



Why a shared service provision and platform approach will help Building Societies to improve their **Customer Experience** and enable business process modernisation to happen

Introduction

A significant amount has been written recently around the challenges faced by Financial Services organisations as a result of a changing competitive landscape, increasing customer expectations, regulatory change and the wide reaching impacts of the COVID-19 pandemic. Many TechMarketView readers will have read the recent article by Jon Davies on the 30th November which focused on the impact to UK Building Societies and the challenges they will face in the coming years.

Building Societies are caught in almost a perfect storm by changing market dynamics driven by technology innovation. They are having to address not only macro-economic challenges but the fact that their traditional member base now has more choice than ever before in terms of where they invest their savings or take out their mortgages.

The sector currently has a 27% share of the UK mortgage market by volume and accounts for 21% (£13.5bn) of its total value. Whilst the £300bn in savings held by Building Societies represents just under 20% of the market. However if Building Societies fail to modernise their lending, savings and collections processes they are in danger of losing market share in their core offerings which will then threaten their business model which is built on foundations of trust and an open relationship with their members.

Additionally how they attract and retain new members is also under the spotlight. Many new and existing members want access to savings and mortgage products via digital channels, demanding access to the information they need on any device they choose 24/7/365. This demand was brought firmly into the spotlight throughout the COVID-19 pandemic as many members still visited their branches as they were seen as an **'essential service'**.

However the challenges Building Societies faced with in branch visits was the fact that not as many staff as usual were available to help. In turn this pushed many members to use telephony and digital support channels which they may not have used previously. This put pressure on the channels in existence and potentially impacted customer perception if digital and telephony channels were not set up correctly or could not handle capacity during busy times.



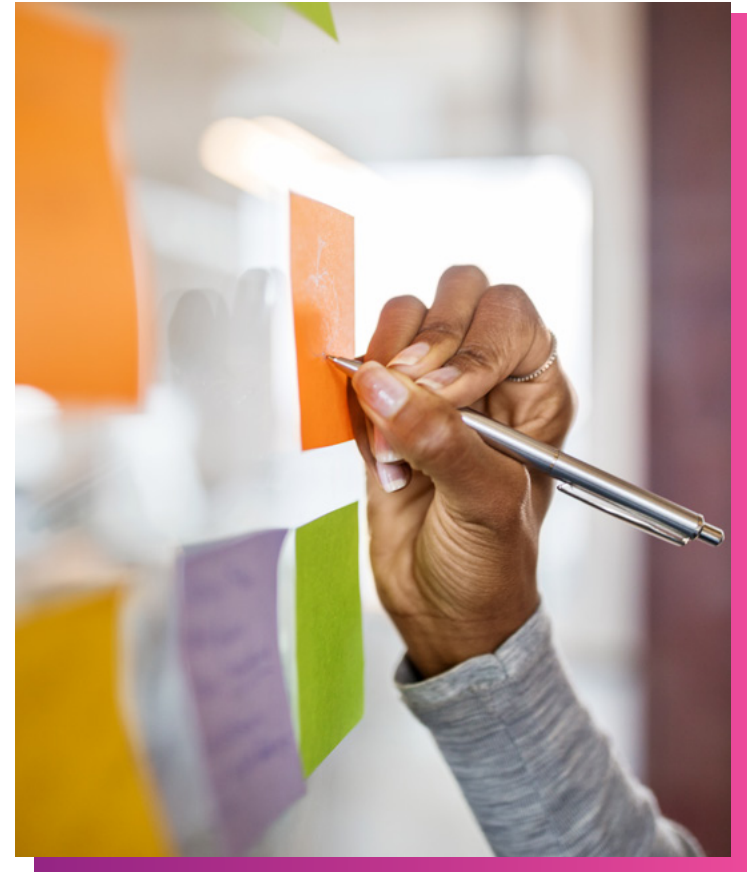
So what does this mean?

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At Sopra Steria we believe Building Societies need to embrace digital change, if they are to overcome the challenges of providing a truly differentiated customer experience against the competition. For many Building Societies the key to success is through incremental growth and change not large transformational programmes. But to undertake these incremental programmes of change which supplement their existing user journeys, they need to have access to the right mix of skills, tools and expertise. This means if they do not have the right skills, tools or expertise in house they should be exploring shared service delivery and platforms delivered by technology and financial services experts. In turn this will enable them to keep up with the changing demands of their members, de-risk in house transformational programmes and be able to take advantage of industry best practice.

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In this article Sopra Steria share some of its thoughts around the challenges faced by UK Building Societies and the potential solutions to these challenges. **We also introduce some of our own plans as to how we can help the sector in 2021 and beyond.**



What are the key business and technology initiatives Building Societies should be focusing on in 2021?

As mentioned in the opening section of this article Building Societies are facing a number of business and technology challenges in 2021 and beyond. Some of the challenges are quite unique as Building Societies are built for their members and the communities they are part of. *At Sopra Steria we believe Building Societies should be focused on addressing a range of business and technology challenges in 2021. Some of which will be impacted by events outside of their control.*

For example if we start with the impact of COVID-19 and the current Brexit situation, the Building Society market is highly likely to be exposed to a down turn in macro-economic conditions. These conditions are likely to impact how much disposable income their members have, where they are going to invest and their ability to afford to take out a mortgage.

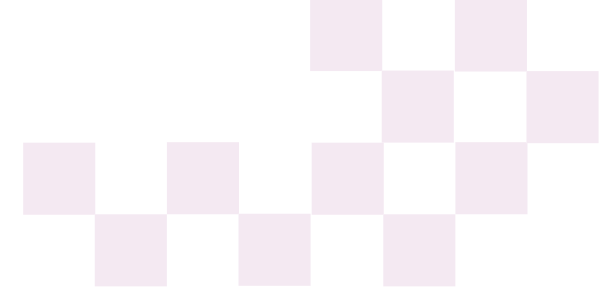
At the present time the full economic impact of COVID-19 and Brexit has yet to be felt by the UK Building Society market (111,791 mortgages were approved in Q3 2020 vs 106,209 in Q3 2019 and household savings increased by over £1.9bn in Q3 2020 compared to the previous quarter – BSA 25th Nov 2020 - <https://www.bsa.org.uk/statistics/bsa-statistics>). Many are attributing this to the fact that the stamp duty changes holiday which is set to end in March is still in effect. It will be interesting to see what happens to the housing market when the stamp duty holiday period ends. This means it is still important that Building Societies maintain a strong capital and liquidity base over and above their regulatory obligations when the downturn potentially happens.

To do this effectively Building Societies will need the right credit controls in place and systems and processes available so regular stress tests can be

undertaken to identify and manage exposure to potential economic shock and the impact on their members.



Figure 1 - Key business challenges Building Societies need to focus on in 2021



Alongside the internal measures taken to appropriately manage credit exposure Building Societies will need to ensure system availability and access to services for their members. The competitive landscape is changing with members having more choice than ever before of where to save, take out mortgages and deposit savings. Alongside the choices members have when it comes to a savings, mortgage or loan the channels to market are beginning to change.

Traditionally most mortgage business has been introduced by brokers to Building Societies. But what will happen to the market when members become more confident and start to take advantage of using aggregator sites for selecting their mortgage provider? We have already seen the impact on the savings market with sites like [moneysupermarket.com](https://www.moneysupermarket.com) and [moneysavingexpert.com](https://www.moneysavingexpert.com) taking the hassle out of finding a savings account with the right interest rate and terms and conditions for a saver. Mortgages will be next as technology improves and provides members with the confidence to go direct to their chosen provider.

Additionally, members will want access to their information in real time on any device they choose. Many members will be dealing with changing personal circumstances and in some cases will become vulnerable customers. Making sure all members whatever situation they find themselves in, can access their information in a timely, secure and appropriate manner will become a differentiator.

Those Building Societies who do not make their services available 24/7 through a number of touchpoints are likely to find their member attrition rates will go up. It is important that all Building Societies in this hyper competitive environment against the backdrop of macro-economic factors outside of their control, continue to identify new and innovative products, technology and service propositions to meet customer needs.



Another major challenge Building Societies thought they would be facing in 2021 was a significantly changing regulatory environment. However post Brexit it has transpired that regulatory change is limited. This is because many Building Societies have already adopted European Standards so are not required to make wholesale changes to the ways they are undertaking business. However it is no secret that industry regulators continue to drive an agenda committed to maintaining trust and confidence in UK financial services with new payment architecture, COP, Request to Pay and some regulatory reporting framework changes on the horizon in the short term.

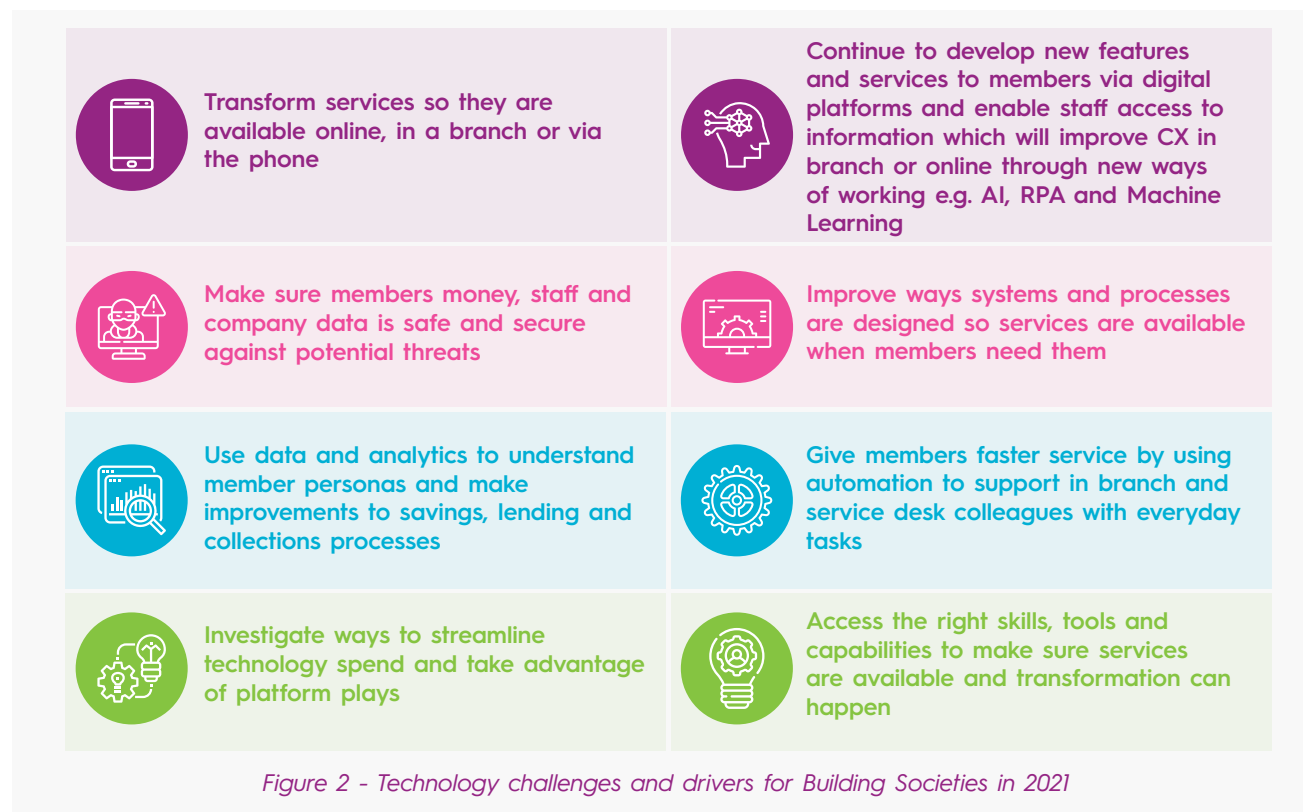
This means Building Societies cannot just stand still and hope their existing standards and processes will continue to satisfy regulators. As mentioned at the beginning of the article, incremental change to systems and processes will need to be made to keep up with the continuous reporting demands of regulatory bodies and maintain fair outcomes to members. Failure to make the necessary changes or have an over reliance on traditional systems and processes will mean time, effort and knowledge could be wasted in meeting basic changes to regulatory obligations.



Linked to regulatory change and the macro economic factors already discussed is the attraction and retention of members. Traditionally Building Societies have relied on their reputations of lending in a responsible, affordable and sustainable way. Or offering savings options which have higher interest rates than the competition or a better social promise. However the market is changing and members of Building Societies are evaluating not only the products on offer but how easy their Building Society is to deal with on a daily basis.

Building Societies want to attract ‘sticky savers’ so they can lend to mortgages and have a robust and reliable balance sheet. The last thing they want to attract are accounts where the balances swing dramatically e.g. Current accounts, which causes them treasury issues.

To attract new members Building Societies need to have the right customer acquisition strategy in place along with digital channels available, easy to use and informative to complement their in branch visit experience. A word of caution though Building Societies should not lose sight of their heritage and make sure their digital offerings enhance relationships with their members and the communities they are part of. For traditional members they still want a reliable Building Society partner, one who shows they care for them, their money and the wider communities. To attract newer members Building Societies must embrace the mutual win – win and ethical practice messages to differentiate themselves at a local and national level.



All of the above major challenges are underpinned by one thing – technology and its ability to make sure the Building Society can run smoothly on a day to day basis.

The investment in technology has increased significantly over the past 5 years by all Building Societies. However many are simply spending just to keep up not for the future. As the pace of change increases and more budget is required to keep traditional technology systems alive and new technologies needing to be

deployed to satisfy member and regulatory demands, many Building Societies are discovering their once significant IT budgets are no longer covering their basic requirements. The risk of not keeping systems up to date or investing in new technologies to improve business processes should not be underestimated and an incremental improvement approach based on improving customer journeys and making sure they are keeping up with regulatory demands should be at the heart of technology investment decision making.

Underpinning most of the technology change agenda in Building Societies is the fact that increasingly members are demanding always-on, constantly evolving digital services which are already offered by the competition. This means systems need to be managed to avoid disruption to services whilst also delivering technological change to match demand. Additionally, access to data and ever increasing volumes of data must be managed securely and reliably. All Building Societies must constantly continue to invest in the resilience of systems, implement robust controls and get the balance right between making sure data is safe and secure vs accessible for members at every touchpoint.

This is not an easy task and the threat of disruption to customer services or a loss of customer data as a result of cyber crime remains high within Financial Services organisations. Attackers are being more sophisticated and targeting not only the corporations but their members as well. A significant proportion of IT budgets now has to be continually invested to thwart the cyber security threat at an organisational and member level.

Any service disruption to members, staff or stakeholders could be far reaching. So the challenge Building Societies have is how to make sure the IT budgets they allocate are used in the most effective and efficient way. At Sopra Steria we believe the way forward for Building Societies to overcome their challenging technology problems linked to business issues is to partner with an expert in Financial Services who can make the right platforms, services and skills available to help them undertake incremental programmes of change.



Why Building Societies need to reframe their thinking to make a member first strategy underpinned by efficient business processes a reality

So now we have identified the key challenges, what are the areas Building Societies should be focused on in 2021 to make their member first strategies a reality?



Customer Experience

Customer experience is critical in all industries, but it is particularly important in Financial Services. Customers have a vast range of options to choose from and it is now much easier to change providers. A range of factors now influence a customer's thinking in the choices they make regarding the investments of their money or where they take out a mortgage. Choosing a savings or mortgage provider is not a decision that people make lightly, and first impressions really do count!

Customer expectations are high. Customers expect a real time 360 degree view of their finances, they want to be able to access services at a time which suits them, via a channel of their choice, and to receive instant decisions. This could be via a mobile app, the telephone or it could be at branch. It depends on the demographic, and the services which the customer requires based on their individual circumstances.

It shouldn't matter what channel the customer engages with they should receive a consistent, high quality experience, and the organisations brand should clearly be evident, distilling trust, and the assurance that customers are receiving a high quality and secure service.

Importantly this doesn't mean that all Building Societies should rush out and adopt a mobile first strategy and direct all customers to digital channels, that would not differentiate them. In some cases particularly elderly or vulnerable customers it could actually alienate them. Instead Building Societies should acknowledge that they are different whilst providing the option for customers to use the channel of their choice, embracing both digital and traditional channels.

To achieve this transformation Financial Services institutions need to understand their members, their needs, behaviours and interactions. The more a Building Society knows about their individual members the greater opportunity there is to deliver personalised services. Furthermore, they need to understand their own brand, and the values which they want to demonstrate to their customers.



Personalised Products and Services

In today's data rich environment customers expect to receive personalised experiences, and to be offered specific products and services which are designed to meet their individual needs.

Banks and Building Societies have delivered targeted sales and marketing campaigns aimed at specific customer segments for many years. But they still have much to learn when it comes to personalised offers, advice and interactions, as well as personalised products and services based on customer data and behaviours. When customers think about personalisation they think Google, Amazon, and Netflix. While this level of personalisation may be out of reach in the short term for UK Building Societies it does not mean that similar levels of personalisation can't be achieved in the future by using existing customer data at every customer touchpoint.

This level of personalisation should not be restricted to digital channels, the experience should operate across all channels including the branch network, and customer interactions should be positively encouraged.



Attracting New Members

New members are the future savers and borrowers that will ultimately replace existing Building Society customers. It's important that Building Societies both retain existing loyal members and attract new ones as well. To attract new members Building Societies should in the first instance target existing members (the parents of the next generation), encouraging them and incentivising them to set up savings accounts for their children and in doing so continue to support local Building Societies. At the same time they should build products targeted specifically at younger generations focusing on life events such as universities, weddings and first house purchases.

Importantly when interacting with new audiences Building Societies must adapt and adopt new types of language, and branding which different types of potential members can relate to. They must also allow them to interact in the way they feel comfortable. Whilst traditional members may still want to access services through a branch, or via telephone, new members may be more comfortable accessing services via a smart phone, or via live chat.



Going back to basics and focusing on the communities in which they serve

Throughout the pandemic many of us have reconnected with the areas in which we live and the communities we are part of. Our worlds have suddenly become much smaller, and the local services in our areas have become much more important to us. Many of us have started to use local butchers, green grocers, news agents and many more local services.

Building Societies are and have always been a key part of local communities. It's important that when Building Societies adopt new digital channels supported by modern technology that they don't lose this connection. If they do then they risk getting lost in this ultra-competitive environment and losing their identity.

Communities are now digital, local groups, schools, and even parish councils have moved online. In doing so they haven't lost that community spirit, quite the opposite in fact, they have embraced it and these services are thriving.

Why is a shared service and platform approach the right strategy for Building Societies to adopt?

As discussed earlier in this paper Building Societies are under increasing pressure to deliver their services to members via a range of digital, phone and in person channels. All of these channels and the associated processes are underpinned by technology. But with technology budgets under increasing pressure many Building Societies cannot afford to undertake their transformational programmes of change.

At Sopra Steria we believe access to a shared service and platform approach is crucial for the UK Building Society market if it is to keep up with changing member expectations, regulatory change and reduce the potential impact of macro-economic factors outside of their control.

We are currently in the process of building an end to end banking capability. The offering builds upon the existing capabilities and the extensive experience of Sopra Steria and our subsidiaries Sopra Banking Software and CX Partners.



So why are we building this End to End set of capabilities?

Quite simply at Sopra Steria we believe we have the skills, experience and expertise to deliver at scale the change needed for the UK Building Society market to thrive in the future. Our software is already at the heart of many UK Building Societies. Sopra Steria has been providing Mortgage and Savings solutions since 1968 and is trusted by over 1,500 financial services institutions across 80 countries. We are also one of the UK's Leading providers of Shared Services including two large Joint ventures, NHS Shared Business Services and Shared Services Connected Limited. Our strategic vision is to use our collective experience of business transformation to support the evolution of this sector.

The shared service platform is being designed to enhance customer relationships and streamline customer journeys including customer acquisition and servicing for both Savings and Mortgage customers. At the same time through the delivery of a true shared business process service we believe we can reduce operating costs, and provide access to shared modern technology solutions.

Our platform is being built to be modular in design, simple to understand, easy to consume and has a clear roadmap for future improvements. The services we can offer through this platform will include:



Because of our experience in the Financial Services market we recognise the risk and cost of changing underlying banking systems. For this reason we are designing our platform to seamlessly integrate with existing core Mortgage and Savings Systems, rather than to replace them. In doing so we will enable Financial Services organisations to offer personalised

products and services for their customers preferred channels, streamlining customer journeys and enabling organisations to reduce operating costs.

This offering will complement these products and services as well as opening the door for new clients to take advantage of our services. The shared service platform will provide Building Societies with economies of scale whilst still allowing their customer interactions to be personalised, reflecting their own values and brands.



Final thoughts

As discussed in this paper it is an exciting time for the Building Society market in the UK. Building Societies cannot afford to stand still and let their existing competitors or new market entrants take members away from them through poor customer experiences or legacy technology platforms and processes that are not fit for purpose.

At Sopra Steria we believe Building Societies need to take the time in 2021 to examine their most pressing business issues and make sure their programmes of change are identified with the mindset of 'what will make the biggest impact to their members day to day interactions both now and in the future' and 'making sure regulatory requirements are properly satisfied'.

As more pressure is placed upon IT and business transformation budgets, Building Societies need to assess where their suppliers can help them deliver services more effectively to their members. The adoption of a shared service provision and platform approach is a crucial strategy for Building Societies to get right if they are serious about improving their customer experience and overcoming business process modernisation challenges which are holding them back today.



More Information

At Sopra Steria we provide a bespoke range of Consulting, IT and Business Process Outsourcing services to Public and Private Sector organisations across the UK.

For more information on our End to End Banking and Building Society shared service solutions please contact Ash Smith at the details below:

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We look forward to working with you.

The world is how we shape it

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