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Building Societies – The Land that Digital Forgot?

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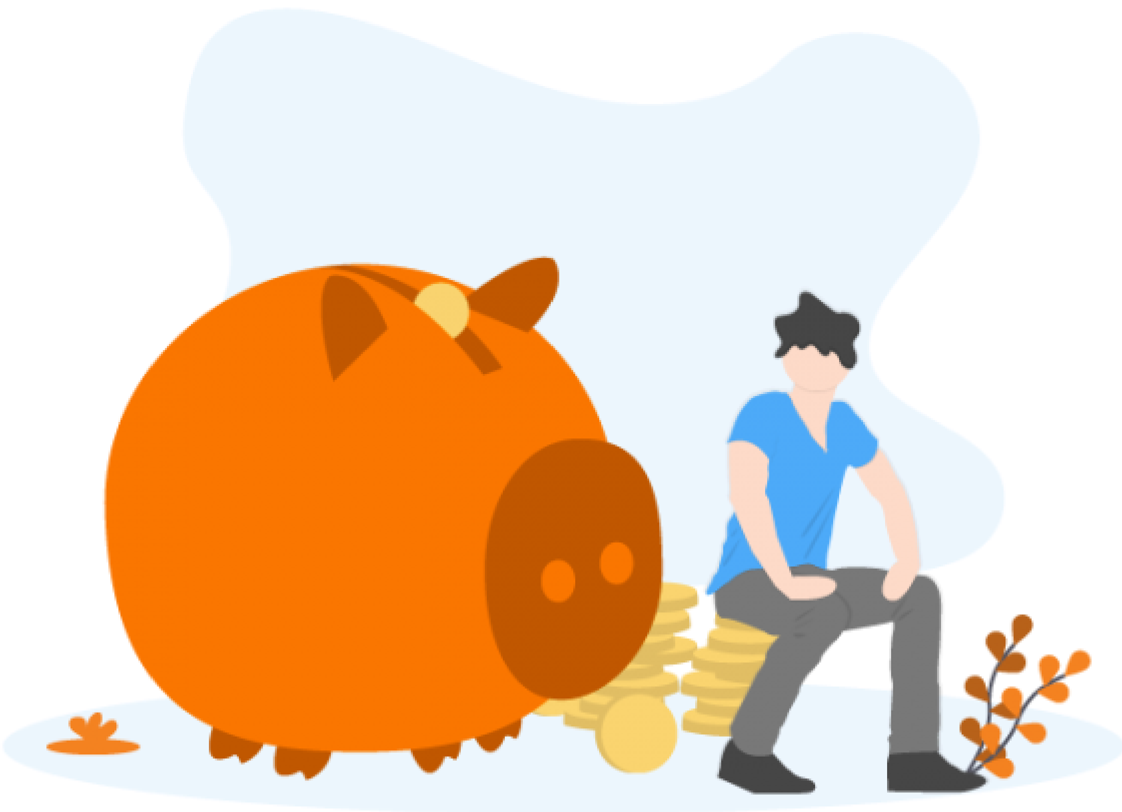

How can building societies embrace digital techniques to gain a real and sustainable advantage in today's fast-moving, competitive financial landscape? We recently explored the top fintech trends for 2020, how artificial intelligence is impacting banking and why consumers need innovation from their banks. Today, we're looking at Building Societies – the land that digital forgot?

The time: the year of our Lord, 1775. The place? The Golden Cross Inn in Birmingham. The event? Nae, not the infamous skirmish between British redcoats and the local militia which, incidentally, started a full-scale war. Nor do I speak of that exquisite, shattering performance courtesy of Muzio Clementi making his debut on the world stage as a harpsichordist. No. What I'm talking about is that other future-defining moment – the birth of what's today known as the humble Building Society.

Back then, Ketley's Building Society members paid a monthly subscription towards a central pool of funds, monies which were then used by said members to finance the building of houses. This construction, in turn, acted as collateral to attract more funding, which drove more construction … which … you can see where we're going. And on it went, right up to this day – a day in which the world is a very different place, but in which building societies continue to happily exist. For now …

We can't deny it. The hot fuss that exists around the digitisation of the financial services sector in 2020 has seen our focus mostly upon the banks and hungry fintechs, many of whom seem to be having little trouble coming up with ever-increasing financial innovations and future-proofing strategies that continue to make the headlines on almost a daily basis. Yet it's rare to happen upon a scoop that's proclaiming the rebirth of the building society in the digital age. That said, surely this niche sector has been quietly beavering away behind the scenes, tucking into the technology chocolate box and setting in motion its own digital transformation? A transformation that will meet the demands of a new, fickle audience, and thereby ensure its longevity? Let's find out.

Building societies – an overview

According to Investopedia, a building society is a "type of financial institution that provides banking and other financial services to its members (offering) mortgages and demand-deposit accounts: insurance companies are often major supporters"'.

The keyword there is members, in that what separates the building society from the bank is primarily that they're run for the *benefit of their customers,* customers who in effect own them. And this, dear reader, may well be the key to the longevity of the industry in a digital world – a customer base built on trust, and a portfolio of products and services that these customers need: aka, "the treasure that the fintech innovators and challengers are looking for ".

But is that enough? We're saying yes. Since fintech arrived, the finance industry has been mostly focused on current accounts and payments innovations – in other words, nothing to see here if you're in the business of building. But today, with PSD2, the arrival of open banking and emerging technologies no longer emerging but firmly entrenched in our lives, we're at last seeing building society products and services tentatively enter the digital fold: that's right – savings and mortgages are about to become a very digital business indeed …

Today, we're all part of a landscape that the European Central Bank has described as being 'over-banked' – *"those of us with open accounts with three or more depository institutions" Guilty as charged, your Honour.*

"Financially literate and technologically savvy, the Overbanked use sites like mint.com to get dashboard views of their accounts, and bankrate.com to shop for rates. They also mix-n-match offerings from various providers to create a customised, bespoke portfolio of financial services.

An Overbanked consumer will have a checking account with a larger institution for the convenience of ATMs or branch location; multiple accounts for savings with online banks offering high-yield, and an investment account with a brokerage like Charles Schwab, or fintech startup like SigFig or Acorns. The Overbanked are adept comparison shoppers who demand compelling incentives from financial institutions in exchange for their business. The Overbanked is a disruptive force in banking."

Disruptive is often good, but it can also be the proverbial wolf in sheep's clothing. We're all hurtling at great speed towards a digital world in which the technology that drives it is slowly but surely ensuring that the relationships brands are building with their customers are becoming more remote by the second.

While this undoubtedly delivers manifold advantages, becoming disconnected from real … connection, can be a double-edged sword. When, for example, did you last make an appointment with your bank manager, then turn up and enjoy a coffee over your discussion about your overdraft? (1997 and a hefty student overdraft for me – oh the good old days!). And don't get me started on the automation of customer service – all these hours, days and weeks lost in time, like tears in the rain …

Open Banking

According to last year's Unisys research, the single most important deciding factors when choosing a banking provider were technological innovation, security and using a trusted brand. Key takeaway? For building societies to rise to the challenges presented by the fintech revolution, taking advantage of and capitalising on open banking *must* be part of their long-term game plan. Indeed, that same survey told us that over three in five (61%) consumers surveyed believe that doing so is critical to attracting new customers.

The message is clear: opportunity knocks. The power of technology-driven incumbents, fintechs and savvy, eager start-ups, collaborating with already well-established community-based enterprises with an existing *loyal* customer-base could well herald in a compelling digital offering from these long-timers.

When it comes to open banking and access to data, the unique role that the building society already plays in its community means that taking advantage of open APIs is something that they're ripe for, allowing them to build on already-existing brand trust to create products and services that benefit both themselves and their customers. This is where open banking has a crucial role to play for building societies, particularly when it comes to innovation in delivering digital savings products and mortgages.

Collaborations can be just as fruitful between new players in the financial space, and traditional building societies. Newcastle Building Society last year became the first building society to launch a debt advice tool courtesy of open banking technology. By quickly pooling a customer's data, robust insights into their financial situation can be gleaned and assessed, and timely, valuable advice provided to those looking to take control of their finances.

Digital Disruption In Mortgages

Digital disruption across the building society sector in 2020 wouldn't be much of a disruption without including mortgages. As mortgages go, it's fair to say that most of us find the entire process both complicated and stressful – the paperwork, the time required, the delays we nearly all of us encounter …and that's just at our side of the house-purchasing table. For our mortgage providers, the old way of doing things can be just as complex and time-consuming. But as the new players and their innovations enter the market and the building societies themselves look to build upon the digital foundations they're putting in place, we can expect to see mortgage transformation picking up pace, driving interest and investment from collaborators ready to accept the challenge. But what does that challenge look like, and what can consumers expect when they're ready to sign on the digital dotted line in 2020?

Open banking, PSD2 and the digital mortgage

The mortgage sector hasn't been immune to the fallout of the 2008 financial crisis. And although building societies themselves largely avoided the reputational damage suffered by the banks, they've not been exempt from the challenges that the industry still faces today – unwieldy, lengthy processes, resource-heavy operations, reduced operational efficiencies, and a growing mountain of regulatory compliance requirements. No wonder it's buckling under the strain – you'd be hard-pushed to find any lender who isn't looking to optimise their mortgage operations.

The way forward? Why, digital of course – powered by smart collaborations that utilise the best that open banking technology has to offer. And the returns? Smart, efficient, cost-effective operations that meet the customer where they are and pave the way for a profitable future.

As things currently stand age, kicking off the mortgage process is often complicated, unreliable and confusing, and that's just finding out if we actually *qualify,* never mind the actual application itself. DIPs (decision-in-principle), affordability calculators and confusing rates tables are incapable of providing us with any kind of a reliable, holistic view of whether or not we qualify for a mortgage, and on top of that, getting any dependable information around the amount we can borrow, and who best to borrow it from can be just as vague. Bottom line? It's a minefield!

This year, then, expect to see the unwieldy, complex mortgage process transform before your eyes, thanks to open banking and the humble API. How come? Access to the financial data of customers will undoubtedly bring a far smoother, quicker mortgage application – from start to finish. Pre-qualification becomes a breeze, as open banking technology screens out unsuitable borrowers and vastly reduces the often time-consuming, costly resources required at the building society's side.

But it's not all about the lender … this seemingly simple automated process will also make this first step in the customer's mortgage journey far quicker and easier; no more searching for bank statements, payslips, monthly commitments, or evidence of income and outgoings. Innovative data mining and complex process automation solutions will mean that at last, maybe mortgages don't have to be something we definitely don't look forward to. So what will the digitally re-imagined mortgage courtesy of open banking look like? How about:

- Enhanced automation across complex processes: reducing friction at the consumer side, and streamlining processes at the lenders side
- The delivery of personalised mortgage products and services powered by access to customer's financial data – increasing customer loyalty and engagement and driving continued innovation
- A much-improved customer experience, driven by data insights and personalisation
- For the building society, reduced processing costs, greater data accuracy, and reduced operational and fraud risks.
- The ability for consumers to easily switch mortgage providers.
- Increased choice for consumers, coupled with the ability to decide how and where they interact with products and services (at home, by smartphone, or in-branch with a virtual assistant)
- Timely, relevant, *valuable* advice and recommendations, driven by data insights – mortgage comparisons, partner services

Digital Transformation In Savings

The term 'building society' might have a traditional ring to it, but the industry knows that it needs to look beyond mere competitive rates to innovate and thrive over the long-term. Being able to offer a diverse digital portfolio of savings products and services is one area where longevity lies. The recent Unisys survey we mentioned earlier told us that:

- 86% of consumers under 35 said they would like a simple, intuitive digital current account offered by a building society
- A huge 46% of those surveyed brand trust was one of the main driving factors behind opening a building society account.
- Consumers are *seven times* more likely to open 'digital children's accounts' with a building society than with a neobank
- Customers would be more likely to consider opening a children's account with a building society than with non-building societies (68% vs 46%)
- and our favourite … an overwhelming 74% of consumers said they would be interested in an intuitive digital current account, while 46% of respondents would be more likely to open

such an account with a building society than with a bank (coming in at 38%) or a digital bank (a paltry 7%).

The future, my friend, is savings – but can the humble building society compete on an even playing field with upstarts Monzo, Starling, Mint and the like? Yes!

To consider: "Often, building societies succeed with the younger age group where parents and grandparents open savings accounts for their children and grandchildren, but we often see a decline in this customer base when they reach the ages of 12-18," commented Simon Healy, Industry Director for Unisys Financial Services, EMEA. "Working with Unisys, Monmouthshire Building Society is adopting a new digital banking platform that will enable the Society to grow its membership, while providing both existing and future members with a multi-channel offering. It's important to be able to offer a limited current account to the teenage demographic so that building societies don't lose them when they want financial freedom; and at the same time attract new, younger members through innovative offerings."

Emerging technologies: Applied well, all these technologies can deliver significant benefits both to our businesses and to our members. They can enable better customer experience: member insights, support and solutions; and greater speed, accuracy and efficiency in regulatory reporting. But all this comes with a health warning: Before giving artificial intelligence and machine learning free-rein, we must ensure that the decisions these programmes make do not result in new risks and expensive regulatory breaches.

Building Societies & The Future Of Retail Banking

Looking ahead and thinking beyond the much-discussed millennials, building societies need to think carefully about their next generation of customers. Again, their history, structure and community-based roots can help them reach, albeit through digital channels, the Gen Z customer, who according to recent research by McKinseys, are much more likely to make purchasing decisions based on the ethics of a company. This is clearly a position that fits well with the building society mission statement.

Building Societies are well positioned to leverage the benefits of technology to better serve their existing customers and gain new ones, allowing them to largely skip the hurdle in winning over customers in what is a largely trust based relationship. They already have what the new challenger banks seek (customers and trust) a portfolio of profitable and necessary products (eg savings and mortgages) and the benefits of the democratisation of access to technology. This should position them as worthy alternatives to both the incumbent and new challengers.

Future:A 2018 survey by Unisys Corporation exploring the attitudes of UK consumers towards their building societies found that prioritizing innovation and providing new services are key to reaching a younger demographic, which is essential for long-term, sustainable growth. In fact, digital offerings that could rival challenger banks were cited as the key driver of choosing new savings and current accounts. Surveying over 300 consumers in the UK, the most important deciding factors when choosing a banking provider were technological innovation, security and using a trusted brand.

The Building Society Of The Future: Seizing The Digital Opportunity

Ambitious fintechs are very good at creating innovative financial solutions – but often these solutions are for problems that customers don't really have. The good news for building societies is that they're in a very strong position to create real value through open banking functionality by starting a dialogue with their customer base – one already used to communicating with them – to find out what they really need and want.

Created to enable the pooling of community resources so that members could purchase a home (crowdfunding in the pre internet age), building societies have a clear opportunity to deliver innovative mortgage products and improve the processes of the existing product portfolios. As noted by Director of Digital & Innovation, Ant Warrington, at Yorkshire Building Society, 'digital disruption is *only just starting* in the mortgage and savings market…For years, fintech challengers and innovations have been focused on current accounts and payments. Now, we're seeing mortgages become essentially a digital business.

Conclusion

Building societies are in a prime position to design and develop digital products and experiences that satisfy the needs of the next generation of financial consumers. Stepping back in time, building societies were the original innovators when it came to delivering new financial products and services. Given today's increasingly competitive landscape, many building societies will be eager to leverage the awesome benefits that digital transformation has to offer. The original concept of pooling member resources to buy property, even by today's standards, would be considered highly innovative and a serious and highly disruptive threat to established players in the market. Historically, building societies have differentiated themselves from larger, better established players in the market, based on their ability to create intimate relationships with their customers that meet their exact financial requirements. Fast forward to the present day and very little has changed. This ability to provide highly personalised levels of service, combined with pragmatic digital innovation and a healthy appetite to disrupt the status-quo, provides building societies with a fantastic platform to succeed in the future. If you're a building society exploring the benefits of digital transformation, or seeking to bolster an existing digital initiative, we'd love to hear from you – contact the Waracle team today to kick-start the conversation.

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