

## BUILDING SOCIETIES AND E-COMMERCE

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What i'm planning to cover in the next 20 minutes is how we as boards and management of societies have responded to what is happening now, and what is going to happen soon in the field of e-commerce. The programme looks like this:

- A quick review of current pressures in our business
- Where we are now
- Where is the mortgage marketplace in particular now?
- What do we think our members want?
- How building societies are well placed to succeed
- A brief summary

So, to our big 3 current issues. First margin pressures - not much needs to be said about these, it's obvious to all that our margins are slowly being squeezed, and most of us are learning how to survive on net margins of 40P or less; lots of people say that isn't sustainable, but it had better be, because it isn't going to get easier.

Second, our other income is under real threat. Declining revenue on household general insurances like buildings & contents and asu, reduced commissions on regulated investment sales following the introduction of cat standards and stakeholder pensions mean that this valuable income stream is also static. Just to put it into perspective, at mhbs last year we sold 21% more regulated investment products but raised our revenue by only 8.8%. And it will get a lot worse yet!

Third, our management expenses. Costs have to keep coming down. There are now 14 societies out of 67 with costs below £1 per £100 of mean assets, 15 between £1 and £1.25 and 38 over £1.25.

But i am convinced that use of e-commerce solutions can have a noteworthy impact, first on cost reduction in absolute terms, second in generating the business volumes that dilute the cost base, third on improving other income and fourth in slowing the rate of squeeze on our margins; and i'll tell you how in a moment.

But first, if we are to look at the current e-commerce landscape as building societies, where are we now? 59 out of the present 67 building societies have some e-commerce presence via the web and i've divided them into 3 groups.

The first group of societies have got a site which simply details the products and services on offer. Often they are not updated, maintained and are inactive – and i think that these societies could be up to 24 months behind their competitors.

The second group comprises those with a brochureware site which is up to date, where customers can access the society efficiently by e-mail and, most importantly, where there is a quality intranet for use by the staff, one which contains procedures manuals, lending criteria, contact and address books, facilitates e-mail and internet access from every desktop in the society. You need to be at least at this stage to achieve the cultural change necessary to achieve the benefits that e-commerce can bring. If you are not at this stage you could perhaps be 18 months behind your competitors.

Perhaps the most up-to-date and third group includes everything above plus the ability to apply for products on line, use e-mail to message segmented groups of members with information, provide information on new products etc - in other words, to maintain contact with your members. My research shows that there are only 20 societies – less than a third of us - in this category. If you are not at this stage yet, you could be up to 12 months behind your competitors.

So everyone identified where their organisation is? Everyone feeling comfortable? To get to stage 3 isn't expensive or difficult, the big players are there, but a lot of us smaller players can be, given some managerial vision, enthusiasm, determination & energy.

So, as i said, i contend you need to be at stage 3 in the slide right now - principally because of the increasing uk internet audience. So let's look at how this was at the beginning of the year.

According to our friends at norwich union there are now over 22M uk consumers with access to the internet either at home or at work, so over  $\frac{1}{3}$ RD of the uk population. Research reckons that just over 11M of these are active with 12 log-on sessions per month and 19 unique sites visited each month. The average length of time spent per surfing session is a fraction under 30mins so quite a long time really.

But, as we all know surfers are not the same as buyers and the number of on-line purchasers is only a fraction of the number of surfers. The logical extrapolation being that people use the internet as an information source rather than a purchasing tool at this time – particularly for financial services.

Let's now put e-commerce into context in the mortgage marketplace. Last year there was a proliferation of infomediaries and e-mortgage brokers, such as e-loan, emfinance and fredfinds, savills netmortgage site, 2 new digital personal finance channels, simply money and the money channel - and what have they all got in common? - yes, they have all gone! And it's questionable how sustainable the revenue streams are for those that are left.

There are now also a growing number of financial portals, with the major players like egg providing those which are the most sophisticated. That said egg like many other e-businesses has yet to return a profit.

There are also a significant number of joint ventures which have been entered into, for example, tesco's on-line delivery of norwich union's term assurance products, again egg's delivery of the boots credit card and a mortgage, unit trust & isa supermarket.

And then we have the rush to provide a seamless straight through one-stop on-line mortgage application service exemplified by the likes of if-online, assureweb, trigold, mortgage brain and so on. These firms in addition to providing on-line sourcing of mortgages, are joining solicitors, estate agents and others to provide a one-stop e-service for lenders.

If-online is probably the one most of you have heard of and i am sure you will all have had approaches to sign up. But again, i ask the question is there sufficient capital behind these firms to sustain existence until, or even if, this e-mortgage marketplace takes off?

And this is the first key point to building societies and e-commerce. We really have the best of both worlds, that is a branch or telephone based operation which at this stage is only complemented by e-commerce. This clicks and mortar business model is becoming increasingly important and i believe it's vital that we as building societies really do use e-commerce not simply to complement our present business but as totally integral to it.

So can these others without the advantages we have of clicks and mortar business models succeed? Personally, i doubt it and certainly the american experience so far would seem to confirm that view, where internet banks like wingspan are looking to physical premises to support their on-line operations - the exact reverse of our building society model.

Moving on, and perhaps most important of all, what are our members expecting? Well first, they are expecting greater availability and access to information and services and this applies not just to our members but also to your staff as well.

Our members expect information and a level of service that we, in some cases, are not used to providing. So for example, a member who sends an e-mail pretty much expects an instant response whereas normally, a year or two ago, a written reply would have taken two or three days, but the member expectation is now based on early if not immediate gratification.

The next important point is that traditional loyalty models, which have largely been based on apathy, don't apply to a building society e-commerce world. Remember the member is more remote, cannot be seen or heard, and often communicates in short sentences using e-mail. They can be quite penetrative in their questioning and abrasive in their style because we as the supplier cannot be seen. They can also therefore be significantly more demanding and we have got to get used to dealing with their modus operandi.

They expect products to be competitive, but given thinning margins it is questionable as to whether e-delivery of products can be reflected in cheaper pricing.

That said, there has to be a demonstrable advantage initially for the member to be using our e-business services. And of course service is expected to be easier, faster, more comprehensive and of better quality. And this is the second key point. With thinning margins forget competing too heavily on price, compete on service instead using your e-commerce model.

I mentioned i would return to the boosting of other income via e-commerce. My own view is that so-called white labelling is one key to this.

There is a lot of confusion around white labelling and i am going to use a simple practical example to show what this is and how it can add to other income.

If you take a standard website from any of the building societies it normally contains only products available from that society, and i know from my own experience that although we are able to sell mortgages over the internet the penetration of accident, sickness & unemployment, buildings & contents insurance, term assurance and so on has been very modest.

We have to find ways of convincing members to use the internet as a purchasing tool to buy related products and services to a mortgage or savings product and white labelling is one way in which this can be achieved.

In the case of term assurance, this may be provided by someone, say, like norwich union but be branded as market harborough so the look and feel of the web pages remain the same as for the host even though these pages are provided by, in this case, norwich union. Here is a practical example. So, you can see that the member, although he has left the mhbs site and is in the nu site, still considers he is in the mhbs site, thanks to the look and feel of the pages. So white labelling could help improve sales of related products and services and thereby boost other income.

The e-business model i have raised of better margins on products as a consequence of premium service, and improved other income using white-labelling techniques needs to be complemented by quality customer relationship management systems.

Quite a few societies either have in place, or are putting in place, crm systems to manage the multiplicity of member contact through differing distribution channels, so if a member walks into a branch and has been on-line that day to request information, the cashier will know and can follow it up. Crm also facilitates campaign management, targetting specific staff like cashiers to use designated sales scripts to help generate income.

So, we have heard about what the pressures in our business are, what is happening in the mortgage marketplace and what our members might expect of the internet. A chilling or exciting prospect – well i think it's exciting!

So to sum up, there are now lots and lots of people surfing the internet but, but as we have said before, surfers are not the same as buyers.

There is a significant degree of polarisation amongst the 67 building societies in the uk. Some have no website and are content to rely on their bricks and mortar presence and some are inactive. Good for them but i believe their cost base will not reduce sufficiently to enable them to offer competitive products and services in the future, and their members will move on in terms of using different channels of distribution before their society does.

The next group, as i said earlier, are in the middle and are in the process of embracing change including the installation of crm projects, new front-end systems which are e-enabled and have a general appetite for change,

And the final group, the ones that are heading that change, are led by your next speaker, a representative from the largest society, nationwide.

But before listening to jim, listen to this. Building societies have the e-business model to succeed. We have the advantage of an established member base, we have the advantage of a physical presence through branches and we have the advantage of capital reserves to invest in complex systems.

But we must drive those advantages to change to a complementary e-business model. So it's up to us - our service models must change to suit our members, or our members will find the service that suits them - and it could be from someone else.

I've bored you for long enough, thanks for listening.