEPTEMBER 2007

 **one**
mutual
enhancing mutual values



Philip Dearing, Managing Director, Mutual One Limited

INSIDE THIS ISSUE

- p2** Management Information on Treating Customers Fairly
- p3** Mutual One Seminars
- p4&5** One Man's Poison?
- p5** Callcredit's Tracing Tool
- p6&7** Mutuality – 4 Steps to a Collective Heaven
- p8** Diary Dates and Mutual One Services

Welcome to the third issue of Mutual Interests, our periodic newsletter on issues relating to mutual organisations and the services offered by Mutual One.

The worst summer weather since 1792 has marked my arrival as Managing Director of Mutual One, but from hereon in it's all sunny days – well, figuratively speaking at least!

My first few weeks were spent writing to and now seeing clients across all sectors of the business. A big thank you to all who have already been kind enough to see me or make arrangements to see me.

I have initiated an Operational Review within Mutual One. Client input into how we do things and what you want from us is very important, so do please (if you want to) have your say.

Finally, please remember that I, and indeed all the team here at Mutual One, are very committed to providing you with an effective, efficient and timely service, and if I can in any way contribute to helping you out on any issue at any time, then please don't hesitate to call me personally – my contact details are all shown below!

Philip Dearing
Managing Director
Mutual One Limited
Skipton Office Tel: 01756 705987
Sharnford Office Tel: 01455 221728
Mobile: 07793 699872
Email: philip.dearing@mutual-one.co.uk

Stop Press Compliance Collective

Many societies have already signed up to the Compliance Collective Information Services, (which includes template Board; Compliance; MCOB; and ICOB Manuals and Terms and Conditions documentation for residential and commercial mortgages and savings accounts amongst other things) and the Compliance Collective Monitoring Services (risk-based monitoring templates on FSA Compliance; MCOB & ICOB Compliance; Financial Promotions; Financial Crime & Fraud and Non-FSA Compliance areas). All come with a full updating service, essential to keep up-to-date with the ever growing volume of FSA pronouncements. Why not take advantage of the attractive pricing offer which expires on 28 September 2007.

If you would like more information on this or Mutual One's Compliance Services, contact Andrew Gold on 01756 705797; mobile: 07730 718205; email: andrew.gold@mutual-one.co.uk

Management Information on Treating Customers Fairly

Many of you will have received a letter from the FSA confirming that you have achieved the 'embedding' Treating Customers Fairly ('TCF') deadline at the end of March 2007. At the same time it set further deadlines to demonstrate to both the FSA and your Society's Board that your customers are consistently being treated fairly.

By the end of March 2008, the FSA will expect Societies to be able to demonstrate the delivery of the six customer outcomes by using Management Information ('MI'), which is proportionate to the nature and size of your organisation. From experience of working with many societies, we are aware of different interpretations and expectations of what types of MI may support TCF.



Lesley Thacker, Compliance Services Manager, Mutual One Limited

In a study of MI the FSA highlighted the need to initially consider:

- Types of information that could demonstrate if TCF outcomes were being met.
- What information is already being produced that could provide information to Senior Management about how customers are treated?
- If MI is already available for different stages of the product life cycle and its usefulness.
- Does the existing Board pack contain sufficient information to measure TCF?
- What elements already provide insights on how the Society treats its customers?

The FSA has published a 'checklist' to identify data which they feel could be used to measure and improve TCF performance.

These are split into different categories and here are some examples from each:

Sales

- Volume of sales by product type. Excessive sales of one product may indicate the process to select the most suitable product for customers is not adequate.
- Percentage of file checks failed, highlights any systematic failures to comply with regulatory and disclosure requirements.

Complaints

- Complaints volume measured against individual advisers or product type, highlights training needs or complex marketing material.
- The number and reasons of complaints, whether resolved internally or referred to the Financial Ombudsman Service.

Point of Sale and Pre Completion

- The quality of advice provided following mystery shopper exercise, telephone monitoring or observed interviews.
- Key performance indicators such as persistency.

After Sales Service

- Results of customer opinion surveys etc.

Culture and Values

- The number of personnel who completed TCF training within the required timeframe.
- Personnel receiving further training in their relevant area following a high number of complaints or failed file checks.
- Rewarding personnel for suggestions to improve customer service, and for meeting TCF targets.

Financial Promotions

- Complaints received measured by promotion type, highlights promotions which may be misleading or hard to understand for customers.
- Compliance breach numbers, may highlight the need for further staff training.

The FSA has recently published further papers to support the delivery of the Treating Customers Fairly initiative, one of which is specifically designed to assist a Society to develop meaningful MI.

The FSA expect that Societies are able to demonstrate through MI that:

- TCF is being integrated into the business, with resources and responsibilities allocated with plans and processes developed.
- Appropriate measures are in place to test whether customers are treated fairly including, delivering the six TCF consumer outcomes.
- It demonstrates to both the Society and the FSA they are consistently treating customers fairly and delivering the consumer outcomes.
- Processes are in place to monitor the MI to enable the right people to make decisions and take action.

Good MI should enable management to make good decisions and consequently it should be:

- Accurate – the correct numbers with any commentary contributed by the right people.
- Timely – available sufficiently quickly after the relevant business activity to enable managers to act.
- Relevant – displaying what a manager can directly influence or something that they may need to escalate to someone who can take the necessary action.
- Consistent – this will allow managers to spot trends and make sound decisions.

Going forward, responsibility for the production and quality of the MI needs to be clearly assigned as it will almost certainly be the focus of supervisory conversations and visits with the FSA, in the months ahead.

We hope you find this summary helpful as you work towards the next FSA deadline. **If you would like any further support on this or any Mutual One Compliance Services, please contact Lesley Thacker on 01455 221728 or lesley.thacker@mutual-one.co.uk**

www.fsa.gov.uk/pubs/other/tcf_mi.pdf

Mutual One Seminars

Since the last Newsletter, Mutual One has again run a number of well attended seminars aimed at different audiences. Seminar topics included ICAAP Discussion Groups, (run in the Midlands and Yorkshire) attended by 22 building societies. Feedback from participants showed it was a worthwhile use of time, especially as the FSA plan to compare ICAAP submissions from societies with their peers. It is likely that Mutual One will hold another such Discussion Group later in the year, so please let us know if this is of interest to you.

As well as the above seminars aimed principally at Finance professionals, Mutual One has also run two successful Compliance Officers' Discussion Groups. First, Andrew Hayward of the CML presented an update on the practicalities of the forthcoming Consumer Credit Act changes, to an audience of 21 societies. A second Discussion Group looked at Risk Assessments, an increasingly topical area as so much Money Laundering and anti-fraud measures now require a supporting risk assessment. This was attended by 17 societies.



Finally, Mutual One held a non-executive director Seminar featuring three speakers. Firstly Stewart Carter, from the Coventry Building Society, gave an insight on the Coventry's approach to operational risk management. Richard Coates, the MD of Baseline Capital, provided an update regarding the development of the ICAAP which included the potential impact on the mortgage market and the shape of societies' future strategy in that area. The final speaker was Martin Upton, former Treasurer of Nationwide Building Society, who now works with Sterling International Brokers. Martin provided an insight into current economic conditions and the Treasury markets – very relevant given market conditions! The NED seminar was attended by 25 delegates and, as well as providing thought-provoking presentations, it provided an excellent opportunity to meet non-executive directors from other societies.



Here are some of the quotes on attendees' feedback forms:

“This was a very useful and topical Seminar.”

“For a brand new NED, this course was indispensable.”

“Good, professional, open speakers.”

“Very informative and pitched at the right level.”



Karen Manger, Office Manager, Mutual One Limited

The next event we are running is the following. If you would like to attend, please register your interest with Karen Manger using any of the contact details below:

Event

**Building Societies
Compliance Officers' Forum**

Date

Wednesday 14 November 2007

Venue

**Ullesthorpe Court Hotel,
Leicestershire**

We are also running an IT Security Seminar and a further ICAAP Discussion Group. If these are of interest to you, simply contact Karen.

We normally run our Seminars in the Midlands, but if there is enough interest a northern or southern venue can be arranged – simply let us know.

Finally, if there are any topics you would like to have a Seminar or Discussion Group on, please contact Karen.

Karen Manger
Office Manager
Mutual One Limited

Email: karen.manger@mutual-one.co.uk

Tel: 01756 705987

One Man's Poison?

The problems being faced by the sub-prime lending sector, on the back of the current and well publicised 'credit crunch' affecting the US and increasing the UK mortgage market, is not necessarily bad news for balance sheet lenders such as building societies. Out of adversity for some are created many opportunities for others, sharp enough and commercial enough to see the light.

With the portfolio trading market becoming tighter and securitisation of certain assets becoming more expensive, many non-conforming lenders are now falling over themselves to raise interest rates and tighten criteria. In many ways, the market is repricing risk and going back to a more sensible appreciation of what is good business and what might be more questionable lending.

However, that does not mean in any way that sub-prime lending is bad business. It may mean, and certainly does in the US case, that competitive pressures overshadowed, and in many ways overpowered, the need for sensible lending caution. Higher risks require higher yields, but if numerous competitors are ignoring that, what do you do? Do you just stop lending, in which case arguably you are out of business, or do you lend and suffer the consequences of what might be bad debts? The latter in some ways does not bear thinking about, but that is exactly what has now hit, and consequently bankrupt, many US lenders.

In the UK undoubtedly, the bulk of our non-conforming lenders are not that far into the quagmire. Our housing market is dynamically different. The UK lenders have indeed been more cautious with their criteria and typical UK products have been less eye-watering! However, as the funding market's appetite corrects itself over say the next twelve months, these off balance sheet lenders will downsize their volume ambitions or will be forced by funding constraints to offer prices that the end customer just cannot stomach. Within the mix lie opportunities for on balance sheet lenders who are prepared and have the capital to hold non-conforming assets for the longer term, or even for smaller building societies without such balance sheet capacity to step in and offer intermediary services to those customers who need help and advice. Such customers may indeed be investing members of those societies.

Over many years, some building societies have been simple introducers of customers to outside third party brokers.



Barry Meeks, Managing Director, Pink Home Loans

Where that society does not have a suitable product in its own range of mortgages to fit a customer, a society passes that customer over to a business partner who takes over responsibility for the sale. Commissions are shared maybe 50/50 and hopefully the customer still receives a service. However, programmes such as these are notoriously difficult to execute efficiently. The customer has to accept the intervention of a third party who invariably is not there at the time of the initial interview. So, there's a new name to get comfortable with, a new organisation, new service levels and a new approach. That third party will invariably replicate some of the information gathering conducted initially by the introducing society and the risk is always the chance that, when the customer walks out the branch, he will walk straight into a competitor who will be able to deal with him then and there and before the society's own broking partner can make contact.

A non-conforming customer requires potentially a greater focus of effort to satisfy his or her specific needs, as there are multi-choices of where that customer may fit to a particular lender or a given product. By their very nature, prime borrowers will fit almost anywhere and the main consideration is the product. Sub-prime borrowers have to be actively placed, increasingly taking into account the nuances of criteria. That takes more time, more skill and importantly more research, especially when a broker has to satisfy the principles of TCF.

We in Pink oversee a mortgage network of almost 400 appointed representatives, where we are totally responsible for the compliance aspects of their sales, their professional training and development and their product choices. Increasingly, organisations like estate agents are handing over responsibility for their in-branch mortgage sales to independent brokers who are based in their office all the time, but whose oversight

One Man's Poison continued

is handled by a separate mortgage network. Pink has recently spoken to two building societies about a similar scheme where...

1. An in branch mortgage consultant is recruited by, and is under the employment control of, the building society. That society controls how the customer is identified, approached and what service standards are delivered.
2. That individual consultant is an appointed representative of Pink. We are responsible for what they do, the tools they use, their professional compliance, training and development, as well as their associated professional indemnity.
3. The consultant has the ability through Pink to offer a whole of market research and broking service to the customers of that society. They will also be able to satisfy life protection sales, conveyancing, HIPS, secured loans, general insurance and a whole range of other related services.
4. The employing society receives 95% of all resultant procurement fees and commissions, with Pink retaining the balance, the cover, the support, described in 3 above. Overall,

however, the resultant profitability is far stronger than the simple introduction model.

5. Potentially such a structure could form the basis of a new stand alone mortgage broking subsidiary, which a society could launch and manage for wider business opportunities outside of the core branch network.

So, in conclusion, the aforementioned credit crunch will create as many opportunities as problems for intermediaries to help place and satisfy an individual customer's mortgage requirements. Building Societies could step in and take up some of the slack in supply, particularly as direct lenders, especially at the light adverse end of the spectrum (some are already doing this). Others could leverage their distribution base and start to offer a stand alone, fully integrated and supported broking structure that is non-dependent on customer intervention by a third party, and where they have no risk or overhead connected with compliance.

As they say one man's meat is another man's poison, but in this case perhaps the opposite is true.

New HM Treasury guidelines mean tracing tools will be key to reuniting customers with dormant accounts

The ability to trace dormant accounts will become an increasing priority for banks and building societies, following new HM Treasury guidelines requesting lenders to identify dormant accounts that have shown no customer-initiated activity during the past 15 years. Any bank or building society unable to reunite funds in an account with the owner by 2009, will result in the money being passed to an independent body to distribute the funds to worthwhile causes.

Estimates suggest that over £400m remains unclaimed in bank accounts that have not been touched for 15 years. Callcredit has developed a system-set of identification and verification tools, which will provide financial institutions with accurate information to help them re-establish contact with dormant account holders. The system-set uses Callcredit's powerful Trace database, containing millions of linked addresses that are updated on a continuous basis and gathered from a variety of sources.

Melanie Mitchley, Callcredit comments, "This is a very real issue for banks and building societies as they have a duty of care to their customers to ensure that they safeguard any investments.



Mel Mitchley, Director of Industry Relations, Callcredit

"With around 3.2 million people moving home each year and constant shifts in personal circumstances, it is unsurprising that the estimated funds total of dormant accounts is so high. However, consumers will expect their bank or building society to do everything they possibly can to reunite customers with their accounts. Clearly, utilising fast and cost-effective tracing tools is a first step to achieving this."

To learn more about Callcredit's tracing tool, email: enquiries@mutual-one.co.uk

Mutuality – 4 Steps to a Collective Heaven



Andrew Gold,
Chief Operating Officer,
Mutual One Limited

What exactly is mutuality? The very term mutual has, amongst many variations, a dictionary definition meaning to 'share in common'. It implies reciprocity, a joint objective or more commonly a collective purpose. This 'collective approach' of sharing a goal or working towards a common good, sits at the very heart of the Building Society industry. It's enshrined in the principles of membership and, more and more, is coming to reflect the collective challenges and aspirations of Building Societies themselves as organisations. And as many will agree, the industry has many collective challenges, but also numerous and exciting collective opportunities.

As is often the case, size of course plays a key part. If an organisation enjoys economies of scale because of the sheer size of the business, then the firm should be better placed to move forward more efficiently. A firm should be able to diversify, negotiate better deals with suppliers, achieve greater productivities, be able to invest more in automation and thereby have greater distribution and marketing power, whether through branches or other channels. Across all key measures, size should help. But is this always true?

As has been proved time and time again in many differing sectors of both industry and financial services, being big can at times mean being unresponsive, cost-ridden, inefficient and slow to innovate. So where is the truth in a sector where marketshare is dominated by bigger organisations leaving others to operate as smaller regional or local players? At what point does this situation not become viable or is there indeed a secret formula for survival?

Changing the business model to meet the challenges of the brave new world of lower commoditised margins, oversupply, the internet and wide ranging predatory competitors is not an option, but more an absolute necessity. Now, more so than ever before, smaller firms must concentrate wholly on customer facing sales and differential service to their local communities and home markets, as well as seeking out incremental business through strategic partnerships or new technologies. They should not be reinventing wheels that other specialists can deliver more cost-effectively and efficiently. A firm also needs to pool its resources with others to ensure a common good is realised from common needs and actions. The way forward can be compartmentalised into four key areas, namely:

1. Collective Benefit Approach

This means working together to achieve a common benefit that increases as participation increases, arguably best and most obviously realised in a purchasing situation or taking a template product from a third party. Taking systems as an example, whether it be the traditional model of creating an in-house system or licensing an established platform, being responsible for all maintenance of internal networks, operations, hardware etc. now looks to be far too onerous and costly.

The best way to minimise such risk and cost is to move from an in-house maintained and/or licensed system, to a 'managed' outsourced solution. This takes away all the responsibility of maintaining an up-to-date code, virtually all functionality testing, all desktop support and all hardware supply and maintenance. Typically, on a fully costed basis this could be reducing the IT overhead by about 40%, possibly significantly more. Acting collectively, firms can increase their importance to the supplier and if the fees associated with taking the service can be reduced for all as more users come on board, then that is also far preferable to acting alone. This principle is at the core of the Mutual One IT Collective for Building Societies.

2. Collective Efficiency Approach

The key issue to consider for future competitiveness is the winning, developing and retaining of the customer. That is where a firm's investment should be concentrated. Winning, developing and retaining customers means having to compete and compete aggressively and strongly. To do that means a firm needs to be efficient. If a competitor has a cost advantage of, say 40%, then that advantage can be straightaway delivered back to the customer.

Back-office administration is just a means to an end, the end being keeping the customer on board, and servicing his/her needs. Supporting administration internally is not a prerequisite,

Mutuality – 4 Steps to a Collective Heaven continued

but of course has been an historical fact since time immemorial. Firms could now be actively considering a more fluid model by outsourcing all people intensive non-critical administration, but retaining direct control over all key customer facing processes shown as an example...



In the above example, everything above the base line in the pyramid could be outsourced fully or selectively on a 'pick and mix' basis, whilst everything below the line should be retained internally. The above forms the basis of the Mutual One 'Administration Collective' concept, some elements of which are already 'live' (Systems Bureau and Internal Audit) and some are still in development. The key principle across all areas revolves around pooling common functionality, process or needs to secure a 'collective efficiency' and thus achieve major economies of scale.

3. Collective Bargaining Approach

What binds the firms within a sector together and makes it unique, is commonality of purpose driven by the principles of mutuality. In many areas, this commonality of purpose is not being fully exploited by firms working together to improve their individual situations. As an example, in Mutual One we have now 15 Building Societies working on a common corporate insurance scheme, with a number of others also at the assessment stage. The deal provides each with superior terms that each individual society would not achieve by negotiating on a stand alone basis with the relevant broker and insurer. Over 21 societies are now working with Mutual One on Internal Audit, 8 on Electronic Identity Verification and 5 on Mortgage Originations to name just four initiatives.

In short, by coming together through Mutual One some Building Societies are improving their distribution, buying and negotiating power and that is what business is all about.

4. Collective Action Approach

Most industries accept that firms need to urgently look for new ways to leverage income from existing customers, to cautiously enter new markets or launch new schemes to exploit the appetite for other products from those existing customers. Such products, of course, need not be self-manufactured. They can, of course, be white label arrangements, joint ventures or simple introduction strategies. But we do need to remove the prejudices of what might be past failures. The "we've tried that before and it did not work" syndrome is far too prevalent. Why did it not work? What alternative strategies were used? Was the partner in such an initiative any good? What will the customer buy and what will they not buy?

New markets can be penetrated more easily by working together with other similarly ambitious firms. Mutual One's recently launched 'Mortgage Partnership' for building societies is essentially an initiative that takes mortgage products exclusively from building societies and secures distribution arrangements in the main with larger intermediaries. The principle is to position building society mortgages as coming from a different type of lender; where history, membership and a proven track record of competitive pricing speaks for itself. In other words, what we are developing is a 'mutual mortgage club'. Distributors, I'm pleased to say, can see the sense in this positioning and are working with Mutual One on several different strategies, all of which will help participating societies achieve their lending targets in the future.

So, in conclusion, this peek into the future of a possible new business model for some building societies is different from what has gone before. It reflects the need to be innovative but still prudent, more cost-efficient and to become involved to a far greater degree in collective action in order to leverage the industry's collective needs, to gain a true commercial advantage. And the really encouraging thing, is that much of this can be achieved today. The question for firms is – are you prepared to do it?

If you wish to know more on collective initiatives, please contact:

Philip Dearing
Managing Director – Mutual One Limited
Tel: 01756 705987
Mobile: 07793 699872
Personal Mobile: 07861 290624
Email: philip.dearing@mutual-one.co.uk

OR

Andrew Gold
Chief Operating Officer – Mutual One Limited
Tel: 01756 705797
Mobile: 07730 718205
Email: andrew.gold@mutual-one.co.uk

Diary Dates 2007

SEMINAR	DATE	CONTENT OVERVIEW
Compliance Officers' Forum	14 November 2007 At Ullesthorpe Court Hotel, Leicestershire	An opportunity for Building Society Compliance Officers to discuss current challenges and topical issues on compliance related matters
ICAAP Discussion Group	TBC November 2007 Venue TBC	An opportunity to share thoughts with others involved in the detail of the ICAAP preparation
IT Security Seminar	TBC November 2007 Venue TBC	An opportunity to hear current challenges and topical issues on IT Security related matters
Customer Relationship Management Seminar	TBC Quarter 1 2008 Venue TBC	An opportunity to hear of the benefits from usage of Customer Relationship Management Techniques
Non-Executive Directors Seminar	TBC Quarter 1 2008 Venue TBC	An opportunity to hear current industry developments from a non-executive director perspective

All the above provide an excellent opportunity to hear presentations from respected figures within the industry, as well as to meet with counterparts in similar organisations.

If you are interested in attending any of the above seminars, or wish to know more, please contact Karen Manger, Office Manager at Mutual One on 01756 705987 or email: karen.manger@mutual-one.co.uk

Mutual One Services

1. **Internal Audit for Building Societies, Friendly Societies, Mutual Insurers and Co-operatives**
2. **Compliance Collective for Building Societies, Friendly Societies and Mutual Insurers**
 - Information Services.
 - Monitoring Services.
3. **Corporate Insurance Collective for Building Societies and Friendly Societies and Mutual Insurers**
4. **Mortgage Collective**
 - Origination.
 - Portfolio Acquisition.
 - Mortgage Partnership 'Through Lending'.
 - Conveyancing.
5. **Mortgage Survey and Valuation Management**
6. **Staff Benefits Collective – Private Medical Insurance, Private Health Insurance, Life Cover – for Building Societies, Friendly Societies and Mutual Insurers**
7. **Anti-Money Laundering Online ID Verification for Building Societies, Friendly Societies and Mutual Insurers**
8. **IT Collective**
 - a full systems-managed service for Building Societies.
9. **Virtualisation**
 - a full outsourced 'shared service' platform for Building Societies.
10. **Financial Services**
 - a complete IFA solution for Building Societies and Friendly Societies.