




Building societies face a digital transformation tipping point – but where do the challenges really lie?

Customer-facing services are only successful with the right back-end planning and development. A pragmatic, culturally sensitive approach to managing the transformation ecosystem holds the key to success, as Mason Advisory Managing Consultants Catherine Randles and Abul Talukdar explain.

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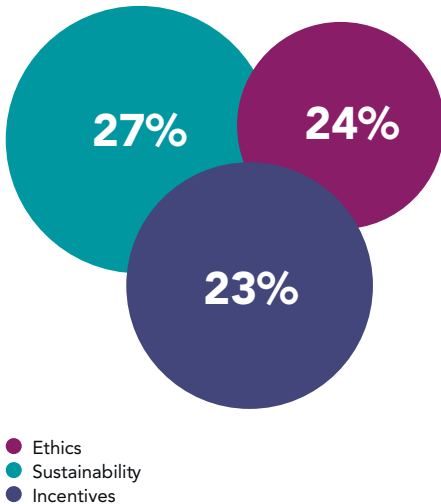
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Figure 1: Factors in customer choice of financial services organisations [Source: YouGov]



Access to digital banking is now a standard customer expectation, and all financial organisations need to evolve their digital services to be competitive. These front-end capabilities, though, are only achievable by a back-end architecture shift to digital core banking platforms. As mutual organisations, building societies face complex challenges when it comes to deciding on how – and how far – to transition legacy core systems. Some of the headline challenges include balancing risk with reward, legacy with opportunity, and tradition with evolution.

Data from [YouGov's Future of Financial Services 2022 report](#) reveals that digital transformation presents a rich opportunity for building societies. In choosing financial services, the report says, access to digital banking is a priority for almost half of customers globally (48%). That's hardly surprising in a world emerging from Covid, with rapid innovation rollouts fuelling customer demand. But the landscape is more nuanced than that. The same report highlights an enduring sense of faith in the high street face-to-face experience, with 64% of customers confirming their ongoing trust in traditional banking models. A quarter of customers also say that a company's ethics (27%), sustainability (24%), and incentives (23%) all play a role in their choice of financial services. These are areas where building societies are well placed to deliver, even while enhancing the digital offering, to retain and grow their market share.

In the case of mid-tier banks and building societies, though, blending the branch-led customer experience with new digital offerings is a tricky balancing act. Typically, these mutuals enjoy a regionally-led, loyal customer base – with relationships often built over years of service. Our conversations with such clients tell us that targeting the biggest market share is not necessarily their number one priority. Instead, they look to differentiate from market dominating

banks and rapidly emerging FinTechs by offering targeted, personalised products for longstanding and new customers alike.

Of course, to meet the modern customer's needs, digital must be a part of the mix. And, with all transformation comes risk and complexity. This is a particular conundrum for building societies, since their mutual structure creates a perspective driven solely by customer need rather than shareholder benefit. Historically, their robust attitude to risk involved a comparatively cautious approach, with expansion of existing capabilities prioritised over big ticket step changes. The result is that many building societies are embarking on the digitisation path in the context of significant legacies – not just operationally, but culturally. Now, they're reaching a tipping point. Big decisions need to be made between treading a tried and tested path – dependable, but not equipped to flex – or diving into a brave new world of digital architecture. Is it possible to bridge the two?

The answer, of course, varies depending on each building society's objectives, culture, legacy, and supply chain. But, in our experience, some considerations hold true across the board.

Legacies extend beyond systems – but beware eliminating them altogether

The traditional building society approach is characterised by face-to-face, branch-based services, driven by customer loyalty, and incorporating a sharp focus on risk management and mitigation. But, as demand for digital banking increases, the pendulum is swinging rapidly from a risk of transformational change perspective to a focus on market innovations and the risk of doing nothing. This means that building societies operating within legacy constrictions must make crucial decisions on digital transformation right across the

people, process, and technology estate. Many of those relate to systems architecture. Others are less tangible – but still vitally important. Understanding cultural and behavioural dependencies is every bit as important to delivering digital transformation as addressing end-of-life platforms.

Often, a loyal, longstanding workforce brings with it a rich pool of knowledge built over many years. The temptation is to see shiny new platform capabilities as the key to an automated future. In fact, it is the gatekeepers within the organisation who truly know what human input is needed to keep those systems running – and who can provide vital intelligence when tackling transformation challenges. But those gatekeepers rarely have a voice at the executive table. Providing a safe avenue for them to share their lived experiences and practical capabilities, while also identifying and resourcing any skills gaps that may exist in the area of strategic transformation, can make all the difference between a savvy, risk-controlled transformation, and an expensive mistake.

Supply chains must be brought along for the ride

The supply chain ecosystem in this market is limited, and often relationships with suppliers extend over many years. This can be a huge strength – but a comfortable supplier in a long-term contract may have little motivation to change the status quo. After all, facilitating digital transformation for customers may, in this space, also involve vendors addressing their own internal legacies to provide the new architecture required. Legacy ways of working may hinder vendors' ability to work together to offer integrated, hybrid and adaptive solutions for the client. Mix in the fact that the decision-makers often lack the specific technical knowledge needed to advocate for change,



and there is a high chance that the supply chain becomes a blocker.

If the supply chain has become complacent, challenging conversations lie ahead. But handled the right way and from the right perspective, they are discussions that can generate new possibilities for the transformation roadmap. Building societies need to ensure that supply chain solutions align in a practical, achievable way to the organisation's objectives, risk landscape and benefits map. Negotiating that may not be easy, but getting these parameters right sets the conditions for success.

The importance of benchmarking the big decisions

For mid-tier building societies, one question around digital transformation always rumbles below the surface: "What if we get this really badly wrong?" Market leading multi-nationals may be equipped to risk losing millions on a failed transformation. Mid-tier mutuals, however, are not. So, how can they achieve the peace of mind of knowing that the right decisions are being made for the right outcome?

An important factor to remember is that no change happens in a vacuum. At this market level, whatever strategy is being considered, it will have been

modelled before by other organisations in similar positions. So, there are precedents out there that can guide the journey. What's more, sound decisions don't always have to be headline decisions. An 80/20 mindset, which focuses on pragmatic strategies, is a far more effective approach for building societies that cannot justify moving beyond a certain level of risk. Knowing what 'good' looks like and aiming for that, rather than being impossibly ambitious and falling at the first hurdle, will achieve a better outcome for customers investing not just their money, but their trust.

In all these areas, and at every step of the digital transformation, an independent, expert view adds considerable value. The right support equips clients to continuously improve and evolve. What's more, in a regional market, where organisations tend to complement rather than compete, the opportunity for knowledge transfer is ripe, and is a process that independent advisers can facilitate. By embracing that opportunity, understanding cultural and systemic dependencies, adopting a pragmatic mindset, and validating decisions with an independent view, building societies can successfully navigate the balance between meeting new customer demand, managing risk, and designing a secure digital future.