

# Building a Unique, Co-operative Alternative in Financial Services

**Neville Richardson**

As the UK begins to emerge from recession, the reputations of many PLC banks have been severely damaged. Consumer confidence is at an all time low and trust in financial institutions is a scarce commodity. A unique, ethical alternative to the Plc and Government owned Banks has been created through the merger of Britannia Building Society and Co-operative Financial Services (CFS). The new and enlarged CFS is not only financially strong but characterised by being member-owned, customer-led and ethically-guided. With its vision of being the UK's most admired financial services business, the new organisation is taking shape at a time when the co-operative and mutual sector has never been more relevant.

## Background

With a turnover of more than £14bn, The Co-operative Group employs over 123,000 people and operates in over 5,000 UK outlets. The Co-operative is one of the UK's most trusted, respected and ethical brands and can trace its roots back to the original Rochdale pioneers in 1844. It now has more than 5 million members and over 12 million UK consumers regularly trade with one of its businesses. The same historical attitude and approach to ethical & responsible business practice is spearheading the resurgence in The Co-operative Group, which has significant business interests in food, financial services, travel, pharmacy and funeral care.

When Britannia, the UK's second largest building society merged with The Co-operative Financial Services (CFS), part of the UK's largest mutual retailer, The Co-operative Group, on 1 August 2009 it created one of the largest and most diversified financial mutual businesses. The new organisation has a significant presence in the financial services sector with £76 billion of assets; 13,500 employees, 9 million customers and 350 branches. Throughout the credit crisis both CFS & Britannia continued to operate their businesses in a prudent manner, which strengthened their reputation & high levels of customer advocacy, at a time when others around faltered. Now together, and as a part of The Co-operative Group, they can help restore confidence in a sector severely damaged by events of the past 18 months.

The merger of Britannia and Co-operative Financial Services was enabled by new legislation which, for the first time, allowed mergers between different types of mutuals to take place, whilst maintaining mutual ownership. A draft statutory instrument under the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 - known as the Butterfill Act, after its sponsor Sir John Butterfill MP - was laid before both House of Parliament on 19 January 2009.

A successful vote from Britannia members as well as approval from the Financial Services Authority were also key requirements. As part of the merger approval process and under its democratic constitution, Britannia members were asked to vote.

No windfall payment was offered to incentivise the vote just a promise to Britannia members that the combined business would retain the things they previously loved about Britannia - remaining mutual, having an extensive branch network and receiving a share of the profits. In addition, Britannia members would benefit from enhanced products and services offered by CFS as well as the benefit of being part of a larger mutuality owned organisation. Member engagement was such that over 450,000 votes were cast and members voted nine-to-one in favour of creating a new customer-led, member-owned, ethically guided financial services business.

## A compelling fit - customer-led

One of the most compelling reasons for the merger was the strong strategic fit between the two businesses. They were complementary businesses, already sharing similar cultures and values yet their strengths lay in different areas - the heritage CFS had strong internet capability, personal and corporate banking, insurance and investment expertise, while the heritage Britannia has an extensive high street presence and savings and mortgage product strength.

On their own CFS and Britannia had a long history of standing out for their ethical trading policies, high levels of customer advocacy and their distinctive member reward programmes. During the time of the building society demutualisations, Britannia successfully fought off challenges at its Annual General Meeting, maintaining its commitment to mutuality and focus of acting in the best interests of members.

In summer 2009, The Co-operative Bank was

awarded the prestigious 2009 *Which?* Award for *Best Financial Services Provider*. The awards, based on research by *Which?*, recognised the best performers across mortgages, credit cards and current accounts.

The heritage organisations also shared industry leading employee engagement. 95% of heritage Britannia people and 83% of heritage CFS people are proud to work for their organisation and in 2008 Britannia was second in the Sunday Times *Best Big Companies to Work For*.

### **Strategic merger based on strength**

Britannia and The Co-operative Financial Services merged from positions of strength and discussions started in advance of the worst of the economic turmoil that has been the market landscape for the last 18 months. Headlines that became familiar reading tell of the extraordinary times that we have seen:

“Lehman Brothers collapse sends shockwaves round world”

“Financial crisis: Government to take majority stake in RBS”

“HBOS - Lloyds TSB: Biggest rescue deal in British banking history”

“Britain faces years of tax rises as Bank bailouts add £1.5 TRILLION to public debt”

“Third Iceland failure”

The result of this is that customer confidence is at an all time low in the market and fundamental questions are being asked about the wider economic system. Trust has become a scarce commodity in other financial businesses of late but both The Co-operative Financial Services and Britannia merged from positions of strength - both from both a financial and reputational perspective. Furthermore against the backdrop of the economic crisis, CFS recently announced its interim results with an increase in total shareholder profits of 11%.

### **Developing the strategy**

Since the merger, the new organisation has developed its strategy with the involvement of its people right across the new business. The heritage organisations' values, as well as the Co-operative Group's values and principles, played an important role in defining the strategy for the new business. In keeping with its mutual

ethos, the strategy is very much a combination of ambitious plans balanced with core values.

Our purpose is to be a pioneering business delivering sustainable financial services for members and society and we have a clear vision to be the UK's most admired financial services business. Underpinning our strategy we have givens which are the absolutes that we will adhere to and values that will be at the core of everything we do.

### **The future**

So what will people start to see from the new organisation? The transformation plan design is underway and over the next three years significant change and investment is required. Both heritage organisations have significant experience of organisation mergers - Britannia following its acquisition of Bristol & West in 2005 and Co-operative Financial Services when it was created by the coming together of The Co-operative Bank and Co-operative Insurance in 2003.

To start with Co-operative Financial Services and Britannia will in the main retain their existing products and services during the integration of the two businesses. However, early customer benefits are underway: over 35,000 Britannia members on SVR linked mortgages saw their interest rate fall to 4.24% from 4.49% to ensure consistency across rates on similar products. In addition, Britannia fixed rate cash ISAs are now available in Co-operative bank branches and current accounts in Britannia branches will be available in 2010. Over the next three years, there will be a major systems integration and development which will create the capability for us to provide a single set of high quality financial services products across our entire range of customer service channels.

What does this mean in a wider context for co-operatives and mutuals? The co-operative and mutual movements have never been more relevant and there is a gathering momentum of people that are looking for something different to PLCs. The newly merged organisation creates an exciting opportunity for a member-owned, customer-led and ethically guided financial services business. Through this merger we are taking the next important step in the renaissance of the co-operative and mutual sector.

**Neville Richardson is the Chief Executive of The Co-operative Financial Services.**