New City Agenda

# Leading for Mutual Value

# Joe Garner, CEO, Nationwide

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## Introductory Remarks

**Lord McFall**

**Board Member, New City Agenda**

Good morning, everyone, and welcome to this New City Agenda event, *Leading for Mutual Value*, with Joe Garner, the Chief Executive of Nationwide. This is the third event in a series on the purpose of finance supported by the Pension Insurance Corporation. The series was inspired by a speech to the New City Agenda annual dinner last year by Andy Haldane, Chief Economist at the Bank of England. His speech, *The Great Divide*, can still be seen on the Bank of England's website.

Andy made a number of points at that meeting and cited evidence that was discussed at the Bank of England's open forum session. The Bank had conducted some polling of perception of the financial sector by asking people what one word best described the future of financial markets. Among the Bank's usual contacts, including those in the financial sector, the most used word was 'regulated', and many of us will have heard that message from financial insiders concerned about the perils of overzealous regulations. For Andy, the most revealing responses from the general public were from the customers, rather than the producers of financial services. The word most used by them when describing financial markets was a rather different one. First, it was 'corrupt', and not far behind were words like 'manipulated', 'self-serving', 'destructive' and 'greedy'.

Given that situation, the question is: have we moved on very much in the past year? If you were reading the *Financial Times* and other heavyweight business publications in the last couple of weeks then you would wonder if we have come on very much at all. The financial crisis demonstrated the damage which could be caused by short-term demands. As we all know, it resulted in government bailouts, widespread misconduct, billions of pounds of losses for investors and damaged trust in the financial system, so much so that the consequences of the financial crisis are being felt today – not just in finance, but in politics and socially as well.

Politicians, financiers and others in whom the public have trust are dealing with an issue which is of crucial importance to society. Institutions like Northern Rock and Bradford & Bingley had forgotten their mutual roots. When I chaired the Treasury Committee, we examined that and found that, of 10 demutualised institutions, six either went bust or were bailed out by the government, three were taken over by high-street banks and one was taken over by another mutual. It is clear that diversity of ownership structures and business models is needed to help improve the overall stability of the financial system.

We know that a shift away from a mutual model had a damaging impact on financial stability but what about the impact on customers? It is quite revealing to look at the issue of Northern Rock. Over the past 10 years, a Northern Rock mortgage customer with £200,000 outstanding on one of their Together mortgages in 2007 is now more than £34,000 worse off than someone who had taken out a CAT standard mortgage with Nationwide.

If we all agree that diversity of ownership and business models is important for customers and society, what more can we do to encourage more mutuals to be established? The last new building society was established around 1980, so almost 40 years ago. The good news is that you only need 10 people to start a building society, but the bad news is that you need at least £1 million of capital and millions more to spend on business plans and technology. You do not normally ask major organisations to help establish new competitors but if the mutual model is good, then we – consumers groups, policy-makers and practitioners – should work together to see how new entrants with a mutual business model can be encouraged.

Mutuals can also play an important role in encouraging cultural change and the New City Agenda has been very focused on that over the past two years. Admittedly, there has been a change in the tone from the top of the UK's largest banks and building societies, but this is not a short-term fix. We need a sustained effort at cultural change if the financial sector is to regain the trust of the public. There also needs to be transparency about the progress individual banks and building societies are making. To date, that is not available.

Joe, we know that your organisation is part of the Banking Standards Board. In terms of cultural change, I would make a plea that the public have to know exactly what is happening so it is very important to have a public audit of banks by an independent authority to assess how much cultural change has been made. If it is done behind closed doors, as it is at the moment, it is smoke and mirrors and no one has an idea of the extent of cultural change. Openness and transparency is still a cause that has to be looked at and resolved. There needs to be a focus on driving cultural change down to the front line.

Joe has previously warned against what he called the 'mouse mats and t-shirts' approach to values: assuming that if you emblazon your values across these items and distribute them to your staff, that alone will produce an ethical culture. Regarding technology, there are also particular challenges for both mutual and shareholder firms in managing the shift to new online and digital business models. How do you identify and help vulnerable customers when you are moving to a digital business model and you have very little personal contact with the customers?

Promoting the new entry of mutuals, changing culture and coping with new technology are three issues which are very much on our agenda. If we are to have a financial services industry which responds to these challenges, then we must have businesses with a clear social purpose. Nationwide have that social purpose and therefore we are delighted to have Joe here to discuss that point.

Joe joined HSBC in 2004 and was appointed Head of Retail Banking in 2010. He asked the bank to live by nine words: 'Make better products, sell them properly, keep them sold' – a pretty simple philosophy but I think if everyone agreed to that we would be in a different position today. At HSBC, Joe stressed the importance of not only looking at profit but also principles and people. He left HSBC in 2012 and, after a spell at BT Openreach, was appointed Chief Executive of Nationwide in April 2016. Since joining Nationwide, Joe's mission has been to inspire colleagues to remain true to the society's social purpose. He believes that business with a social purpose can and should play a role in improving society.

Nationwide is the world's largest building society and a top three player in mortgages, savings and new current accounts and, given that this is a first opportunity for a mutual society head to address New City Agenda, I am delighted to ask Joe to address us. Thank you.

# Leading for Mutual Value

**Joe Garner**

**Chief Executive, Nationwide Building Society**

## I. Preamble

Thank you. Good morning and thank you, Lord McFall, for that kind introduction and for reminding me of a few things. Thank you to New City Agenda for hosting. I know that you have a strong record of providing fresh thinking on some big challenges. As you heard, it is my privilege to be CEO of Nationwide Building Society, Britain's and, in fact, the world's largest building society. By size we are comparable with a FTSE50 company in the UK.

## II. Past, Present and Future

### 1. Origins of Mutuality

Over the summer, *The New York Times* published an article titled, 'The moral voice of corporate America'. It argued that, in a world where division had become rife, it was the CEOs of some of America's largest businesses that were standing up for values, tolerance and inclusiveness. It struck a chord with me and reminded me of some of the early progressive business leaders: William Lever, the Cadbury brothers, John Spedan Lewis; people who championed their workers' interests alongside, or sometimes even ahead of, their own. It resonated with me because, as a mutual, championing and empowering the people that our founder termed 'the industrious classes' has always been at the heart of our organisation. The mutual movement was born in the unequal world of the 18th century. It was an inclusive, self-reliant form of capitalism where people helped one another to get on. In a world where what divides us seems more prominent that what unites us, I believe that mutuality has real relevance today. I personally believe that it is still true that we can achieve more together than any individual can alone.

### 2. Improvement through Working Together

So, how are we doing overall? It feels like everywhere we look at the moment we hear about dislocation and disengagement: a world where people feel that they are losing more than they are gaining. I was born in 1969, nearly 50 years ago. Throughout most of that time, I have felt that the general direction of travel – the dominant paradigm, if you like – is that we are better off working together. Through this period, things have almost constantly improved. Fifty years ago, there were 3.5 billion people on the planet; today it is double that number. Fifty years ago, 1 in 8 children died before the age of five globally; today it is 1 in 25. Back then around 60% of the global population lived in extreme poverty; today it is less than 10% and that is a reduction of 1.5 billion people in absolute terms too. Back then, only half the population was literate; today it is 85%. Life expectancy has increased by 10 years over the period, both in the UK and globally. Although the world has never been free of conflict, far fewer people have died in wars than in any preceding period. Why is it then that the UN's World Happiness Report found that happiness has declined in six of the G8 industrialised nations in the last decade? If we have never had it so good, why does it feel so bad?

## 3. Declining Confidence

My guess is that, while life is better in aggregate, on an individual level, many feel that they are losing out. It is true that we can paint an alternative picture of stagnant or falling wages, a million British people on zero-hour contracts and young people struggling to get a start on the housing ladder; of a deteriorating world where climate change has real impacts and where technology is not only our friend but a robot that takes our jobs. This might be the first generation that looks forward to the future with less confidence than their parents.

## 4. Failures of Leadership

On top of that, there have been some very clear failures of leadership from phone-hacking to the financial crisis or to cheat devices in cars and perhaps this is why an alternative narrative has emerged, one led by the idea that perhaps we are better off on our own. Perhaps most significantly, technology amplifies this. Threats are actually further away than ever, but technology makes them feel closer to home. You know the saying, ‘When a person dies, it is a tragedy; when a million people die, it is a statistic’. Today, when a disaster occurs and someone films it on their phone and posts it on YouTube, it becomes a global sensation. The result has been an increase in anxieties and a vacuum of trust. I am sure many of you will have seen the Edelman survey at the start of the year, which showed trust in many organisations, including CEOs, hit a record low.

## 5. Division and Polarisation

It has also created acute divisions between people, not in terms of wealth, population or background but in terms of attitude. As Stephan Shakespeare, the British Head of YouGov, observed in 2015, ‘We are all either drawbridge up or drawbridge down’. Do we see strangers as a threat, locking our doors, or are we trusting and see the opportunity that a new friendship can bring? It has never been safer for our children to play in the street but we have never been more scared to let them do so and why is that? Possibly because more of us than ever are pulling our drawbridges up. In an environment where anxieties are high, the natural reaction is to lift the drawbridge, man the ramparts and bar the windows. Our world is polarising between drawbridge up and drawbridge down and I think we are witnessing a similar polarisation in attitudes towards business.

## 6. Rewards for Success

As Winston Churchill said, ‘Some people regard private enterprise as a predatory tiger to be shot; others look on it as a cow they can milk. Not enough people see it as a healthy horse pulling a sturdy wagon’. Perhaps this is because although business can be a tremendous force for social good, people do not always choose to use it that way. Most obviously today, the rewards of business success are not shared fairly among the stakeholders in a business. This is US data, but in 1970, shareholders received about £1 in every £10 of profits that a company made. In 2015, that figure was as high as £6 or £7 in every £10.

While the Companies Act 2006 requires firms to take into consideration the interests of all stakeholders – and specifically employees, suppliers and customers – it is clear that shareholder interests are pressing and immediate. Perhaps this feels more acute at a time when people’s living standards are suffering: GDP per person is up 12% since 2010 but wages are down 6% in real terms. If the economy creates rising living standards for a minority, leaving the majority behind, by definition the system is failing those it could be serving. To repeat a question asked at one party conference: ‘How can you expect people to support capitalism if they have little prospect of owning any capital?’

### 7. Opposition to Capitalism

A recent poll by the Legatum Institute found that the majority of Britons now view capitalism unfavourably, seeing it as ‘greedy, selfish and corrupt’. People are questioning the validity of a system that has delivered – as the Prime Minister said a fortnight ago – ‘unparalleled benefits to mankind’. Whether this is truth or perception now is to a degree irrelevant. The polarisation of attitudes is damaging our society and economy. What can we do about it and what can we learn from mutuality and history? I would like to share some thought which I think we can draw from mutuality in four broad areas: governance, ownership, purpose and leadership.

## III. Lessons of Mutuality

### 1. Governance

Mutuals were born out of the social needs of the industrious classes, to provide for themselves in times of disease, distress and death and to improve their lot in society. Banks of the time only provided services to the rich and to businesses and so it was mutuality that underpinned the friendly societies of the 17th century, the building societies of the 18th and the cooperative societies of the 19th century. The story goes that, one Friday night in 1775, a group of labourers were bemoaning their sorry living conditions while drinking through their wages in the Golden Cross Inn near Birmingham. The landlord – one Mr Richard Ketley – placed an empty jar on the bar and suggested that, rather than have another drink, each man place a coin in the jar. When the jar was full, they would draw lots and use the money to build a home for one of the men and their family and that is what they did, until they all had homes of their own.

In fact, building societies brought more than home ownership within the reach of ordinary folks. Many early building societies were established expressly to widen the franchise because this was a time when property ownership was a prerequisite of the right to vote. Incidentally, the building society, ‘one member, one vote’ policy extended to female members, which was a radical idea at the time.

### 2. Ownership

What about Nationwide? We are not a bank, nor are we a company, although we do follow best practice on corporate governance. We are a building society governed by the Building Societies Act. We are owned and run for the benefit of our members, not shareholders. We have a duty to act in the best interest of our present and future investing and borrowing members. That our obligations are to future, as well as current, members gives us not only a licence to take a longer-term view but an obligation to do so. In balancing our responsibilities, we take as our starting point that we must be sustainable and successful over the long term. There is still a commercial imperative: we need to make a profit and be efficient. We must have the financial strength to ensure the trust of our members and to invest for the future. We need to offer value to our members and remain competitive. We aim to be exemplary in implementing all standards associated with running a systematically important financial institution in 2017.

### 3. Purpose

Although Nationwide is now a very large business, our primary purpose is still a social one. In the last year or so, we involved all 18,000 of our employees in a consultation which reinforced our deep commitment not to what but to why we do the things we do. Indeed, we embraced the views of our members last week when we invited some of our members into the boardroom to sit with our board and non-executive directors to discuss their perspectives face to face. On top of that, our ownership binds our stakeholders in a mutuality of interest. Our members are our customers and our owners; there is no separation between them. Our employees are also mostly our members and therefore our owners. This means that when we come to balance the interests of our stakeholders, they are in less competition with each other.

Many of today's issues arise from disputes around how different stakeholder interests are balanced. I have worked for PLCs for most of my career to date and I know very well the pressures that are created by quarterly reporting, rising customer expectations and a competitive market for talent. Getting the balance of responsibilities right is not straightforward, even for us. Our savers want high interest rates; our borrowers want low interest rates. We need a big enough gap between the two to pay our people fairly and deliver legendary service. By investing in our customers, through better pricing and better service, hopefully our members choose to stay with us and we believe that loyalty leads to growth. That is, growth in thriving membership, not necessarily profit.

Last year, Nationwide put an extra £500 million in our members' pockets through better rates and pricing. We also aim to be a fabulous place to work over the long term. We became an accredited living wage employer and a principal partner of the Living Wage Foundation in January 2014 and, over the last year or so, we have introduced a living pension for our employees, increasing employer pension contribution significantly. It is important to me that employee engagement is among the highest in the UK.

Our purpose, to cooperate and collaborate to improve the lives of the industrious classes, binds our interests with those of society more generally. We are very lucky in that we were founded not for a commercial but for a social purpose. The poll I mentioned earlier showed strong support across all ages and political leanings for the idea that making a profit should only be one consideration among many.

## 4. Leadership

In the light of a polarisation of attitudes around us, business also needs to ask what kind of business leadership is needed. In a world where I perceive a danger that the idea of competition trumps the idea of cooperation, does business have a role in what Field Marshal Montgomery described as 'creating the atmosphere', and, if so, what kind of leadership should business demonstrate? Is it a gung-ho, competitive style of leadership, a new kind of leadership altogether or is it perhaps an old style of leadership?

I believe that business leaders, myself included, at times do need to be tough, strong, determined, persistent, resilient, knowledgeable and thick-skinned but there is plenty of that around. In my experience, customers and employees do not care how much you know until they know how much you care and it does not matter how persistent and determined you are if nobody trusts you. Putting humanity back into a business world dominated by metrics and finance is necessary if we are to regain trust in business. As a mutual, I believe we have an opportunity – maybe even a responsibility – to show that values of collaboration and cooperation are compatible with and contribute to long-term business success. Furthermore, in an environment where we are debating if we are better off alone, perhaps we can help remind that we can achieve more together. Indeed, that is why at Nationwide we are investing in a leadership programme called 'Leading for Mutual Good', to equip our leaders to marry our mutual values and heritage with running a successful business. I am pleased that some of our leaders participating in this are here in the room today.

Leadership is not only the preserve of the most senior people in an organisation, which is why we include a broad cross-section of employees in the programme, as well as our senior leaders. We expose our leaders to a range of views, inviting external participants – like the NHS, John Lewis and the police – to join the programme. We involve speakers from highly varied callings: a conductor, a philosopher, a psychologist, to give you a few examples. We encourage our current and future leaders to think through how we make our decisions to ensure that our values and our social conscience is part of how we make our decisions. It is about logic, it is about law, but it is also about love. If you think the programme sound interesting, you might be interested to know that we are holding three places for external participants. We will fund three attendees from the public sector to attend the next four-day programmes in December or March. The only criteria are that they must be keen, willing and able to make a difference to the wider leadership agenda. Please let me know if you would like to be a part of it or you have a candidate in mind.

## IV. Putting Values into Practice

### 1. Housing

Leadership over time shapes culture and culture determines outcomes. We want to offer to help develop leadership capability in whichever way we can. That is the theory, but what are we doing? I want to talk about a few examples of how we try to put our values into practice. We are particularly focussing on two areas: the first is housing. As the saying goes, ‘An Englishman’s house is his castle’, but for too many people, the prospect of a decent home is more of a castle in the sky. We are trying to improve people’s access to and the quality of affordable homes, whether owned or rented, as we have done for the last 150 years. We help commercially by being open for business, raising deposits to provide competitive mortgages and over the last five years, we have helped 1 in 5 of all first-time buyers – 275,000 in total – into homes of their own, enough to house the entire population of Derby and more.

We have helped protect homebuyers from punitive ground rents by refusing to lend on properties with a ground rent above 0.1% of the new-build’s value. That means that on a typical home worth around £200,000, ground rent could not be more than £200 per year. We are bringing new types of home out of the more expensive, specialist mortgage market into the mainstream. Nationwide continues to lead the work to support large-scale acceptance and adoption of homes built with modern methods of construction. We believe this is key to promoting lower cost and higher speed of building new homes in the UK. Recently, we worked with a Community Land Trust a few miles away in Mile End Road to make their affordable homes meet the criteria for cheaper mainstream mortgages for the first time. In the rental sector, we have heard concerns over the price and quality of privately-rented homes. We have taken action both to support landlords and to protect tenants. We have introduced minimum standards which rental properties must meet to qualify for a mortgage and we have sought to help smaller landlords, who are struggling with a growing list of responsibilities, by creating a cross-industry partnership which includes Shelter, estate agents, landlord and letting associations, to monitor the health and development of the private rented sector and provide policy solutions to government.

On top of these commercial decisions, we are also directing our social investment, around 1% per year of the profits that we give to charitable causes, towards helping people find a place fit to call home. Over the next five years, we will invest up to £21 million in community housing projects chosen by a ballot of local members. Our first community board has been meeting in Newcastle to shortlist the projects members will choose from and among them is an application from Northumberland Community Enterprise in the deprived ward of Stobhill. They have applied for funding for a project to support older people and those with disabilities to live independently at home. They will create a one-stop shop where vulnerable people can access not only advice but also services such as a handyman or a gardener. The service will be needs-based and could keep up to 1,800 people in their homes. This is only one example, but we will be supporting hundreds of housing projects over the next five years to help deliver better housing outcomes.

### 2. Relief in Distress

A second issue we are focussing on is how we support those most at risk, as relief in distress is one of our founding principles. Understanding people's concerns is an important starting point. For example, after the Brexit vote, we decided to set up the Brexit consumer panel, working with consumer-focussed organisations to take the pulse on consumer sentiment and feed our findings into our own practices and to policy-makers as the Brexit negotiations progress. We are working hard to make sure that we support our vulnerable members within society. Every member-facing colleague receives dedicated training to help them spot and deal sensitively with more at-risk customers. We also have a specialist unit to deal with the complex needs of our most at-risk members, which we have recently extended to include mental capacity and age-related problems. We work with multiple charities so our support is as practical as possible and are equally happy to share the lesson we have learnt from our approach with other organisations. We are also delighted to be working with the government's Inclusive Economy Partnership, which brings together business, civil society and government to tackle some of the challenges faced by those on low and middle incomes today. If you have an interest in any of these issues, please come and talk to us and tell us how we can work with you to make a difference.

## V. Concluding Remarks

To conclude, I said earlier that at heart of our organisation lies the belief that people can achieve more together than alone. Our members and our business have prospered through collaboration and cooperation. As we look around today, at a world hovering between competition and collaboration – between drawbridge up and drawbridge down – there are real choices about how we take our society and economy forward. If we are to make sure that business can benefit everyone, perhaps we should pay more attention to purpose and leadership; perhaps rekindle an out of fashion kind of leadership: one that is strong and determined but also one that cares.

At Nationwide, we do not get everything right and we will not get everything right in the future. We too face the threats of cyber, the challenges of competition and the potential disruption of technology, but our aim throughout is to use our influence and purpose to drive better outcomes for society: building society. Whether it is making homes affordable for 20-somethings, supporting people through hard times or showing that a progressive business agenda is no barrier to success, we truly believe we can achieve more together than we can alone. Thank you very much for listening. I would now be very happy to hear your comments and answer questions.

# Questions and Answers

**Lord McFall**

Joe, thank you very much for such a thoughtful and wide-ranging view. You say that Nationwide does not get everything right; I have been part of an organisation here for over 30 years and it does not need much humility to say that we do not get very much right here either. You are in the lead when it comes to things like that.

Those were very pertinent thoughts on governance and leadership, purpose and values. We have around 25 minutes for questions and so if people's questions can be short, we can get more in. I will be exercising my chairmanship very strictly with one question.

**Question**

Being a mutual did not save Nationwide from selling PPI so that creates some scepticism about the mutual model. Was that an aberration or was that a feature of a more fundamental market failure?

**Anthony Hilton, Evening Standard**

Is there any evidence that Nationwide customers trust Nationwide materially more than the rest of the financial system? Coupled with that, the voting levels in mutuals are incredibly low, so do you actually get genuine participation from your members?

**Mike Baliman, London Fintech Podcast**

There are lots of new financial services providers being created today, with 1,000 people in Canary Wharf over the last two days. Some of them want to become banks but I did not meet one that wants to become a mutual. To refer to Lord McFall's point at the beginning, how do we create a climate where there are more Nationwides?

**Joe Garner**

I will start with PPI. I was not at Nationwide during that time but, like all providers in the market, Nationwide sold PPI for a period of time. The uphold rates at the Financial Ombudsman Service (FOS) are materially different for Nationwide. That means that if it was sold, it was sold by in a considerably better way than it was in the industry. Perhaps what we should reflect on is the risks of massive groupthink that can emerge in any sector. Maybe it was an environment where the collective pressures around what was perceived as being right were not robustly challenged enough in all quarters. Even if Nationwide was exposed to far lesser degree and did so in a better way, maybe we could still ask the question of how the industry got itself to where the thought of selling PPI at all was a good idea.

Fintech is also a really interesting question because the internet is the ultimate sharing economy. The world's largest hotel provider does not have a hotel room; the largest taxi company does not have a taxi. How long before the world's largest bank does not have money? It is all about sharing and part of what drives that thought is that the internet is a big opportunity, for us and for mutuals generally. I assume that you know that there are some representatives here today who have built their model around the fact that people are willing to share in an internet economy. I cannot say why there are not more mutuals starting up but I can say that we are thinking long and hard about how we give mutuality even more meaning in a world where the internet enables such a sharing economy.

On Anthony's question around participation, it is true that voting participation has been declining over quite a long term. An interesting thing to do on Google's amazing Ngram viewer is to put in any word and it will show how frequently that word has been used over the last 500 years. A good one to put in is 'building society' because you see its emergence through the 19th century and then a gradual decline, followed by a big spike up again through the period of the carpetbaggers and the demutualisations and then gradually a decline.

I guess that is not surprising, given that there were such major demutualisations. There are still more than 40 building societies left but we are the largest and the only one with the scale to really communicate at the national level. Against that backdrop, where building societies have become lower in the consciousness, we are still one of the largest electoral processes after the general election and we still have many hundreds of thousands of our members vote. Our ambition is to reverse the long-term decline, which is why you will see us very publicly and consistently talking about the fact that we are a building society.

We have plans to engage our members more actively. As well as the AGM and the annual vote, we do monthly talk-backs where we go around the country and invite members from the local community and I and my colleagues, with the non-executive directors, will talk directly with our members and engage them strongly in the discussion about where we are going. We are strong about the fact that we are a mutual, we are a building society and we do want to engage with our members, before engaging them in the issues that matter. There are a number of examples of things that we have discussed that have then come to fruition as a direct result of our members. It is not surprising that it has declined if we look at how the sector has evolved but we are doing our best to reinvigorate it.

**Baroness Susan Kramer, House of Lords**

Joe, I wanted to pick up on this issue of why there are no new mutuals in amongst the challenger banks and the formal fintechs. I wondered if you could expand on that because my understanding is that we still have some very serious regulatory barriers to the creation of mutuals. I think there is one now that is in the application process that would sort of look like a mutual in the banking system.

I wonder if you could also talk about access to the payments system for players within this arena because those are areas that many of us in this room could pick up on, to pursue and try to tackle.

**Question**

What advice would you give to the other proprietary banks to improve their culture and ethics?

**Question**

Joe, there are people in the conventional private sector who are starting to get the message that 100 companies have now committed to zero carbon in the next five or six years. Paul Polman is an advocate of this sort of approach but it is still very much a minority.

How do we convince the private sector and their investors that you do not have to choose between being responsible and being profitable?

**Joe Garner**

There are some connections between the second and third questions there, in the arena of what PLC leaders can do to help address some of these issues. It is tough; as I said, I have been there and I know what it is like as a CEO in a PLC where the obligations and the quarterly expectations loom very large. However, that should not be an excuse for the near term taking primacy. The combination of purpose and being able to articulate it very clearly is part of it because, in my experience, if you can tell investor meetings and briefings a coherent, factual story around why it might take a bit longer to achieve something a lot better, I tend to find there is a real openness to go along with that. Most of the long-term money wants to hear that story, almost to a degree that you can speculate: if you have a long-term story that has some pain in it in the short term but your shareholders do not like it, have you got the right shareholder base for your enterprise? It requires at the core a courageous leadership to be confident in that long-term story to then stand up and tell that story consistently.

You mentioned Paul Polman and I think the Blueprint for Better Business work around values and purpose has a lot of merit and is gaining some traction. The direct answer is that it is a combination of being really clear about where you have come from and where you are going, being able to tell the story and then having the courage to do it consistently, particularly when the pressure is on.

Returning to the barriers to new mutuals, I think you have raised questions in my mind about the technical barriers that may or may not exist. I am not the expert on those but we would certainly have the energy for engaging in discussion around it. I have recently seen announcements around some of the smaller players getting access to the payments system but I could not tell you with confidence exactly what is required in doing that. As the largest building society, we are happy to put resource against understanding the problem and breaking it down and then, if we can add our weight to tackling the barriers, we would be happy to do that. We are also very open to partnering with start-ups who might have a relevance of purpose. That is a live discussion so I think if we can follow up on that, it would be useful.

**Lord McFall**

Susan and I were on the Parliamentary Commission for Banking Standards and the payment system was a big issue. We took evidence from Andy Haldane and others on it.

**Susan Kramer**

I am actually not clear that you can be a bank and be a mutual under the current regulations.

**Lord McFall**

We will get somebody from the payments system to have that discussion at a future time, Susan.

**Question**

Thank you, Joe. It was really encouraging to hear your comments about everything that Nationwide is doing on the housing agenda, which is clearly becoming much more topical. I would be interested in your views as to what more you think policy-makers could do, recognising some of the challenges and the good work that is being done with charities such as Shelter and others.

**Question**

On people's willingness to share in a sharing or internet-based economy, we now see this in every aspect of our lives. Regulation is coming in next year and this allows you to go out and create great data-based partnerships with energy, insurance, pension or mobile companies, or other sources of data to combine with your customers' data – with their consent or on an anonymised, aggregated basis – to create services which meet unmet or underserved needs. Where is the limit to your imagination on those services?

**Lee Boyce, *This is Money***

There are a number of people who are struggling to get good savings rate at the moment and a lot of our readers are quite upset by that. Most of the challenger banks are in our best buy tables, so when is Nationwide going to get back in that best buy list? What does the future hold in the next couple of years for savers: are rates going to start nudging up?

**Joe Garner**

On housing, there is no way around the fact that the key issue is not enough supply. We can talk around and around it but that is at the core and if we look back through history, the only time that supply has broadly kept pace or run ahead of demand was at a time when both the public and private sectors have been firing on all cylinders. We have seen some recent announcements but they are small scale and are not going to be enough to move the needle in and of themselves. If we are serious, we need to get housebuilders, lenders, public policy-makers around a table and agree to make a material shift. There are other things which will help but they are around the edges. We need a big step change in supply to get anywhere near moving this materially.

Open banking – or open building society as we try to think of it – has the potential to be really transformational. The Competition and Markets Authority (CMA) came out with their findings and the reaction was largely, 'What is the big deal?' but it is a big deal and is coming soon. Authorised third parties – with your permission – will be able to see your last 12 months' history and instruct payments on your behalf. This is amazing. You can see what it means immediately for a company like Amazon. Then with auto manufacturers, petrol or oil companies, for instance, you park your car and the petrol pump will instruct the payment without you needing to do anything.

You could match it up with energy but also with location. You can be walking along and there is an app provided to tell you that you are now entering your high-spending zone. Who knows what follows – who would have imagined that people would pay £2.99 to download an app that will tell them where the plane overhead is flying? It is fascinating. That is what open APIs are. We are building the platforms and the ecosystem and we have to be really open minded about what will be constructed on top of that. Where is the limit of our imagination? It is around data and customer insight. One of the obvious near-term applications is aggregation of your current accounts. Most people have multiple apps but you could view it all through one and people are building that.

I described last week how we had members in talking with our board and asked them what they thought about that idea. The response was, 'I would not like that. What would happen if I lost my phone? I would lose all the accounts and, by the way, I like to keep my money in separate jars'. I think the limit is that we need to be highly careful about data, experimental in our thinking but guided by our members' needs.

On savings rates, I cannot answer this without giving some Nationwide-specific comments. Best buy tables typically show new offers. Nationwide has a really strong philosophy about rewarding loyalty. Our best savings rates are available to our existing members. If you have large lump sums to invest, our loyalty saver product, which you have to have been a member for more than 15 years to access, is 0.75%. It is still low but that is three times the base rate and there are no conditions. It does not go down after a year or anything like that, it is real interest, but our best rates are for our existing members and those who have been with us for a long time. You will see Nationwide reappear in the best buy tables when they reflect the long term and lifetime value that a member can get from a provider.

### Question

As I understand it, there is still about a million people in this country who are either unbanked or underbanked and struggling to access mainstream financial services. Given the social purpose that you have talked about really compellingly today, I was wondering what more Nationwide might be thinking it could do in this space, either or both working alone or in partnership with credit unions who are also potential providers with a similar social purpose to operate in the interests of their members.

### Lord McFall

Joe, at the beginning, I made the point about cultural change, which is a big thing for New City Agenda. How far will Nationwide go in making public their cultural change and would you engage with independent assessors to assess your cultural change, make it public and provide an example to the rest of the industry?

**Joe Garner**

On the topic of financial inclusion, you are right: there is still a significant number of people without sufficient access to financial services. At the same time, I would say that the industry has made quite considerable inroads, through what came out of the Financial Inclusion Taskforce and onwards. We will continue to try to be at the forefront and the icon for it has been the basic bank account provision, where both the product that we offer and our share of the market is quite positive. We will continue with that and are open to discuss if there are any specific areas where you think we could make more of a contribution.

On culture, I always come back to this and believe it is at the core of all outcomes. Culture is an interesting word. I hear people talk about culture as being what happens when nobody is looking or that it has in it the idea of cultivating; it is organic, it grows and mutates and it is not dictated and cannot be imposed. Cult is also buried in the culture, which speaks to the impact of leadership over time and the shadow of leaders. I was very fortunate in inheriting a culture that has already got an ethic of care. By that I mean that it can be traced to our mutual and cooperative roots where there is a genuine concern for each other and for our members. Therefore, all we have done recently is try to bring that even more to the fore.

We have participated in a number of externally benchmarked surveys of one kind or another. In the year before last we came third in the *Sunday Times* best companies to work for, although we are not a company. I think the Banking Standards Board is effectively the cross-sector benchmark of culture and each firm can see where it sits within that.

**Lord McFall**

It is not public.

**Joe Garner**

It is not public but I think we would be very happy to contribute to a discussion about whether that could become public. I can see the advantages in doing that, at the same time, I think we have to also think about not creating levels of fear because that can be unhelpful. It is not straightforward but I believe that in the same way that disclosure has helped on complaints and a number of other areas, there is a way to be more transparent on culture.

In a digital world, there are more and more ways that organisations have become more transparent. You can take an x-ray through most organisations via your phone now. Sites like Glassdoor or other social media apps are not representative or statistically significant but technology is opening up organisations in a way that we have never seen before. In a way, it is the case to say, ‘Let us jump before we are pushed’, because it is better that the industry sets its stall out rather than leaves it to the vagaries of social media.

# Thanks

## Lord Sharkey

### Chair, New City Agenda

I would like to thank Joe for his fascinating insight. I would also like to say that I entirely endorse Joe's view about supply being the key to solving our problems in the housing market and I can recommend – entirely partially – the report on building more homes published by the House of Lords Economic Affairs Committee last July, which explains exactly how we can reach building targets of 300,000 homes per year.

We have two upcoming New City Agenda events. The first is with Xavier Rolet, Chief Executive of the London Stock Exchange Group who is going to be discussing the issue of what a Brexit transition deal should look like for financial services. He will be discussing transitioning Brexit for the benefit of the real economy next week on Wednesday 18 October at 9.00 a.m. Then on 1 November at 9.00 a.m., we have Jes Staley, the Chief Executive of Barclays, who will be discussing the role of capital markets in society, at an event called, *What have Capital Markets Ever Done for Us*.

Once again, profound thanks to you, Joe, and to all of you for attending this event. Thank you very much.