

CHARTER FOR AN OPEN AND DEMOCRATICALLY ACCOUNTABLE BUILDING SOCIETY INDUSTRY



Introduction

The Building Society Members Association (BSMA) calls on all UK political parties to endorse and actively campaign for the implementation of this charter.

The BSMA is an organisation of individual members drawn from various building societies across the UK. It was set up 36 years ago to campaign for the rights of building society members.

There are over 20 million members of building societies in the UK. Building societies are mutually owned businesses; their members, their customers (savers and borrowers) are their owners. Whilst many societies are keen to advertise this fact, they fail to meaningfully engage with members.

This is highlighted by the pitifully low number of members who take part in voting at building society AGMs. An example of this is the West Bromwich Building Society (WBBS). At the 2017 AGM of the society only 15,814 of the 446,000 members voted in favour of the Remuneration Report (information obtained from the WBBS). This represents just 3.54% of members of the society. In comparison, an average of 65% of shareholders of FTSE 100, 250 and small cap. companies voted in favour of their companies' Remuneration Reports in 2015 (information obtained from HM Government's Green Paper on Corporate Governance 2016).

Contrary to the many claims made by societies there is a lack of engagement with members which ensures a lack of accountability and scrutiny of the way that building societies are run. The 2008/9 banking and financial crisis should have been a wake up call that strong and robust scrutiny is required in building societies as well as banks.

Building society boards self appoint new board members when vacancies arise, or when they decide there should be a new member. These appointments are then put to the membership for endorsement, at the following AGM. The ballot paper for board elections always contains the same number of candidates as vacancies. Therefore every election is always uncontested.

The rules of building societies make provision for ordinary members to nominate a fellow member to stand for the board. The high number of nominations required, along with the restrictive requirements that members must meet in order to make such a nomination, is the reason that not one society has such a member on its board. Whereas PLC shareholders have greater engagement at board level.

Here are the changes the BSMA believes need to be put in place in order to have an *Open And Democratically Accountable Building Society Industry*.

A) The make up of building society boards

The composition of boards should more accurately reflect members and staff, in terms of their gender and ethnicity. About 75% of staff are female, yet there are few female directors.

At least one seat on each board should be allocated to a lay member drawn from the members of the society. In the case of the larger societies, for example the Nationwide, there is a need for two seats to be allocated. These board members would be nominated and elected by the membership. In order for this to happen, changes will need to be made to the rules of societies. They must take into account the need for a more achievable number of members required to make a valid nomination.

Likewise, there should be "shop floor staff" representation at boardroom level.

B) Qualification to be a member

At present there appears to be four classes of membership of building societies:

1. Members with savings and/or borrowing accounts.
2. Members with savings and/or borrowing accounts with savings and/or borrowings of over £100 on the last day of the Society's financial year and who then qualify to vote at the following AGM.
3. Members with savings and/or borrowing accounts with savings and/or borrowings of over £100 on the last day of the Society's financial year and who have had an account for more than two years, who then qualify to support the moving of a resolution at the following AGM.
4. Members who qualify to nominate a fellow member, members with savings and/or borrowing accounts with borrowings and/or savings of over £200 at all times, for at least 2 years prior to making a nomination.

There should be only two (non-voting and voting):

1. Members with savings and/or borrowing accounts.
2. Members with accounts, with savings and/or borrowings of over £100 on the last day of the Society's financial year and who then qualify to vote at the following AGM. These members who qualify to vote at the AGM should also qualify to make a nomination and support the moving of a resolution.

C) Annual reporting by all Non-Executive Directors

There should be a requirement that all Non-Executive Directors (NEDs) submit an Annual Report, setting out the time they have spent on society business and the measures they have taken to consult and engage with members and staff.

They should be required to answer questions from members at AGMs. NEDs should be accountable to the membership. The members need to feel that they are getting value for money.

D) AGMs

AGMs of building societies should be held at times (evenings and weekends) that are more convenient for members in order to encourage better attendance. Live Internet streaming of AGMs should be used.

The number of members required to support a resolution at an AGM is far too high. A more realistic number is required to encourage member participation.

E) The Infamous "Quick Vote"

The use of the "Quick Vote" by building societies is "**Gerrymandering**". It is **extremely** undemocratic and should be banned. Ballot papers should be laid out in the same way as the ballot papers used by PLCs.

F) A need for a change in culture

The standard of corporate governance of building societies is very poor and accountability is very weak. There is a need for building societies to genuinely engage with their members. When members raise issues in regard to the way a society is run, they should not be treated as predators.

Too often, when societies state they are consulting members on issues to do with the running of the of the society, the reality is it is little more than a marketing exercise for the society's products.

It is clear that the rules of societies have been drawn up to frustrate, discourage and vigorously oppose member participation. This culture needs to change.

The BSMA by publishing this "Charter" believes that these changes will only come about by the intervention of Government.

Ahead of the next general election the BSMA calls on all UK political parties to endorse and actively campaign for the changes contained in the Charter.

Furthermore, the BSMA calls upon the new incoming Government to consult all stakeholders before the drawing up of legislation and regulations to facilitate these changes.