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Welcome

to the latest edition
of Mutual Interests!



You may all have heard by now that Philip Dearing reverted to a Non-Executive Director role with Mutual One on 1 June 2009. On a personal level, it has been a pleasure to work closely with Philip over the last couple of years and I am sure you will join me in wishing Philip all the best for his new role and retirement.

Under his leadership, Mutual One has developed further and although Philip will be a hard act to follow, I hope to continue to build on what has been achieved to-date. In this I will draw on my five years experience in the role of Chief Operating Officer and be supported by the team, including Ian Sirrs, Director of Audit Services, Alison Kaye, Head of Finance and Lesley Thacker, Compliance Services Manager. This should enable the impact of changes ensuing from Philip's retirement to be minimised.

The current economic climate remains both uncertain in outlook and fast changing. Mutual One remain committed to supporting mutuals by way of continually providing an efficient, effective and timely service across a range of areas, details of which can be found on our website www.mutual-one.co.uk.

Our website is currently being refreshed and will go live soon. It will include the Company's values charter aside which was recently formulated by a cross section of the Mutual One team chaired by myself. Like many of its clients, Mutual One places strong emphasis on meeting its core values at all times.

Having written to mutuals we work with across all aspects of what we do, I am grateful to those who have already been kind enough to see me or make arrangements to see me.

If I, or a colleague in Mutual One, can contribute to helping you out on any issue, at any time, then please do not hesitate to contact me – my contact details are shown below.

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HMT Publication - Reforming Financial Markets

This comprehensive white paper highlights the causes of the financial crisis; the actions taken to restore financial stability and future reforms necessary to strengthen the financial system for the future.

The Building Society specific elements of the white paper highlights that the Government wants to promote competition and choice by strengthening the role of mutuals.

A number of proposals are made that cover corporate governance changes (reflecting the Walker review and FSA changes); access to capital and funding and shared operating models. For the latter, the Government is interested in drawing on practices observed in other countries where mutuals share certain functions, such as treasury services or back office functions, to obtain economies of scale.

More details on aspects of the above will feature in the next e-zine in addition to the collective action reflected throughout this edition.

Mutual One Values

Communicate Clearly

At all levels, to achieve the optimum outcome

Share Knowledge

Our aim is to enlighten and add value through experience

Work Together

Respect each other and our clients and through teamwork achieve a common goal

Deliver Quality Service

We can be relied upon and trusted to meet agreed objectives

Anticipate and Respond to Change

We aim to be proactive and innovative; by being adaptable we address tomorrow's challenges today

Shared Services

By Philip Dearing



When I spoke at the Building Societies Association Conference at Harrogate in late-May on the topic of 'Shared Services – the moment has arrived' I had little idea of the level of interest and debate the subject would arouse. They say that timing is all, and certainly shared services is a topical issue.

For those not at the Conference, this article is a synopsis of the key points raised, starting with a rather 'undersung' question - what shared services and collective activities are Mutuals undertaking today?

Well perhaps just a bit more than you might think, and the most obvious one is Mutual One. Owned by 8 building societies (Darlington, Skipton, Tipton & Coseley, Earl Shilton, Loughborough, Hinckley & Rugby, Market Harborough, and Mansfield), Mutual One today undertakes 6 principal collective or shared activities.

First, internal audit, where Mutual One audits 17 building societies, 4 friendly societies and mutual insurers, 4 consumer co-operatives, a trade body, a small bank and more recently internal audit advisory services to the NHS.

Second is compliance, where 25 of the remaining 53 Societies subscribe to some form of compliance information or monitoring service from Mutual One including regular forums where compliance officers from a range of societies can meet up to discuss topical issues, an online weekly regulatory update (www.mutual-one.co.uk) which draws on information from the FSA, the BSA, the CML, the Banking Code Standards Board, the Financial Ombudsmen Service, HMRC and a range of other bodies who frankly have so many letters and acronyms it is difficult to keep up with them all!

Third, Conferences, Seminars and Training is a classic example where mutuals can act together by sending one or more members of staff along to gain knowledge in a non-competitive environment and where they have the opportunity to network and mix with staff from other firms. These seminars and conferences couldn't be offered at the price they are if it were not for the sector acting together.

Fourth, new media, which is a growth area where Mutual One has a whole raft of ideas around web design and hosting business networks, including the mini Facebook specifically for your members, e-communications with members and so on.

Fifth, information technology where 5 societies use the Mutual One / Bailey Computer Services IT infrastructure, effectively a system built by a building society for use only by building societies.

Sixth, and finally, a range of product collectives, for example 12 societies buy their 'own' insurances together such as Directors and Officers liability cover using a broker to get a good deal; the premise here is very simple - the more mutuals who sign up and buy their services together the lower the cost – so in the case of insurance the more mutuals who buy their insurances together on this scheme the lower the premiums become.

There are a few other areas of shared services, for example there are some ad-hoc purchasing groups, and of course there is the "Achievers Academy" that David Webster, CEO of the Hanley Economic Building Society, highlights on page 5 of this e-zine - 7 mutuals have teamed up to provide a year long training & development programme for two people from their respective organisations.

Likewise, four innovative societies – Saffron, Ipswich, Teachers & Loughborough are collectively engaged in disseminating personal finance information to schools in their area using new media – in this case podcasts which they have entitled "Cashcasts" – a great example of good corporate social responsibility whilst of course garnering some useful local and national publicity. I believe the mutual sector has a chance to steal a march on competitors using this initiative, since when these cashcasts hopefully receive the PFEG kitemark this summer those four building societies will be offering the only approved podcasts on financial literacy in the UK.

So, as you can see, there has been some success. But let's move on to what we could do and here are just a few personal thoughts. There's not going to be any big bang as far as shared services and collective activity is concerned, but I do think there could well be incremental change. *Cont...*

Shared Services

By Philip Dearing

...Cont... First up, we could take some lessons from the National Health Service where in most areas of the country there are pooled budgets for the provision of services. For example, in the East Midlands one Trust is responsible for dealing with financial services by which I mean principally invoices and their payment. This has worked out significantly cheaper than having the same facility carried out in a number of Trusts and it is also a lot more efficient. In the same way, other activities are dealt with by way of pooled budgets, for example provision of IT services, Community Equipment and other support services.

So, extending the concept of shared service groupings, mutuals on the same systems could do more together and the NHS example of pooled budgets around things like financial accounting and purchasing is a good example of that. So for example one mutual could readily provide the invoicing, collection and payment service to others.

Again, we must surely now be in a position to give some thought as to other shared services for example Human Resources and payroll. Having one central geographically based department to handle payroll and HR issues for a group of societies would I think be relatively easy to achieve.

So for example, and continuing the geographic affiliation argument, in somewhere like Leicestershire where there are 6 societies operating – perhaps one HR department located at one of the societies would be able to do an efficient and more cost effective job?

And there are other similar activities such as facilities management where looking after 25, 40 or 60 offices is not dissimilar to looking after 5, 6 or 12. The alternative to managing facilities on a pooled geographic basis is to go along to a larger society that already has an established and professional FM infrastructure and outsource it to them. I am sure some would be happy to do this as it would help defray some of their fixed costs whilst at the same time providing a group of smaller societies with a cost effective service and all within a set of comprehensive robust service level agreements.

*So those are just a few ideas but how can one progress this agenda?
So where would I start?*

First, why not fix a meeting with others who use the same IT system, or have a meeting with mutuals in your geographic area to see what could be achieved together?

Second, maybe a joint strategy day between Chief Execs, Chairs and one or two Non-Executives wouldn't be a bad place to start, perhaps accompanied by a facilitator who could resist and steer clear of any parochial instincts which may arise.

Third having identified what you want your shared service success to look like, draw up a structured project plan, implementation group and pilot test it. Start in a small way, with perhaps just one or two shared services.

Sharing some of the most simple services has to be the right way ahead, and whether you sign up with a larger firm to deliver those for you, or act collectively with your IT provider, or share services on a geographic affiliation basis, now is the time to be getting on with it, because we are living in times of exponential change. The FSA's 25 year event is actually here and now and mutuals have to think differently.

Finally I do sense a willingness to act but let me put in a plea and it's this. Don't let spurious or parochial or emotive barriers deter you. There's lots of help available, including from Mutual One, to help facilitate change and in many cases it doesn't cost anything to explore ideas.

As ever, I'm happy to help, so please do feel free to email
philipdearingworks@googlemail.com
or call on 07590 900821

Stop Press Compliance Collective Grows

The Compliance Collective toolkit has been expanded with the provision of a 'mock' FSA visit, invaluable preparation for Non-Executives and Senior Management Controlled Function holders who will be interviewed as part of the ARROW assessment. This draws on experience from actual FSA ARROW visits.

In addition the experienced, qualified Compliance team have recently developed a firm's risk assessment framework in line with 'best practice'. This is one of the many types of compliance support projects available to firms to take on an ad hoc basis.

*More details on the above in
the next edition!*

An overview of CP09/17

'A Specialist Sourcebook for Building Societies: Enhanced Supervisory Guidance on Financial and Credit Risk Management'

In June 2009, the Financial Services Authority (FSA) issued Consultation Paper (CP) 09/17 'A Specialist Sourcebook for Building Societies: Enhanced Supervisory Guidance on Financial and Credit Risk Management'. In this CP the FSA has sought to strengthen the building society sector, to reduce its future vulnerability to difficult market conditions and to ensure that societies are appropriately equipped to play a central role in UK retail financial services in the years ahead. The FSA's aim is to make supervision of building societies more efficient and transparent by way of providing guidance on the systems and controls believed to be appropriate for a variety of levels of sophistication within society business models.

This CP goes to the core of how societies will operate in the future and is consequently essential reading for all members of the Board and Senior Management. A summary on CP09/17 follows:

What underpins CP09/17?

CP09/17 should be seen against the background of the Turner Review and the accompanying FSA discussion paper (DP09/02 'A regulatory response to the global banking crisis') which outlines a range of proposed measures for improving the framework of financial regulation. By highlighting the proposed approach to building society supervision, the FSA are working towards implementation of the Supervisory Enhancement Programme referred to in the Turner Review. The fundamental principle that systems and controls must match the complexity of business models applies to all regulated firms, including building societies. The FSA will, under their supervisory approach, take a more interventionist approach to business models and risk frameworks, guiding societies to a more suitable business model where felt appropriate.

What are the main elements of CP09/17?

The guidance within CP09/17 is structured as five basic classifications for treasury management and three for lending. It builds on existing (although interim) FSA Handbook guidance on financial risk management to make more explicit the FSA's expectations of building societies' business and operations from an internal risk management perspective.

Under this approach each society will be expected to proactively review its financial risk management self classification (which it will already have made under existing guidance) against the amended criteria and consider the implications in relation to its liquidity and wholesale funding models. Similarly societies need to self classify their existing lending model against the new categories and compare their risk management processes to FSA expectations. As is currently the case, the FSA's Supervisors will assess whether each society has the management skills, systems and controls consistent with its self assessment and preferred categorisation. The FSA Supervisor will either accept the categorisation or require the society to improve its systems and controls.

What if societies wish to move to a higher categorisation?

By publishing the guidance on its expectations, the FSA has helped societies understand what additional systems and controls will be expected to be in place should a society wish to take on additional activities at a future date.

How flexible will this be?

As this approach is implemented as guidance, it will be relatively flexible. The FSA will continue to exercise supervisory judgement in its dealing with societies, highlighting areas requiring further attention.

How does this fit with other prudential requirements?

The proposals in CP09/17 are consistent with those in CP08/22, strengthening Liquidity Standards, for its relevance to liquidity management and CP09/14 for transitional arrangements relating to the proposed new liquidity regime. Once the new liquidity regime is implemented, the FSA will delete significant sections of the Interim Prudential Sourcebook for Building Societies (IPRUBSOC). Remaining material will be rationalised and combined into one new specialist sourcebook for Building Societies (BSOCS) making key material more easily accessible to societies. IPRUBSOC will then be deleted.

What happens next?

The FSA has invited comments from societies and key stakeholders on the draft guidance and the underlying assumptions contained within it, by no later than 5 September 2009.

A policy statement, including feedback on the responses, is due in the fourth quarter of 2009 with a view to implementing the proposals, if confirmed, in early 2010.

What are the key CP09/17 questions for Boards and Senior Management of societies?

- *Has a gap analysis been undertaken of the society's current financial risk management and lending model against the revised guidance within CP09/17?*
- *What was its outcome and implication for the society's business model?*
- *Do the society's governance (Internal Audit, Risk and Compliance) and other arrangements require assessment and adapting as a consequence of the requirements of CP09/17?*
- *Has the Board and Senior Management of the society debated CP09/17, both amongst themselves and with other relevant parties (including peers) to confirm their understanding and feedback on the actions proposed?*

For more information on this or how Mutual One can help building societies address CP09/17, contact Andrew Gold on 01756 705797; mobile 07730 718205; email andrew.gold@mutual-one.co.uk.

Chesham BS 'joins' the IT Collective

Chesham Building Society has recently become the latest participant in the IT Collective offered by Bailey Computer Services (BCS). BCS will provide Chesham with a fully-managed IT solution, including all IT hardware, software, maintenance and network management, as well as service desk and relationship support. This system migration by Chesham will alleviate the need for day-to-day management of IT related issues, along with substantially reducing the cost of supporting Chesham's business operations. In addition, the IT Collective will provide 'future proofing' at no additional cost, since all core system developments are delivered free of charge – and all complemented with first class disaster recovery facilities!

Chesham - like all of the IT Collective participants will benefit from BCS's 'all-in-one' solution which has been built, maintained and developed by Skipton Building Society - a classic case of a system built by a building society for building societies.

Paul Kilbride, Chief Executive of Chesham Building Society, commented: 'Given the scope of our business activities, maintaining an in-house IT operation on a bureau basis wasn't the most cost-effective option for us and this is one of the key reasons why our Board decided to outsource the full management of these activities to BCS.'

'However, we also considered a range of other operational, business and strategic risks and concluded that aligning with another, top 5, building society and its 200 strong IT team was in the best long-term interests of the Chesham's members.'

Whilst we had worked with another large IT provider in the past, we decided to switch to BCS as its solution provided by far the best fit for both our current and future IT needs.'

'The BCS system has the added benefit of being fully future proofed, so Chesham's Members will gain from the innovations BCS develops with Skipton for its own evolving needs. Being at the front of the queue when these new developments are released is an opportunity that is very important in today's ever evolving world. I look forward to working with BCS and being able to focus on enhancing the mutual offering Chesham provides.'

The addition of Chesham to the IT Collective has shown that BCS can migrate firms from a variety of outsourced and 'in-house' providers, on time and on budget, so whatever the system Bailey Computer Services has the solution!

Achievers' Academy

The Achievers' Academy is a collaborative initiative between 7 building societies – Hanley Economic, Ipswich, Loughborough, Teachers, Leek United, Market Harborough and Saffron – and Mutual One.

The aim of the Academy is to help these local societies nurture and develop the talent within their organisations by sharing a development programme for their aspiring leaders. Academy attendees are individuals who shine in their society. They are key influencers in and ambassadors for their society and they typify the attitudes and behaviours which help distinguish a local building society from larger competitors in our competitive marketplace. Many local societies acknowledge that, to compete with firms who can offer commoditised products with the benefits of economies of scale, our people have to be our distinctive feature. This means that we need to retain and develop our very best people so that they do not feel compelled to seek work in larger firms where hierarchical career-progress is more easily defined. By providing Academy attendees with contemporary skills and tailored coaching there is a far greater opportunity for these individuals to excel in their existing roles and to extend their leadership credentials with their current employer.



The Academy has just completed its second year, with 16 "graduates" from the 7 societies plus Mutual One. The programme includes 2 "away days" over a 10 month period and one to one mentoring for each participant with a Chief Executive of another participating society. Each development day agenda is packed with opportunities for the attendees to really get involved and to learn from each other, as well as listen to industry experts on high level strategic issues.

One of this year's Academy attendees, Carrie Smalley, has relished this opportunity to step outside her day job and meet colleagues from other societies –

"I feel more confident about facing new situations and contributing to projects, and I have a greater appreciation of the need for teamwork to achieve goals".

The Achievers' Academy will start its 3rd year in September 2009 with a fresh intake of talented, future-leaders, and our intention is to make the experience hard work but extremely satisfying and beneficial for Academy attendees.

The changes in our marketplace over the past 2 years have merely accentuated the need for local building societies to offer a proposition to our customers that they can trust and fully reply upon. We can only do so by making our people feel valued and challenged in their jobs, whether they are customer-facing or not. The Achievers' Academy aims to play its part in energising our people so that they aspire to make progress in their careers, whilst equipping them to excel in the role they have in their society.

David Webster
Chief Executive
Hanley Economic Building Society

For full information on the IT Collective, please contact Mark Smitheringale, Chief Operating Officer at mark.smitheringale@skipton.co.uk or 01756 705417

Seminars, Conferences & Staff Training

Due to ever growing demand, we have formulated our programme of future events below to focus on a cross section of the issues of the day facing mutuals. These include a non-executive director seminar focussing on corporate governance and sessions for Building Societies on key regulatory pronouncements, notably CP09/17, the Specialist Sourcebook for Building Societies and the new liquidity requirements that follow up the previous event held on CP08/22. All the above have speakers from the FSA for you to hear their views and ask them your questions in person!

In addition to our seminars, we are running more workshops and training sessions. A recent addition to the programme is an Armed Hold-Up Safety Training Course on Thursday 8 October using a company used by other Societies. If this training is something you are looking at for your staff, then please get in touch with Karen Manger who will set up dates for such training to take place at our Grove Park Leicester office.

Diary of Events 2009

Date & Venue	Seminar / Forum / Training	Speakers/Facilitator and Topic
Tuesday 25 August Midlands venue	Non-Executive Directors Seminar	Eric Engstrom, Regulatory Changes John Goodfellow, Challenges Facing the Mutual Sector Richard Coates, Corporate Governance
Wednesday 9 September Ullesthorpe Court Hotel, Lutterworth	Compliance Officers' Forum	John Burns, FSA Retail Policy & Conduct Risk Team John will be speaking about the Payment Services Directive Other speakers and topics to be confirmed
Wednesday 23 September Mutual One Office Leicester	Team Management Workshop	Paul Turner Understanding team dynamics and roles, utilising leadership techniques including motivational communication approaches
Thursday 8 October Mutual One Office Leicester	Armed Hold-Up Safety Training Workshop	Steve Parker, SPA Consulting Increase vigilance of staff members and learn techniques that will minimise the risk of injury and trauma in the event of a raid
November – Date and venue to be confirmed	Treasury, Finance & Accounting Forum	FSA Speaker Discussion following publication of the FSA's final rules on consultation papers on liquidity and CP09/17

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

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

"3 events attended – 3 marked as excellent. Small groups provide more chance to resolve individual queries – greater access to trainers/lecturers in breaks."
Delegate, Stafford Railway Building Society

Thank you for taking the time to let us have your feedback following our events. Your views are important to us and help when planning future events.

"The workshop was illuminating, informative and interesting."
Delegate, Vernon Building Society

"Very competitive rate and FSA expert speaker very useful to give an accurate & authoritative commentary & views."
Delegate, Chelsea Building Society

"Paul Turner agreed to carry out some lead generation training for us at very short notice. He adapted the course content to suit the needs of the Society and all those that attended found the course fun, informative and motivational. As a very customer focused organisation, this has just given staff further confidence in how they approach our customers going forward."
Delegate, Teachers Building Society