SPEED READ
- The mutual sector needs to differentiate itself
- Mutuals need to be operationally effective first
- Not all mutuals are the same
- Mutuals should look at offering better value propositions

ANDREW PORTER
is Vice Chairman of the Financial Services Forum.
Contact:
ap@thefsforum.co.uk

A WONDERFUL *MISSED* OPPORTUNITY

The Financial Service Forum's timely and thought-provoking seminar on *Modern Mutuality* dug deep into their strengths and weaknesses, reports ANDREW PORTER.

With the current extraordinary trust deficit in banks, has there ever been a better opportunity for the mutual sector to differentiate itself and bring its value proposition to life?

This was the topic debated at a highly illuminating seminar around mutuals. The panel and audience agreed there is indeed an opportunity, but some were fearful it might, yet again, be missed.

James Cope, Head of Financial Research at FreshMinds, reminded us of the unique ability of mutual ownership to bestow a culture and behaviours that are clearly different from a shareholder-owned plc model, and better aligned with today's consumers who are demanding more transparent corporate governance.

Meanwhile, Jon Hall, Chief Executive of Saffron Building Society, warned that non-mutuals are mimicking mutual behaviour in a number of ways, in terms of community identity, transparency, fairness, emotional engagement, rewards and loyalty schemes, to mention just a few. He added that like Barcelona FC, mutuals have to be operationally effective first, in other words good at football, before they can make mutuality mean something.

Hilary McVitty, Head of External Affairs at the Building Societies Association, celebrated the mutual model for its ability to think and invest over the longer term, rather than a quarterly reporting cycle, but was clear that most consumers have no understanding of what mutuality means.

Chief Executive of the Association of Financial Mutuals, Martin Shaw, believed that mutuals can innovate in sectors of the market where plc insurers and banks do not even wish to compete, and that the long history of mutuals as prudent and sustainable helps to predispose consumers to liking them.

Nick Blake, Head of Retail at Vanguard Investments, gave an impressive account of how mutual status allows Vanguard to deliver its lower cost promise by constantly redistributing its 'profits' in the form of lower TER charges to its valuable customers, to deliver a clear and sustainable competitive advantage.

And Alex Koslowski, Group Strategy Manager for Royal London, regretted that the life & pensions industry in the UK has largely demutualised. The opportunity to get mutuality right, he explained, is to focus on three strategies: **Memberisation** – to reinstate customer ownership as a driving force; **Benefixation** – to develop truly compelling customer propositions and **Communitisation** – to harness the power of democracy via technology.

However, one overriding conclusion was that not all mutuals are the same, so it cannot be true that all mutuals are equally good at being mutual.

ONE OVERRIDING CONCLUSION WAS THAT NOT ALL MUTUALS ARE THE SAME, SO IT CANNOT BE TRUE THAT ALL MUTUALS ARE EQUALLY GOOD AT BEING MUTUAL.

BETTER VALUE

Recent mergers among building societies, in order to produce multi-brand portfolios, are a prime example of the mutual model being diluted – with some small regional brands being used tactically, with little care for their original mutual values.

Unless mutuals can put their money where their mouth is and develop truly differentiated and better value propositions, consumers won't trust them any more than they trust financial institutions, and looking at their recent behaviours they certainly won't be able to tell them apart.

Gerald Gregory, a former Managing Director of Britannia Building Society, summed up the need for senior management attitudes to change. He said: 'In the old days we were delighted if the AGM only lasted 20 minutes. Today that's just not good enough. Member engagement is key to bringing the benefits of mutuality to life.' ◘

WHAT MEMBERS THINK

THE THING ABOUT MUTUALS

Forum members were asked the question:
'Can mutuality still deliver a truly differentiated customer experience, or is virtually every financial services brand now competing on customer-friendly "mutual" values?'
Their responses highlight a number of clear messages for the financial services industry.

STRIVE FOR A GREAT INTERNAL CULTURE

STUART HARPER
Managing Director, Electrum

The answer to the question is yes and no. Yes, mutuality can deliver a truly differentiated customer experience; and no, not every plc is competing on customer-friendly 'mutual' values, although some are.

But don't get me wrong, I don't think mutuality is the answer to our woes, as there is no silver bullet. I think the current problems in the financial sector have more to do with internal culture and controls than the distribution of surpluses and profits to shareholders.

Most highly successful companies don't make money by exploiting customers, staff and suppliers for the benefit of their shareholders – they make money by having great internal cultures and controls that encourage every individual to listen to, and work with, customers, staff and suppliers to deliver great products and services that meet the needs of their customers.

NEED FOR A CLIENT-FIRST CULTURE

ANDREW SKEEN
Senior Investment Writer, Europe, Vanguard Asset Management

The answer is 'yes', as long as the organisation strongly reinforces a client-first culture to its people. Assuming the culture is strong and every member of the organisation truly understands and believes that the interests of client/owners, managers and staff are exactly the same, mutuality can result in a customer experience that no other ownership structure could ever match.

Expressing 'customer friendly values' and actually being fully aligned with client interests are two entirely different things. Organisations will always tend to operate in the interests of their owners. If the owners are not also their clients – if the owners are say, shareholders – then the ultimate interests of managers and staff rest with the owners, not the clients. There are good companies out there that succeed in delivering excellent customer service and value for money, but the mutual ownership structure is the only way to fully align client and company interests. Structure is the only way to fully align client and company interests.

A CLEAR POINT OF DIFFERENTIATION

TOBY CLARK
Head of UK Financial Services Research, Mintel

There's absolutely no reason why banks can't out-perform the mutuals on customer service. First Direct has – as always - come out well in our latest brand research, as has Metro Bank. But beyond those two firms, our research suggests that it's Nationwide and the Co-operative Bank who tend to have the most committed customers and the best reputation for service. The Co-operative even managed a positive net promoter score – a small miracle for a high street financial services firm. But I'm not sure how much of that difference comes from genuinely superior service, and how much is perception. I bank with the Co-operative, and the service is fine but, if I'm honest, it's not noticeably better than my previous bank. Instead, I think that the great advantage to mutuality is that in a market where pretty much every brand claims that 'we're different from the rest', the mutuals do have a clear point of differentiation, and can show that they stand for something other than just profit maximisation.

A DEEPER RELATIONSHIP

ALASTAIR PEGG
Head of Brands & Marketing, Nationwide

At Nationwide, we explicitly target the provision of a significantly better customer experience than our high street competitors. And we still believe our mutuality gives us an irreducible advantage with that. For all the service improvements the banks have made, mutual values are not hard-wired into the way they operate. Their commitment to great service is essentially a means to an end – the maximisation of profits for the benefit of their shareholders. For us, a better customer experience is the end, the point of our existence. And it is something that drives all of us in Nationwide, informing every line of code, every product feature, every process and every contact with our customers. So, yes, in my view, mutuality can still deliver and, perhaps more importantly, sustain a truly differentiated customer experience – to cement the deeper, lifelong relationships we want with our customers.

THE STRENGTH OF MUTUAL VALUES

KEVIN PURVEY
Head of Intermediary Sales, Coventry Intermediaries

The building society model has one principal aim: the long-term protection of members' interests. In contrast, a bank exists to protect shareholders' interests. This stark difference sets mutual organisations apart and ensures that their values go much deeper than simply providing the service customers expect.

Mutuals can provide real value for money for their members because they are not compromised by maximising returns for shareholders. There is a responsibility to treat all members equally and fairly – a point that banks may regard as a constraint. Members have a say in how the mutual they own is run, which customers of a bank can't do. A member's complaint, because even mutuals get things wrong, may be looked at differently to one from a customer. So even though banks may have customer charters which promise to deliver high standards of service, they can't compete with the strength of genuinely applied, mutual values.

'THE MUTUAL OWNERSHIP STRUCTURE IS THE ONLY WAY TO FULLY ALIGN CLIENT AND COMPANY INTERESTS.'

ANDREW SKEEN

'MUTUALITY CAN STILL DELIVER AND, PERHAPS MORE IMPORTANTLY, SUSTAIN A TRULY DIFFERENTIATED CUSTOMER EXPERIENCE TO CEMENT LIFELONG RELATIONSHIPS WITH CUSTOMERS.'

ALISTAIR PEGG

THE CUSTOMER COMES FIRST

PAUL ALEXANDER
CEO and Co-Founder of Beyond Analysis

We've all seen – and, as customers, experienced – some of the biggest FS players jumping on the mutuality bandwagon without really thinking it through. The result: a poorly conceived idea that ultimately reduces customer satisfaction.

The key to success in the mutuality space is for organisations to stay true to their brand values and customer promise and consistently deliver them in all of their customer interactions. For example, First Direct has set a simple but effective standard that if someone calls them up, someone will always be available to help – no voice recognition software, no tapping in your card number. Other banks have attempted to follow suit and failed because they haven't kept true to the core idea.

It may sound like a cliché but customers should always come first. At Beyond Analysis, we believe that the only way to do this is by using data to put customers at the heart of your decision-making.

The most successful organisations have used their data to develop customer insight that, in turn, drives the entire ethos of their business – whether it's their staff, customer service or loyalty programmes. It's not about a strapline and it's not about a bandwagon; businesses should use data insight to make their values come to life in order to keep customers loyal and drive the business forward.

NO ONE SAID IT WAS EASY!

GRAHAM HALES
CEO, Interbrand

Mutuality as a term isn't well understood by consumers, and in a category where interest ranges from passive to downright negative, it's wrong to expect them to find out what it means. Claims that we operate in our customers'/members' 'best interests' shouldn't really feel like new news. In its own right, it's not enough and indicates a weakness of a brand if that's all there is to say. Better to think further forward to brand promises that are more differentiating and relevant to today's, and better still, tomorrow's consumers. Sadly, their needs and demands have never been more apparent or less satisfied; it's just their interest and relationship with the market that have subsided in the face of complex and unfulfilling products and sleep-inducing messaging. No one said it was easy!

GENUINE DIFFERENTIATION

RACHEL RAMSDEN
Head of Marketing, Skipton

Like the story of Cinderella, many financial services providers are trying hard to fit their, in some cases oversized, wart-infested and flabby, feet into the glass slipper of mutuality. This tells us that it is something worth having – for providers and consumers alike. In the aftermath of the global financial crisis, the 'how?' is as important to people as the 'what?', when it comes to the products and services they receive from various organisations, but most especially banks and building societies. The events of the past four years have thrust trust to the forefront of minds. If mutuality signifies honest, straightforward and rewarding interactions with customers – coupled with ethical business practices and an involvement in corporate decision-making – then it genuinely does differentiate in an era of social media-fuelled customer empowerment. They say that imitation is the highest form of flattery – the challenge for mutuals is to continue setting the agenda and demonstrating why they are so deserving of such a compliment.

TRANSPARENCY IS KEY

ELEANOR FIELD
Head of Customer Proposition, QMetric Group Limited

Customer experience is about meeting customers' expectations. While there is a growing trend for financial services brands to market customer-friendly 'mutual' values, it's the actual understanding of what these expectations are, plus the delivery through people and processes that achieves good customer experience. The importance of transparency in gaining customers' trust and loyalty shouldn't be overlooked either. Truly ingraining these principles throughout every level of a financial services business, that is ultimately beholden to shareholders' demands for a quick return, is an almost impossible task.
A mutuality could have a place for differentiation, as it has a head start in the transparency stakes. In some types of financial services institution such as insurance, mutual principles already exist by the very nature of shared risk. The challenge for financial services companies is to take that important step forward and embrace transparency to a new level. Is anyone brave enough? ►

'THE KEY TO SUCCESS IN THE MUTUALITY SPACE IS FOR ORGANISATIONS TO STAY TRUE TO THEIR BRAND VALUES AND CUSTOMER PROMISE.'

PAUL ALEXANDER

‘THAT’S BECAUSE MUTUALITY IS NOT WIDELY UNDERSTOOD – ITS BENEFITS AND VALUES ARE GENERALLY UNKNOWN.’

NICK HOWIS

DELIVERING THE MUTUALITY MESSAGE

NICK HOWIS
Client Director, redtag

The principles and practice of mutuality should be resonating among consumers – particularly in these times when the financial services sector generally is suffering from negative perceptions. After all, mutuality is a different and refreshing way of doing business. But delivering that message simply and clearly to consumers is a challenge. That’s because mutuality is not widely understood – its benefits and values are generally unknown. So it struggles to play a decisive role in impactful brand differentiation.

Consumer research carried out by redtag bears this out: people were neutral about mutuality until it was explained to them in more detail. And only then did it become a positive buying factor.

Where does this leave mutuality as a brand identifier? Competitors are certainly developing their own customer-centric values which are crowding out the mutual message – so mutuals have a fundamental challenge in finding their own distinct voice, to empower their own brands with the mutual proposition.

A BRAND APART

PEGGY YOUNG
Associate Director, Consensus Research

Good customer service is something that all financial brands strive to achieve – some more genuine than others. Mutuals are brands that people trust, they have often been around for years and their customers admire the fact that they remain as mutuals despite all the pressures of recent years, e.g. demutualisation frenzy and economic recession.

We work with a number of mutuals and there is something in the way in which they operate that still sets them aside from other players and it is not size-related either. There is no pressure to purchase – even after a simple enquiry – and they ensure that the customer really understands what it is they are buying before committing. If research finds that marketing literature is not communicating the way it should be, they berate themselves, make the changes and never challenge – the customer is always right. Yes – mutuals can, and do, still deliver a differentiated customer experience.

‘THE MUTUAL MESSAGE HAS NOT BEEN CLEARLY AND STRONGLY COMMUNICATED.’

FRANCES GREEN

A STORY TO TELL

FRANCES GREEN
Financial Services Research Director, Harris Interactive

Mutuals can deliver a differentiated service experience because of the close emotional fit between people’s own values and those of mutuals. Mutuality is about both service and how the organisation behaves and delivers on its promises. A couple of factors, though, inhibit mutuals. Firstly, the mutual message has not been clearly and strongly communicated. While support is strong among those who understand mutuality, many are unclear about what mutuality means and what makes mutuals different and, as a result, the benefits of mutual status are not fully realised. Second, mutuals need to underpin the emotional connection with rational reasons for using their services. Too often this does not happen and mutuals are perceived as less innovative than shareholder-owned institutions. Mutuals have a strong story to tell but it needs telling with confidence and conviction and with reference to both the rational and emotional aspects of decision-making.

GRASP THE OPPORTUNITIES

ADRIAN PORTER
Head of Strategic Research, Precedent

Historically the difference between mutuals and non-mutuals has been defined by the fact that mutuals listen to and interact with their members in order to refine their service provision, whereas the non-mutuals broadcast/advertise to their customers. This is to say that few non-mutuals allowed the consumer to drive the agenda for service improvement, preferring this to be driven by the business and anonymous R&D efforts.

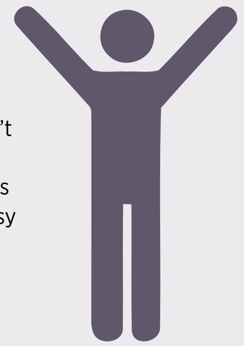
This is changing. Non-mutuals are embracing the digital space to openly engage with their customers. However, their approach is still largely to ‘broadcast’ customer service as a form of marketing. Mutuals, despite having the culture and authenticity to enhance the customer experience by demonstrably reacting to the needs of their customers, are being less progressive.

So while, for the time being, the social space for non-mutuals is still being controlled by marketers, there is an opportunity for mutuals to differentiate themselves by leveraging the unity of their internal teams and processes, to deliver customer-friendly services and experiences. ►

THE DIFFERENCE IS LEADERSHIP

DAVID JACKSON
CEO, Clicktools

Many so-called mutuals are outperformed on customer experience by plcs. The difference is leadership, not ownership. If the boss doesn’t believe in the value of customer experience, it won’t happen. And remember leadership is defined by action, not fancy words in a glossy corporate report or posters on a wall.



FOCUS ON THE DELIVERY

IAN BUCKINGHAM
Former banker & MD Interbrand Inside, author, founder Bring yourself 2 Work

A lesson the sector should have ringing in its ears is that the promises count for little if the people can't deliver against that promise. You can't advertise your way to authenticity. I don't believe the mutuals have cornered the market. There's room for a range of product and service propositions from high risk, potentially higher return through to steady-state performance. However, a brand gets itself into deep water when it projects one set of values to stakeholders yet patently delivers another. Employees experience the truth via the organisation culture, customers via their purchasing experiences.

Differentiation is all about delivery, not promise, especially for this sector and that means re-discovering and genuinely delivering some authentic heritage values at the customer interface, consistently, quietly and confidently while embracing the best of new operating platforms.

THE KEY TO SUCCESS

PETER G BIRCH
CEO, Abbey National, 1984–1998

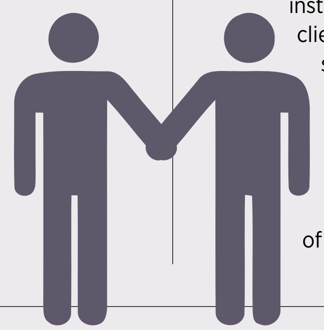
I was the CEO of the first building society to change status in 1989. Abbey National. There were no precedents and the whole exercise took more than two years to achieve. The Building Society Commissioner, Michael Bridgeman, wrote the 1980s Building Society Act and assured me that it was written in such a way that the hurdles of votes needed from members to change status were written to ensure no building society would convert. However, the hurdles were tested and this resulted in mutuals changing status and becoming plcs.

Abbey National decided to change status for the simple reason that its seven million members (customers) wanted a full range of banking services. Change involved raising capital to invest in services as building societies had no access to capital. There was little alternative if they were to retain their customers and provide them with the services they demanded. Other building societies followed in fairly quick time.

Mutuals are unable to offer a full range of services and their numbers continue to erode through mergers and failure. While there is huge public support for the mutual movement, competitiveness, lower costs and innovation continue to erode market shares.

The continued decline of the mutual is inevitable. Competitively priced products remain the key to success, together with a full one-stop range of services. Mutuals are finding it increasingly difficult to be competitive.

'IN THE MINDS OF INDIVIDUALS THE MUTUAL STRUCTURE DOES STILL OFFER AN IMPLICIT MESSAGE OF TRUST.' MATT BATTERSBY



IN THE NAME OF MEMBERS

PAUL NAPLETON
Account Planning Director, Omobono Ltd

In these web-savvy days of price transparency and brand cynicism, it's hard for any company to hold on to something unique, let alone in financial services.

As plcs copy the services, customer focus and benefits of traditional mutual societies (favourable interest rates, fees etc.), the boundaries have certainly become blurred. Given the low interest, low trust that generally exists in the industry, is it any wonder that consumers still want the option of a 'true mutual', rather than a big brand that might have a change of heart in the future? In a mutual, things are done for members – not for the share price or huge profits. So in these uncertain financial times, people still need something to believe in.

If company values are combined with good creative, an integrated marketing plan, internal communication and an engaging social strategy, then mutuals will still be around for a good while yet.

DELIVER ON CUSTOMER COMMITMENTS

MATT BATTERSBY
Senior Associate Director, H+K Strategies

Undoubtedly all financial brands are placing renewed emphasis on communicating their customer-centric approach. Whether this is through a customer charter, exclusive offers or tailored products, this process is designed to express an understanding of customer needs. While the industry as a whole may be moving in the same direction with their offering and messaging, in the minds of individuals the mutual structure does still offer an implicit message of trust which banks and other organisations have to work harder on to earn. At a time when there has never been so much scrutiny on financial brands, mutuals will, however, need to ensure they deliver on their customer commitments if they wish to maintain their privileged and hard-earned position in consumers' minds.

RESPOND TO CLIENTS' CHANGING NEEDS

IAN EWART
Head of Products, Services & Marketing, Coutts

The success of a business is best evidenced by how well a company understands its clients rather than by the ownership structure. We listen carefully to clients and tailor the advice and services that we provide to ensure it is relevant and suitable to meet their wealth planning requirements. For instance, with the internationalisation and mobility of clients, some like to receive information electronically, such as e-mail and social media, but others still prefer to receive printed documents. We are committed to demonstrating our understanding of the changing needs of our clients throughout their entire life cycle and while many clients may come to us because of the strong brand, they stay because of performance and service.

POSITIVE APPROACH

JON HALL
Chief Executive, Saffron Building Society

First, the 'reader beware' notice: as CEO of a building society if I believed that mutuality couldn't deliver a differentiated customer experience I'd stop right now. For me, mutual values are about providing diversity, representing 'your' interest not self-interest, taking a long-term view of value generation, recognising the value of human contact and demonstrating business is not just a numbers game but has social consequences. Mutual DNA is to add to a customer-friendly business, whereas a shareholder structure inevitably takes value out and away from customers.

There are some excellent examples of non-mutuals differentiated by customer values: 'building communities' such as Bendigo Bank in Australia, 'community lending' such as Zopa, or 'transparency' such as Banca Civica.

Building societies such as Saffron reflect these customer values, being the social side of money, but the true difference of mutuality is how membership positively touches our communities – what other financial services brands do this? In fact, what other brands do this?

A STRONG, CORPORATE CULTURE

MIKE RODERICK
Group Director, Illuminas

Mutuals currently outperform banks in terms of customer service according to independent research and the Financial Ombudsman Service. Research commissioned by the Building Societies Association suggests that mutual customers rate their providers better than customers of banks on such features as treating customers fairly, value for money, trustworthy advice, safety of deposits and support when in difficulties.

As mutuals are often regionally based, there is extensive community engagement at a local level which tends to strengthen relationships with staff and members and enhances the overall well-being of staff, leading to an engaging corporate culture for staff.

There is strong evidence to suggest that a strong corporate culture is required to ensure frontline staff meet and exceed customer needs. That is not to say non-mutuals cannot deliver this; some already do, but the majority have not found the right recipe for customer service success.

INNOVATION IN SERVICE REQUIRED

MATT WHEELDON
Consultant, The Value Engineers

It's pretty obvious these days that there isn't much consumer trust in high street banks, and this ought to be a golden opportunity for remaining mutuals to demonstrate their differentiation from the herd – yet none have. Theirs is a more social ownership model (very 21st century), yet they have been absent from the public consciousness recently, and don't appear to be waking up to this.

'EVIDENCE SUGGESTS THAT A STRONG CORPORATE CULTURE IS REQUIRED TO ENSURE STAFF MEET AND EXCEED CUSTOMER NEEDS.'
MIKE RODERICK

The surviving mutuals offer a customer experience no different from their banking competitors – and it's difficult to see what mileage there is in claiming to be different in ownership structure. Tellingly, Nationwide, standard-bearer for mutuality, no longer talks about this in advertising. UK mutuals have the opportunity and showcase their less 'corporate' customer experience – leaving space for service innovation (particularly online) going begging, and which could see them really start to meet their potential (and worry the banks).

AN ALTERNATIVE APPROACH

ADAM SMITH
Performance Director for Bank & Building Society Distribution

Mutuals have long been seen as a source of consumer excellence in dealings with their members. While other organisations have improved in this area, in part as a consequence of having to match standards set within the mutual sector, the alternative ownership of mutuals still creates a different corporate ethos. This does not necessarily create a better outcome by itself, but through the different constraints of ownership it does offer an alternative approach. This diversity of approach is key to the financial services industry as a whole to provide innovation and raise standards through a range of different business models and services.

FAIR'S FAIR

MALCOLM OLIVER
Editor, Argent, 2001–2006

The mutual movement has come a long way since the late 18th century, when the first mutual insurers and building societies were formed. Those early organisations had a simple, almost Marxist, philosophy of one for all and all for one, which was easy to realise because they were small and local. I researched a paper on pay and bonuses at Nottingham University in April, and it was striking that the growth of directors' remuneration in large mutuals over the past 20 years has matched pretty closely the much-criticised escalation seen in the plcs. Contrast this with most of the smaller and middle-sized societies, where directors' pay has been more closely aligned with that of staff (and, one presumes, members), and where in many cases the first thought as the credit crunch began was to suspend entirely – without any external pressure – their executive bonus schemes. That shows real mutuality – sharing fairly the bad times as well as the good. ◘

» These 60-Second Strategies are contributions we received from Members of The Financial Services Forum. Visit **www.thefsforum.co.uk**