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# Welcome!

## ...to the latest edition of Mutual Interests

In this issue we have some topical features for Building Societies, Co-operatives, Friendly Societies and Mutual Insurers along with details of developments in the collective action that we are facilitating for mutuals to enhance their competitiveness.

In our last edition of the e-zine the HMT publication "Reforming financial markets" was highlighted. This emphasised that the Government wants to promote competition and choice by strengthening the role of mutuals.

18 Directors, primarily Chief Executives, all from different Building Societies recently attended a Mutual One workshop on shared operating models. They concluded that there was a definite distinction between "shared services" and a "shared operating model".

Shared services was felt to be best summarised as business services obtained through working in co-operation to reduce costs and / or increase compliance, competitive flexibility or member value. A shared operating model was seen as where a firm voluntarily gives up a degree of operational independence to join a formally federated group of mutuals which have common sales policy, risk management and, to some extent, pooled capital as well as shared back office services.

The consensus of the Building Society Directors present was that undoubtedly the ability for mutuals to look at shared services was the more credible option of the two. There was also an overwhelming recognition that more collective action does present opportunities for economies of scale, reducing reliance on key individuals in areas where specific skill sets are essential, improving quality and service along with sharing good practice, and thus raising business standards within mutuals.

We are about to issue more details on future collective action opportunities that all Building Societies can participate in following the feedback at this event. Watch out for further details!

So, for more information on any of the shared services facilitated by Mutual One and how we can help your business, simply click on the 'contact us' page of our website [www.mutual-one.co.uk](http://www.mutual-one.co.uk). Meanwhile, I hope you and your colleagues find this edition of Mutual Interests informative and of real benefit and, as ever, if there is anything you want to talk to me about personally, please do not hesitate to get in touch - my contact details are shown below.

For those of you attending the Association of Friendly Societies Annual Conference in Peebles on 7 to 9 October 2009, please take the opportunity to speak to Ian Sirrs, our Director of Audit Services (article on page 2) and I in person - you never know we might even buy you a drink from the bar to help lubricate the throat as we discuss shared services for mutuals and other more important topics!

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# Risk Based Internal Auditing

With risk management failings being roundly blamed, at least in part, for the demise of some once great financial services institutions and the ensuing parlous state of economies and markets around the world, these days you just cannot ignore the subjects of risk management and risk based internal auditing.

So whether risk management is underpinned by sound business practice or necessary to underpin capital requirements, be that under Solvency II for Friendly Societies or the ICAAP process for Building Societies, having a proportionate, robust, embedded risk management process has to be an integral part of the corporate governance regime within any mutual organisation, irrespective of the size or nature of their business.

Like risks themselves, requirements in this area do not stand still and the proposals of the Walker Review and the Financial Reporting Council review of the Combined Code will shape further good practice in risk management frameworks within the corporate governance standards adopted across different mutual sectors. Consequently, a periodic independent assessment of the risk management framework is an essential area for consideration within mutuals.



Linked seamlessly with corporate planning; capital management; policy setting; process and systems design; and performance management; risk management should be at the top of any Board's agenda and afforded the necessary air-time.



Risks are dynamic and evolve with the external environment as well as every notable internal change event. It is therefore essential that risk management processes are dynamic enough to reflect the pace of change and truly embedded in the organisation.

The role of a well resourced, skilled internal audit function should link seamlessly with an organisation's risk management process. Effective internal auditing provides independent and objective evaluation of whether all relevant risks have been identified; properly assessed and prioritised. It also enables an independent assessment of whether they are mitigated to an acceptable level in line with the Board's risk appetite.

As part of this, internal audit's activity should be focussed on the highest levels of risks before mitigating actions in order to provide assurance that those actions are proportionate; reliably implemented and operating in practice. In effect, every risk based internal audit undertaken provides either an implicit or explicit sign off of the completeness of identification of risks; measurement of their importance and the mitigating of the risk to an acceptable level, reporting by exception any suggested risk and control improvements if that is not the case.

In order to be able to do that, the risk management framework itself has to be subject to regular independent evaluation. Only by constructively challenging the methodology which underpins the embedding of the risk management framework across the organisation can internal audit place any reliance on its robustness and utilise it in their subsequent risk based individual audits.

Through application of a breadth of experience and insight, an independent assessment of a mutual's risk management framework will add value by informally benchmarking it against those of peer group organisations and recommending good practice improvements. Not only will this help the Board and its Audit or Risk Committees ensure their organisation's risk management framework continues to reflect good practice and that it enables them to properly fulfil their responsibilities, it also provides an essential foundation for effective risk based internal auditing.

If you would like further details on any aspect of Mutual One's risk based internal audit support, then please contact Ian Sirrs, Director of Audit Services, by email at [ian.sirrs@mutual-one.co.uk](mailto:ian.sirrs@mutual-one.co.uk) or by calling him on 07816 812572.

# Collective Procurement

## - Own Insurances

In the last e-zine we highlighted the opportunities for collective activity and the benefits from adopting a shared services approach. One such area is collective procurement where, for nearly a decade, a number of Building Societies have been working together with Mutual One in negotiating and developing a collective policy for corporate insurances which is provided through a well known broker and underwritten by a major insurer.



Despite the collective arrangement to pricing, each participating Society has its own relationship with the broker and insurer to ensure the cover arrangements meet their own specific needs.

### The main benefits to this collective approach to insurances include:

- The potential to reduce premium costs;
- Wider levels of cover underwritten on a portfolio basis. This will deliver greater price stability and offers a less volatile approach to risk coverage; and
- Development of a profit share arrangement with a collective claims threshold.

### The types of insurances in this collective are as follows:

- Property – Buildings, Machinery, Stock, Business Interruption, Money, Computers;
- Casualty – Employers and Public Liability;
- Personal Accident and Business Travel;
- Motor;
- Directors and Officers – including Company Reimbursements and Employment Practice Liability;
- Crime – Employee Dishonesty and Third Party Fraud; and
- Professional Indemnity – Errors and Omissions Covers.

Any Society can join at any point in their renewal cycle after submitting a minimal amount of basic cover and risk profile information. The broker will assist in migrating from their existing relationships to the new policy with no disruption of cover and with little fuss.

The Newbury Building Society has just joined the Mutual One Insurance Collective and here is what Philip Relf, the Secretary of the Newbury, has to say:

*“The collective provides insurance for 13 Building Societies. This means they have a great deal of knowledge and experience of the sector and can provide benchmarking expertise to ensure that our cover is appropriate for our type of business. The team at the broker were extremely professional and delivered a bespoke insurance presentation that was right for us. We were therefore pleased to become the 14th member of the collective.”*

**So the principal remains that the more who participate then the greater the benefits! So, would you like your Building Society to be the next new participant in this own insurances arrangement?**

The benefits of shared services do not apply just to Building Societies. Consequently we have had requests from several other mutuals to establish a similar, but separate, Mutual One Own Insurances arrangement for their sector. This reflects the differing importance attached to certain cover types, such as public liability insurance for a Co-operative sector own insurances collective. Similarly a further collective for the Friendly Society and Mutual Insurer sector is being developed in line with the requirements of those sectors.

Finally, we are also progressing a collective for the Private Medical Insurance and Private Health Insurance that mutuals provide to their employees, again achieving similar benefits to that achieved on the collective purchase of own insurances by mutuals.

If you would like further details on, or to join, any of the Mutual One Insurance collectives, then please contact Andrew Gold, by email [andrew.gold@mutual-one.co.uk](mailto:andrew.gold@mutual-one.co.uk) or by calling him on 07730 718205.

# Mutual One's Compliance Toolkit Has Been Expanded!

*To assist you in the ever changing world of regulation the Mutual One compliance toolkit has been expanded further with Mutual One's experienced, qualified Compliance team now able to offer even more practical Compliance support offered to all FSA regulated Firms, including Friendly Societies, Mutual Insurers, Banks and Building Societies.*

## Mock ARROW Visits

The FSA's 'Advanced Risk Responsive Operating Framework' (ARROW) process enables them to assess the risks posed by Firms to their four statutory objectives.

An ARROW visit will usually be in the form of a review and assessment of various documents by the FSA and an on-site visit to the Firm's premises by a team of FSA staff, including interviews conducted with members of the Board and Senior Management.

Recognising the importance of preparation for such visits, Mutual One offer support by way of a 'mock' FSA visit that draws on experience and feedback from actual FSA ARROW visits.

The feedback below is from a Firm who recently had Mutual One assist by way of a Mock ARROW visit:

- **Chief Executive:** *Delighted with Mutual Ones immediate response to the Society's last minute request to carry out a Mock ARROW visit and very happy with the confidence it gave to the senior team.*
- **Head of Finance:** *Very assertive questioning which was a good guide, they answered all my queries promptly and helpful even after their visit when asked further questions.*
- **Compliance Manager:** *Good pointers on subjects to be aware of and documents to take into the interview. The questions asked by Mutual One were very similar to those asked by the FSA.*

For more information on how Mutual One can provide your Firm with assistance, including in preparing for ARROW visits; development of its risk assessment framework and introduction to InMarkets, a leading provider of Computer Based Training packages on a wide range of Compliance areas please contact Mutual One's Compliance Services Manager, Lesley Thacker, on 0116 289 4090.

## Risk Assessment Framework

The Board and Senior Management of Firms are responsible for identifying and managing the risks inherent within the business. To provide support in this area Mutual One can assist in the Firm's development of a risk assessment framework in line with 'best practice'.

**Paul Richardson, Secretary, Penrith Building Society commented:**

*"We are delighted with Mutual One's assistance in a recent Risk Management Workshop. Mutual One helped the Society to identify the risks it faced, be they external or internal. The risks identified were populated in a risk and control framework and this has proved extremely useful in providing a mechanism for the Society to prioritise and score those risks, and bring them to an acceptable level. The Workshop also proved to be a useful training exercise for the Society's Non-Executive Directors."*

## Compliance Related Computer Based Training

Finally many organisations highlight the increasing importance of being able to evidence keeping their employees up to date with the ever increasing range of regulatory training required, be that the provision of initial or periodic refresher training. Consequently Mutual One have recently partnered with In-Markets, an established provider of a range of computer based training packages, the cost per course view being more advantageous by working collectively than had organisations worked and negotiated in isolation.

**Chris Rowley, Director of Risk and Compliance, Melton Mowbray Building Society commented:**

*"After using an alternative supplier for a number of years we decided to carry out a review of what was available in the market. Having done so, we decided to switch to Inmarkets. The courses are well designed and do allow for some customisation. The unit course price was also very competitive which will lead to some cost savings. In our dealings with Inmarkets to date we have found them to be very efficient and helpful."*

# The 39 Steps to Good Governance!

On 16 July 2009, 'A Review of Corporate Governance in UK banks and other financial industry entities' was published. Authored by Sir David Walker, with his deep regulatory and banking background, the 137 page report contained 39 recommendations on good governance.

A consultative document until 1 October 2009, the Walker Review has the endorsement of both HM Treasury and the FSA and after its finalisation, due in November 2009, is expected to lead to formal changes in the Combined Code provisions in 2010.

Thus it represents a new benchmark in good practice in Corporate Governance, something which mutual organisations aspire to, whether or not it applies to your organisation from being embedded in the FSA's Handbook and guidance.

Consequently a summary on key recommendations of the Walker Review, which is essential reading for all members of the Board and Senior Management within mutuals, is as follows:

## 1. Board Size, Composition and Qualification

Five recommendations suggest Non-Executive Directors should have regular "business awareness sessions", greater support, a personalised induction and a training and development programme which is reviewed annually. NEDs should also expect to give a greater time commitment than has perhaps been normal in the past.

## 2. Functioning of the Board and Evaluation of Performance

Eight recommendations cover the need for the Chairman to commit to spend more time on the business of the entity, have better qualifications, more responsibilities (e.g. to ensure that all directors receive all information that is relevant to the discharge of their obligations in accurate, timely and clear form) and be subject to annual re-election.

It also reinforces the role of the Senior Independent Director and that the Board should undertake a formal and rigorous evaluation of its performance with external facilitation of the process every second or third year with an annual report published on governance, including work with shareholders.

## 3. The Role of Institutional Shareholders : Communication and Engagement

There are nine recommendations which, although less applicable to mutuals, nevertheless highlight the 'Principles of Stewardship' to be adhered to by institutional investors and fund managers. Consequently Friendly Societies and Mutual Insurers ought to consider this for any equity based investments they hold directly or through fund managers.

## 4. Governance of Risk

Five recommendations cover the creation of a separate Board Risk Committee and a Chief Risk Officer role; the latter who participates in the risk management and oversight process at the highest level on an enterprise wide basis and have a status of total independence from individual business units. The Board Risk Committee is expected to oversee due diligence appraisal on acquisitions and disposals before the Board takes a decision on whether to proceed and should also produce a separate report on the annual report and accounts.

## 5. Remuneration

Twelve recommendations suggest the remit of the Remuneration Committee be extended to the whole firm; "high-end" earners should be disclosed in bands; the use of long term incentives; fuller disclosures on pensions and cover better governance arrangements for remuneration consultants.

**Whether or not all the proposals of the Walker Review and the ongoing Financial Reporting Council review of the Combined Code will be included within the Corporate Governance standards adopted across different mutual sectors remains to be seen. However, key questions for Boards and Senior Management of mutuals on Corporate Governance at this time should revolve around:**

- Has a gap analysis been undertaken of the current governance arrangements against these proposals? What was its outcome and implication?
- Do the governance arrangements require independent assessment and recommendations as to how they could be adapted as a consequence?
- Has the Board and Senior Management debated these proposals, both amongst themselves and with other relevant parties (*including external facilitators and / or peers*) to confirm their understanding and feedback on the actions proposed?
- Where can Boards obtain ongoing training and development support relevant for their role?
- How do Boards best independently assess and benchmark the relevance and timeliness of the information they receive?
- Where can Boards obtain a formal and rigorous evaluation of its performance with external facilitation?
- How can Boards develop their Board Procedures Manual for these proposals, including revised role profiles for NEDs; a job description for Chief Risk Officers and updated terms of reference for Board Sub-Committees such as the Board Risk Committee?

**In summary, Mutual One is able to support mutuals on all of the above!** If you would like further details on the Corporate Governance related support available, please contact Andrew Gold, by email [andrew.gold@mutual-one.co.uk](mailto:andrew.gold@mutual-one.co.uk) or by calling him on 07730 718205.

# Seminars, Conferences & Staff Training

## Seminars & Conferences

Due to ever growing demand, we have formulated our programme of future events to focus on a cross section of the issues of the day facing mutuals. All our seminars provide an excellent opportunity to hear presentations from respected figures within the industry as well as to network with counterparts in similar organisations.

These include a **topical employee related** and **shared insurances seminar** at which 4 speakers will cover best practice employment related matters, including employee benefits and insurances. The seminar will be relevant to those senior managers with responsibility for Finance, Salaries & Pensions, Human Resources and Insurances within mutuals.

For Building Societies, we have just agreed with **Jon Pyzer at the FSA** his support for a seminar on **Policy Statement 09/16 'Strengthening Liquidity Standards'**, issued on 5 October 2009. This will be a follow up to the seminar held on the Consultation Paper on this topic in April 2009 which was attended by over 40 delegates. We will run this event at a Midlands based venue in late November / early December and will confirm the date and programme of events as soon as they are finalised.



## Staff Training

In addition to our seminars, we are running more workshops and training sessions. Several firms have signed up for the Armed Hold-Up Safety Training Course on Thursday 8 October.

### We also offer the following staff training workshops

#### Customer Care

##### Course Outline

Understanding, developing and delivering outstanding levels of customer service

#### Telephone Skills

##### Course Outline

Developing inter-personal skills to build rapport with customers over the telephone and thus deliver enhanced levels of customer service and increased cross sales

#### Sales - Effective Referrals

##### Course Outline

Providing face to face branch staff with the skills to refer customers for an interview with a specialist sales person i.e. Mortgage Advisor, Financial Planner etc

#### Team Management Skills

##### Course Outline

Providing an insight into motivational theories and practical application to motivate teams and achieve targets

#### Performance Coaching

##### Course Outline

Performance based coaching skills to support team management and motivation

#### Presentation Skills

##### Course Outline

Practicing and developing strong presentation skills including structuring, body language and visual aids

#### Time Management

##### Course Outline

Gaining a greater knowledge of time management techniques

#### Appraisal Skills

##### Course Outline

Reviewing effective methods of appraisal

#### Flexibility and Innovation

##### Course Outline

Consider how best to create a team culture of innovation

All the above are delivered by experienced, qualified trainers and can be held at either Mutual One's office in Leicester, or at an organisation's own premises (*where numbers allow*).



Workshops are typically attended by staff from a number of organisations which not only allows a great opportunity for sharing ideas and experiences but also helps to contain costs.

The content and range of training is reviewed on a regular basis to reflect attendees' feedback and requirements.

If you or any of your colleagues are interested in attending any of the events or training courses above, or wish to know more about them, please contact Karen Manger, Office Manager at Mutual One on 01756 705987; email: [karen.manger@mutual-one.co.uk](mailto:karen.manger@mutual-one.co.uk)