

FINDING THE SWEET SPOT:

HOW BUILDING SOCIETIES NEED TO STRIKE A BALANCE.





EXECUTIVE SUMMARY

For building societies, the rise of the digital banking environment changes not just their strategy but also their fundamental nature. How do organisations traditionally rooted in – and owned by – their local communities fulfill their vision in a society dominated by the Internet?

Politicians, regulators, product providers and others all have their own answers to this question, but the verdict that really matters is that of the members: the building society customers.

Building on a relationship with building societies and their customers across the country that spans decades, Legal & General's survey of 1000 UK building society members finds an audience that is wedded to both branches and online services.

Building societies remain heavily dependent on branches for product purchases.

Half (50%) of customers opened their savings account in branch against only 37% using the building society's website.

45% bought their mortgage in branch, against 19% online.

47% bought life insurance face to face in branch, and just 13% through the building society's own website.

43% bought home insurance in branch, against 30% online.

“Building societies are at the heart of their communities, but the way their customers want to interact going forward will change. Whilst branches have been at the core of distribution, customers are telling us more and more that they want to buy their products and services online as well as through the branches.”

Mark Holweger, Managing Director,
Legal & General Insurance (Partnerships)

Most customers regularly pop in to a branch. In our survey, a quarter (24%) said they visit monthly, 13% fortnightly, another 20% once a week or more: 57% overall visiting at least once a month.

It's not surprising, then, that more than half – 56% – say the branch network is important or absolutely vital to the local community. Four out of ten also say they would definitely or possibly move to a building society with a local branch if their provider switched to an online-only strategy. Just three out of ten, by contrast, were confident they would stay put.

Yet building societies' online services are equally vital. Already, the 18 to 24 year olds that represent the industry's future customer base are more likely to have opened savings accounts through the building society's website than in branch. And, while customers still use branches regularly, they're even more likely to log-in: 62% say they log in at least once

a week, and 84% use their building society's website at least once a month.

Most rate these services highly, with three quarters giving them a score of eight out of ten or more. They're also going to be increasingly important revenue generators.

Insurance, among the most commoditized of financial services products, has long been the bread and butter of price comparison sites, for example. Yet at the moment the branch is still the most common sales channel for holders of life (47%), home (43%), critical illness (38%) and income protection (33%) insurance. The highest proportion buying through the building society's online platforms – for home insurance – is just 30%. For life insurance and income protection the figures are just 13% and 9%, respectively.

This is ripe for change. When asked how they would like to buy insurance, 42% say they would prefer to buy online through the building society's portal, while just 30% want to purchase in branch. It's a profound turnaround, which building societies will need to capitalise on – or others will.

Overall, the future for building societies is neither going to be online nor in branch, but both; indeed the distinction between the two may to blur in some cases. The survey illustrates the significant challenge building societies face in devising strategies for a digital future. But it also illustrates the opportunities that remain to be grasped. We hope that the findings help building societies and their members as they chart a way ahead that will work for everyone.

INTRODUCTION

Building societies are often regarded as having a different approach to the banking business model. The mutual structure is seen to provide an antidote to short-termism – and a more local, accountable type of financial services provider.

In a House of Commons debate on bank closures in 2016, MP David Lammy lamented building societies' declining role in local communities. "That local proximity and that different structure were lost and now we have to reinvent it," he told the house.¹ He was half right.

On the one hand, it's pretty clear that the building society sector is thriving. In the last quarter of 2016 these organisations were responsible for about a third of all new home loans.² The balance of savings held by building society members, meanwhile, increased by £18.5 billion over the year – up 79% on the amount in 2015.³

"Building societies are absolutely at the heart of the UK communities. We have 44 building societies outside London, many of them very much the local, regional building society."

Robin Fieth, Chief Executive,
Building Societies Association

And members continue to feel the benefits of mutualism, with building societies, on average, offering some of the best rates for both savers⁴ and borrowers alike – not just competing with, but often besting the banks.

But building societies do need to keep reinventing themselves to continue to thrive. As distinct as they are to banks, they face many of the same pressures. Confronted with squeezed margins, an uncertain economy, regulatory pressure, increasing competition, and changing customer behaviours, they face tough choices.

That's perhaps particularly so when considering the future of their branches. While building societies have been slower to close branches than some banks, the direction of travel is often the same. Already this year, Yorkshire Building Society, the second largest in the country, has announced closures, citing an "increasing desire among customers to transact digitally rather than on the high street".⁶ So too has Leeds Building Society.⁷

At the heart of the business society model is customer ownership. It's to them we must turn, then, to understand the impacts of such moves and the best way forward.

Legal & General has deep relationships with building societies across the country, both directly and through our Mortgage Club. Our partnerships are with some of the country's largest building societies, and some of its smallest. We deal with thousands of building society members every day, helping as they purchase homes, save for the future and take insurance to protect themselves and their loved ones.

To add to this insight, Legal & General commissioned this research, built on a survey of 1,000 building society customers. We asked about their experiences, preferences, practice and demands.

When a local library was under threat of closure, Newcastle Building Society saw the perfect opportunity to innovatively extend its branch network – and worked with Stockton Borough Council to secure the ongoing provision of a valuable community resource.

The high-street Library in Yarm, Stockton-on-Tees was developed in partnership with Newcastle Building Society to include space for a small counter and two private meeting rooms for the building society branch which offers a full range of services to the Society's members and library customers. The local community has benefited as people can now deal with their finances in the warm and friendly environment of a local library. It has increased the footfall and use of the Library services and it has provided local residents with an additional financial services facility. By increasing the use of the Library and maximising the potential of its high street location, the partnership has created a hub to foster even greater community connections.

Newcastle Building Society

We want our branches to be member hubs; not purely transactional spaces. We use our branches not only for charity fundraising events (cake is always a welcome addition!) but also to raise awareness and as a point of help, such as Dementia Friends talks and hosting the Ipswich Housing Action Group to talk about what they do, answering queries from people who may need their help or to signpost to other local support agencies. Proving very popular are our branch hosted member events, part of our All In member proposition, which makes membership more meaningful. Whilst many events take place out and about in Suffolk, we have held talks and workshops, such as flower arranging and cake decorating, within the branches themselves.

We believe in the need for branches, which is why we are investing in new and improved premises for two of our locations. Each of these are being carefully designed to improve accessibility of services, and increasing member and staff comfort. In Ipswich we are excited to be working on new flagship premises in a Grade II listed building. Originally built for Parr's Bank in 1901, we were delighted to give behind the scenes access, whilst still a construction site, for the popular Heritage Open Days initiative in September – with a maximum capacity of 25, we managed to welcomed over 400 guests. Once completed this new branch will be an accessible, welcoming space with its own members lounge, a flexible space which can be used for hosting our popular member events and welcoming charity and community partners.

Ipswich Building Society

1. <https://www.theyworkforyou.com/debates/?id=2016-06-30a.527.0>
 2. <https://www.bsa.org.uk/media-centre/press-releases/lending-and-savings-up-despite-economic-uncertain>
 3. [ibid](#)
 4. <https://www.bsa.org.uk/media-centre/press-releases/savers-get-a-better-deal-from-building-societies>
 5. <https://moneyfacts.co.uk/news/mortgages/building-societies-winning-the-mortgage-rate-war/>
 6. <http://www.ybs.co.uk/media-centre/branch-product-brand-changes.html>
 7. <http://www.leedsbuildingsociety.co.uk/find-a-branch/branches/changes/>

A CLOSE RELATIONSHIP

The relationship of most building society customers is multi-faceted.

In most cases (79%) the member also had a savings account. One fifth (21%), meanwhile, had a mortgage, home and contents insurance, or both. One in eight (12%) had life cover, 5% critical illness insurance and 6% income protection. A similar proportion (5%) had estate or funeral planning products.

And all these relationships were more likely to be born in the local branch than anywhere else:

Half (50%) opened their savings account in branch against 37% online directly with the building society, and the remainder either through a financial adviser (9%) or an online aggregator (4%). Likewise, 45% bought their mortgage in branch, against 19% online, a quarter (25%) through a financial adviser and 11% through an online aggregator. 47% bought life insurance face to face in branch, 23% with a financial adviser, 17% with an online aggregator, and just 13% through the building society's own website. And 43% bought home insurance in branch, against 30% online.

Reliance on branches was less pronounced for critical illness and income protection, with about a third (38% and 33%, respectively) buying in branch, with similar reliance on financial advisors (a third in both cases). Nevertheless, this was still well above the proportion buying direct from the building society online, however: 27% for critical illness and just 9% for income protection.

The branch, then, plays a major role in origination.

"We tend to have queues that are smaller than the banks so while we talk about digital and smartphone technology, our customers can rely on the fact they can walk into a branch and can pretty much be seen straight away by a customer advisor."

Amyr Fazal, Chief Executive, Penrith Building Society

It also plays a big part in the ongoing relationship, with the majority of building society members using a branch regularly.

In our survey, a quarter (24%) said they visit their branch monthly, 13% fortnightly, another 12% once a week, 5% more than once a week and 3% daily. In total, 57% of customers go once a month or more. Moreover, it's not just older members popping in: in fact, the proportion of those aged under 35 visiting once a month or more is higher than average, at about two-thirds (67%). As other findings do (see below), the survey reflects a millennial generation strongly supportive of the community role building societies play.

"As a regional building society being in the community is the very essence of what we're about in helping people save, helping them own their own home, and working with them in a way that's very close and very personal. Being in the community, being physically present, is really important."

Andrew Haigh, Chief Executive, Newcastle Building Society

Among those using branches, rather than going online, almost four in ten (38%) say it's because the customer service is better; a quarter (26%) say it's easier; and a little under one in five find it quicker (19%) or value the role of the branch in society (17%). Overall, more than half – 56% – say the branch network is important (37%) or absolutely vital (19%) to the local community. Just 6% say it's not important at all.

A DIGITAL FUTURE?

None of this diminishes the importance of digital channels, though. Building societies can no more rely solely on their branches than they can count on their website to meet all customers' requirements.

While they may visit the branch more often, younger members are already much less likely to buy in branch than other age groups. Just 36% of 18 to 24 year olds applied for their savings in branch, for example, against 40% using the building society's website; and only 17% (less than half the average) used the branch for their mortgage, while half were split evenly between using the building society's website or an online aggregator.

This is unsurprising given the importance of online channels in the financial services industry. Overall in the market, three quarters of car insurance buyers purchase through online channels, according to Finaccord.⁸ Even where the purchase is not online, price comparison websites, online advice sites and blogs play a huge role in informing buying decisions.

"Building societies do need to keep up with digital services, dealing with people online and through social media. I don't think it has always been at the forefront of their mind, but that is changing and it is changing rapidly."

Barry Kellegher, Regional Partnership Manager, Legal & General

Reliance on online platforms was slightly lower for the 25 to 34 year olds, but again the same pattern can be seen: the under 35s were less likely to use the branch than average and more likely to use online methods. Given that millennials are already now the largest group of consumers in the UK,⁹ the trend online is likely to continue.

Moreover, for many customers the preference for branches for on-going transactions can be a matter of necessity as much as choice; a common reason given for using branches was simply the need to pay in cash or cheques.

"It's a very different proposition if you are running a savings and loans business compared with running a transactional banking business. As a savings member, I don't really want to check my balances five times a day and I am not going in to do transactions, so the digital solution is very different."

Robin Fieth, Chief Executive, Building Societies Association

Where online services are available they are well used. Seven out of ten say they use their building society's online platform often, with 62% saying they log in at least once a week, and 84% use it at least once a month.

They are also well regarded. Asked to rate the quality of their building society's online platform from one to ten, three quarters (75%) give a score of eight or more, and just 8% five or under. That suggests strong support for building society's current online strategies, notwithstanding continued branch use.

Maintaining that support going forward will be key. Asked what other services they'd like to see offered through the online platform in future, customers expressed interest in a range of products, but particularly savings products (60%), financial advice (36%) and insurance quotes (32%).

8. <http://www.insurancebusinessmag.com/uk/news/breaking-news/uk-insurance-aggregators-hit-peak-levels--study-38777.aspx>

9. <https://d25d2506sfb94s.cloudfront.net/r/53/Millennials%20and%20Banking%20-%20YouGov%20Report.pdf>

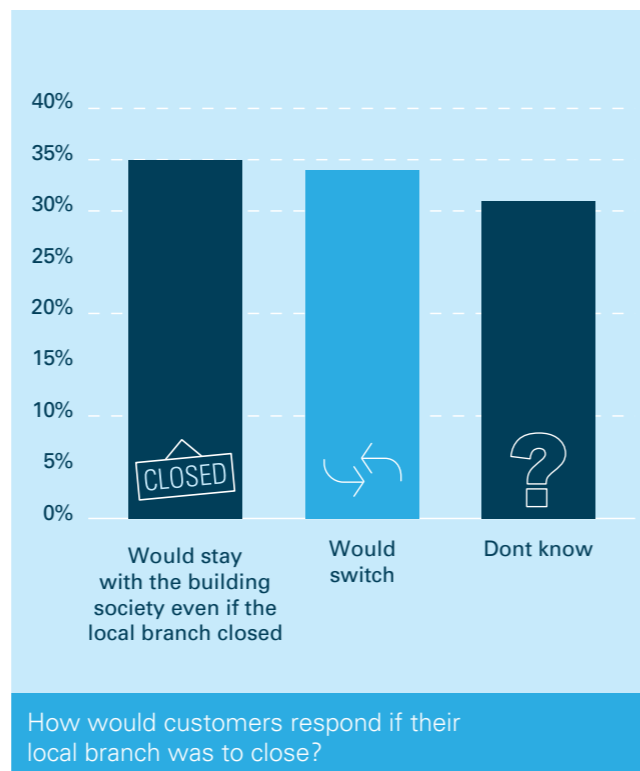
MIXED MESSAGES

As much as younger buyers are comfortable with online services and keen to see them expand, building societies' memberships also include a hardcore of technophobes: 7% find online platforms too complicated, for example; 11% don't trust them.

More significantly, branch closures remain divisive among the overall customer base. Four out of ten (41%) of all those questioned say they would either definitely (18%) or possibly (23%) move to a building society with a local branch if their provider switched to an online-only strategy. Another 18% would trial the online platform before deciding whether to move. Fewer than three out over every ten (29%) would be guaranteed to stay put.

"I don't think there will be any one single channel that customers want to interact with the building society through. They may want to start operating online, then go through to a contact centre, but actually finish it in a branch."

Mark Holweger, Managing Director,
Legal & General Insurance (Partnerships)



"There is a stereotype that older borrowers would prefer to do business in-branch and that younger consumers would prefer to use an app or go online, but that's not necessarily proven when you look at the research. Many young people really need that support of going into a branch and having somebody to talk to, and that's similar across the different demographic groups"

Robert Thickett, Mortgage Policy Adviser,
Building Societies Association

This is not a simple demographic split, either: Almost as many 18-24 year olds (39%) as other age groups – and more 25-34 year olds (49%) – say they'd definitely or possibly switch if their building society went online only. Both age groups are also slightly more likely than average to say the branch network is vital to the local community.

The finding underlines that there are no easy answers for building societies. Reinvention will neither mean a simple online nor offline future. Indeed, in some cases it may blur. Other sectors are increasingly embracing digital resources, such as tablets in their high street locations for customers to use: customers can benefit from the ease of digital channels, while having the support of branch personnel where needed.

Making greater use of branches will be key. That could enhance building societies' community role – offering free WIFI and café spaces to encourage people into branches, or setting up other community spaces available for members. But developing digital channels will be no less important.

For building societies it will be a constant rebalancing between the two as these important institutions try to meet members' changing – and varied – demands. It will also mean discovering how their distinctive social purpose can be embodied in their online offerings as much as their branch network.

TAKING COVER: A LOOK AT INSURANCE

The importance of a multichannel approach is clear when it comes to insurance.

Most customers say their building society offers at least some sort of insurance: Two thirds know their society offers home insurance; half say it offers travel insurance (53%) or life insurance (50%). Many also offer motor cover (41%), income protection (30%) or critical illness cover (29%). In one in nine cases (11%), though, members say their building society doesn't offer insurance.

Asked what products they would like their building society to offer, meanwhile, the most popular products are, perhaps unsurprisingly, home insurance (29%), travel (17%) and motor insurance (14%). Life insurance (11%), income protection (7%) and critical illness cover (4%) are all less in demand.

Given the well recognised "protection gap" that exists as a result of under-insurance in these areas,¹⁰ it's perhaps not surprising that customer demand for protection policies is limited. This is, however, potentially an area where building societies' distinctive ethos argues strongly for a role in offering these products. The organisations enjoy a degree of trust and acceptance of their social purpose that means they're uniquely placed to promote greater uptake of protection insurance – especially in the mortgage process.

Overall, about half of those surveyed said they have already bought (36%) or plan to buy (14%)

"The building society environment is an absolutely natural place for insurance products and services. We're having conversations with customers about the things that are important to them, and particularly when we're talking about home ownership, that naturally leads you into a conversation about insurance products."

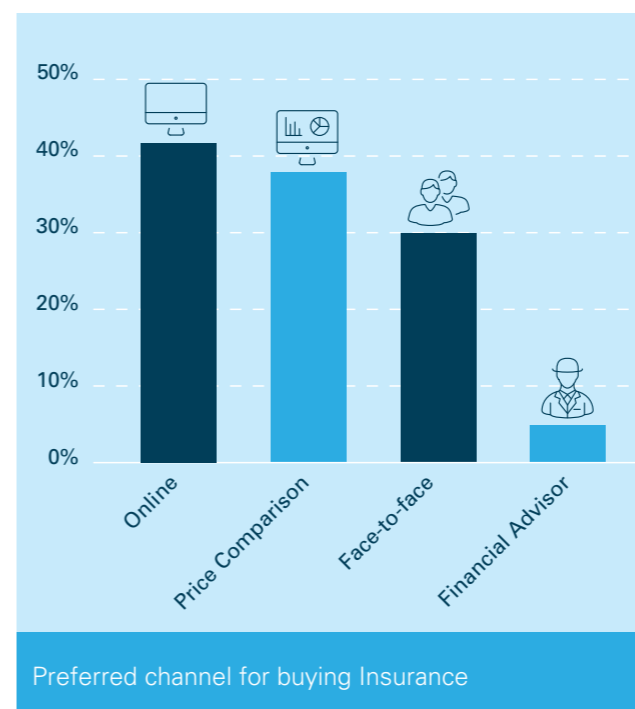
Andrew Haigh, Chief Executive,
Newcastle Building Society

insurance from their building society. Only 2% say they wouldn't buy insurance from a building society.

As with opening accounts, purchasing insurance is most usually done in the branch: Almost half (47%) bought their life insurance face to face in branch and another quarter (23%) in person with a financial advisor. Just 17% used an online aggregator and 13% bought through the building society's website. Similarly, 43% bought home insurance in branch, compared to 30% online. With critical illness and income protection, too, the branch was still more likely to be used than the building society's website.

"Building societies need to talk to customers in branches, online and in places where customers are actively looking for insurance. Otherwise, customers will go somewhere else, and there are a plethora of options in the market now."

Maitham Mohsin, Senior Product Manager,
Skipton Building Society



But this is not how members necessarily want to buy insurance in future. 17% say they plan to buy home insurance from their building society in the next 12 months, while 12% plan to buy life cover, 7% income protection and 6% critical illness cover. Many of these would like to do so online.

Overall, asked about their preferred channels for buying insurance, 42% said online directly with the provider and 38% named price comparison sites. Just over a third opted for a face-to-face channel, whether direct with the provider (30%) or with a financial advisor (5%). The preference for online channels was also true for older buyers as much as younger ones, with 40% of the over 55s wanting to buy through the building society's website, against 29% looking to buy in branch.

In a good proportion of cases, it seems members don't know about or aren't being offered the opportunities they want to buy insurance online. Discussions about life insurance and protection cover occur, rightly, in the course of the mortgage purchase process. Too often, however, they are neglected at other times, and appetite for online routes to protection are not satisfied by building societies themselves. Addressing that could, the research suggests, more than triple the proportion buying online for some classes of insurance, and increase it by at least a third in most others.

This is the opportunity for building societies in a multi channel future. It comes with a concurrent danger: that if building societies fail to offer online offerings or make customers aware of these, customers may well go elsewhere.

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