

# Jon's Savings Blog

## Building Societies and Mutualism - an 8-track cassette in a digital world, or something quite special beyond big banks?



Demutualisation (where traditional Building Societies became Banks) gathered pace in the 1990's, following earlier financial deregulation, and increasing competition within the Building Society's traditional mortgage market. This led to mutuality, the core principle of a traditional building society, being widely regarded in some circles as outdated as they struggled to compete in a new environment being compromised by the size of their capital and rules regarding access to external sources of funding.

The irony is that when the 2008 financial crisis gathered pace, the mutual sector, not moving away from traditional principles, was generally much better positioned and was consequently able to withstand the credit crunch.

So where is this casual observer going with this?

Having worked in financial services for over twenty years, with over half working within the mutual sector, I'm a self-confessed stalwart of Building Societies and a piety of society (okay, I tried!).

And it seems like I am not alone in this.

Although demutualisation shrank the mutual sector, which as of yet has never returned to pre-demutualisation levels, there are constantly signs of improvement.

- We constantly observe with our friends at Smart Money People\* that Building Societies are marked, by a material amount, better than banks in overall ratings, net promoter scores, treating customers fairly, customer understanding and value for money.
- Building Societies have outstripped in terms of net lending, with up to £11.7bn net lending for the first six months of 2024, meanwhile mortgage balances at other lenders increased by just £4.6bn. As a result, Building Societies, accounted for 72% of growth in the mortgage market.
- In the same period, Building Societies attracted £14.6bn in cash savings, accounting for 34% of all savings, along with holding 40% of all cash ISA balances.
- Previous academic research suggests that Building Societies, using mutuality as a foundation for something 'different', impacts how members perceive them. As such they are generally more trusted than other banking institutions.

So, when deciding where to place your hard earned savings, it's possible to think outside the scope of the run of the mill banks and consider other alternatives to save your money. To help, I've tried to break down and summarise what options are available:

**Credit Union** - A financial institution that is owned and controlled by its members. It's like a bank, but instead of being owned by shareholders, it's owned by the people who use its services. Credit unions offer similar services to banks such as savings accounts and loans, but they are different in a few ways.

The main differences are that credit unions are non-profit organisations. This means that they don't make money to give to shareholders like a bank would, instead they use their profits to help their members by offering lower interest rates on loans, and higher interest rates on savings accounts.

Credit unions are also often focused on serving specific communities, such as a particular company or organisation. For instance, there is a Police Credit Union which serves current and former police officers and their families, while the London Mutual Credit Union serves people living or working in London.

Generally, they also have a focus on helping those with financial difficulties, such as providing affordable credit to people who may struggle to get loans from traditional banks.

**Building Societies** - A financial institution that is owned and controlled by its members. Like a Credit Union, it's a mutual organisation, meaning that the people who use its services are also the owners. Building Societies offer a wide range of financial products and services, including mortgages and savings accounts, while a Credit Union will focus on providing affordable loans and savings accounts to specific communities.

One of the main differences between a building society and a traditional bank is that building societies are mutual organisations.

This means that they don't have shareholders and instead, use their profits to benefit their members by offering better rates on mortgages, savings accounts and other financial products.

**National Savings and Investment (NS&I)** - A government-owned savings organisation that offers a wide range of savings products, including Premium Bonds, savings certificates, and ISAs. These are special types of savings accounts that are designed to help people save money.

One of the main differences between NS&I and traditional banks is that NS&I is government-owned, this means that they are backed by the government, which makes their products considered as low-risk savings options and safe places to save your money.

They also offer a variety of savings products to suit different needs, such as Premium Bonds, which is a type of savings account where the interest is paid out in the form of cash prizes, savings certificates that have a fixed interest rate for a set period of time, and ISAs (Individual Savings Accounts) which are tax-free savings accounts.

So, there we have it, some options to consider when you are planning how best to save in 2025.

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