

# Our Chief Executive's review

**It would be an exaggeration to say that this year developed entirely as we expected – but only a slight exaggeration. After two consecutive years dominated by unpredictable and extreme market events, 2009–10 offered a more settled environment for financial services.**

As the markets stabilised and investor focus returned to interest rates, we correctly anticipated a high volume of customer withdrawals following the exceptionally high inflows we had seen in the previous year. We recognised that to meet our Net Financing target, we would need to generate around £12 billion of sales – and took decisive action to make sure we met that target. We also forecast that this was the year when the impact of our modernisation programme, one of the core strands of our **NS&I adding value** strategy, would start to become apparent to our customers.

But the fact that the year proceeded largely as expected should not hide the fact that, in a difficult and unusual savings landscape, we have successfully achieved all of our targets. Furthermore, we have done so while continuing to balance the interests of our customers, taxpayers and the stability of the wider financial services marketplace.

## Achieving Net Financing targets

That balance was of course implicit in our Net Financing target for 2009–10 of £0 with a range of £2 billion either side. This effectively meant that our financial goal for the year was to broadly maintain our existing level of customer deposits (our 'stock') – no mean feat given the unprecedented low interest rates which persisted throughout the year. Over the first few months, we experienced the expected drop in stock as some customers moved money elsewhere in pursuit of market-leading rates, or in some cases because they needed to dip into their savings. Midway through the year we adjusted the rates on several products to ensure that we were still delivering a fair return to our customers, in line with our pricing policy, and also launched new Issues of Guaranteed Growth Bonds and Guaranteed Income Bonds.

These were issued in October and proved highly popular, enabling us to meet our sales target quickly and efficiently. Importantly, as soon as the sales target was reached, we removed them from sale and as the figures on page 30 show, we ended up within our published Net Financing target range for the year – delivering £1.6 billion of Net Financing. We see it as an important part of our role that we are transparent about targets and our progress towards them, particularly as financial markets are recovering.

## Progressing our strategy

Another important aspect of the new Issues of Guaranteed Bonds was that, for the first time, they were only available directly from NS&I, by post, telephone and internet. This was the result of a mutual decision between the Post Office® and ourselves and was, in part, a reflection of the ongoing development of the Post Office's® own brand range of savings products and the need to ensure – for customers' sake – a clear distinction between the two different ranges. It was also firmly in line with our ongoing strategy of modernisation, simplification and diversification.

This was one of several significant steps in our **NS&I adding value** strategy over the last year. I'm delighted that many of the early milestones, as we intended, passed unnoticed by our customers. They were internal changes to our systems and processes such as significant database changes and the transfer of our Direct ISA onto our new infrastructure. Our other products will also transfer over the next few years. In March 2010 we launched our first new product for some time – Direct Saver – on the new infrastructure.

What makes this significant is that once a product is on the new infrastructure, customers are better able to manage their account online for themselves. We know this is something many customers want to be able to do, and it is what they expect from a modern, efficient and customer-driven financial services organisation.



In a difficult and unusual savings landscape, we have successfully achieved all of our targets. Furthermore, we have done so while continuing to balance the interests of our customers, taxpayers and the stability of the wider financial services marketplace.

### Maintaining service excellence

While we foresee an increase in online interactions, we remain committed to providing a choice of ways for customers to invest with us. In fact, we know that one of the things that our customers value is the way they can do business with us over the telephone and by post. We are committed to delivering excellent customer service and once again our call centres delivered just that, as performance against our customer service targets indicates.

On my regular visits to each of our operational sites – in Durham, Blackpool and Glasgow – this year, I was again struck by the commitment of the people working there – our customer-facing team is an enormous asset to our business. That was particularly evident during the snowy periods in the winter, when staff did everything possible to make it in to work to serve our customers.

Of course, snow is less of an issue at Siemens' sites in Chennai, India. It was 18 months since my previous visit, and the increased size, scope and complexity of the operation was immediately apparent. The Chennai team performs an important role in back office processing, delivering to a very high standard and helping to increase the efficiency of our operations – vital given the volume of stock we are now managing.

The Post Office® has continued to provide an important high street presence for us and for many of our customers. We are of course continuing to work closely with the Post Office® to ensure clarity about the products available both from us and from them, as is explained in 'Our partners' on pages 16–17. We are also pleased with our partnership with WHSmith where we are pioneering a wider approach to financial education.

### Succeeding through people

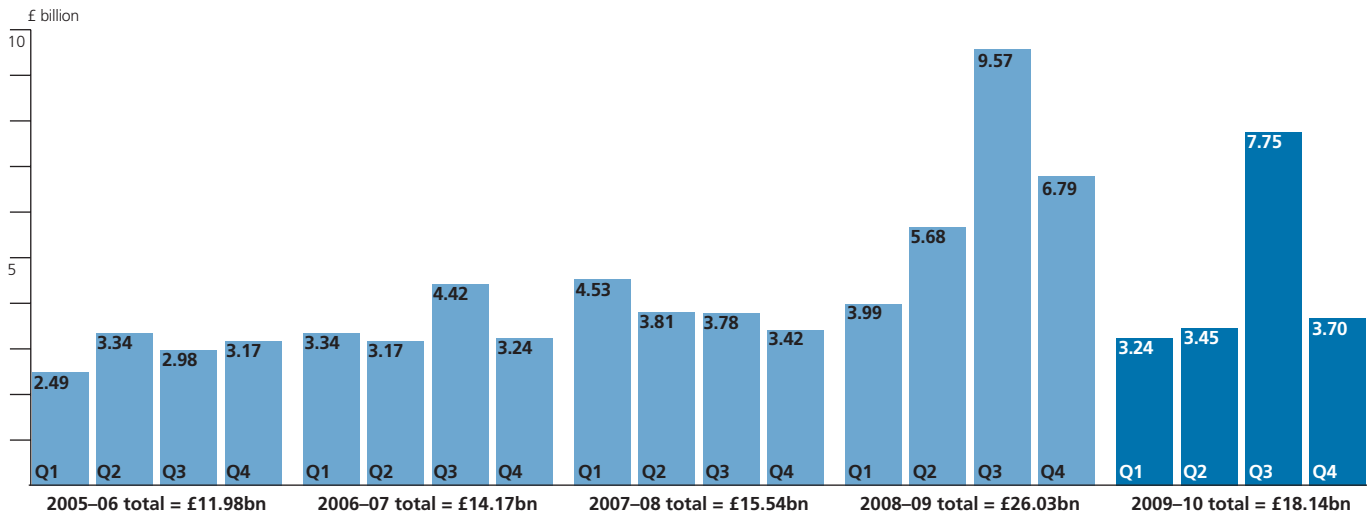
Of course, the other critical element of delivering customer satisfaction and meeting our targets is our own people. I am deeply grateful for the way they have led the consolidation of activities in the last year, as well as embracing the modernisation projects. There is a sense of increasing pace within the organisation, which stands us in good stead for the changes that we expect in the coming year.

I was naturally delighted that NS&I performed extremely well in the cross-government staff survey. We came in well above the benchmarks for high-performing organisations and led the way in a number of categories. I am particularly pleased that NS&I came overall first, of all participating agencies and departments, in the area of people feeling that it is safe to challenge the way things are done in their organisation. To me, this demonstrates the strength and maturity of my management team and the open way in which we manage the business. It also gives us the confidence that when issues arise they will be quickly escalated so we can tackle them effectively. While we are aware that there is always room for improvement, it was a very positive endorsement of our culture and values. There is more detail on the survey in 'Our people' on pages 18–21.

It was also NS&I people who led our response to the small number of operational issues that we faced this year. Such issues inevitably happen in an organisation with almost 27 million customers, so the important thing is that we deal with them correctly and promptly. While I am sorry that these issues occurred, I'm pleased with the way we responded to them, and believe it reflects our ongoing approach of honesty and transparency – something demonstrated by the fact that our complaint numbers, as ever, are relatively small. The first comparative survey by the Financial Ombudsman Service of complaint levels within financial services showed just how few complaints we receive. Of course, our goal is to prevent mistakes in the first place by constantly refining our processes: when there are issues, we seek to resolve them promptly and properly.

As part of that, we have taken a fresh look at risk management across NS&I, reinforcing our risk standards and policies and in particular seeking to anticipate and mitigate potential risks in the migration of all of our products onto the new infrastructure. That way we can make sure that our **NS&I adding value** strategy achieves our goals, without compromising customer satisfaction.

## Gross inflows to NS&I (including reinvestments)



### Revising our strategy

The 'flight to safety', in autumn 2008, had a significant impact on our underlying cost base. Effectively, as a direct result of the decision to stay 'open for business' throughout autumn 2008, we had achieved and exceeded our five-year financial target much earlier than planned. That meant we had to review our strategy and address the financial implications of managing a larger amount of money. At the same time, the market conditions – and particularly low base rates – meant that one of our key measures, Value Add, was suspended, as it was no longer an accurate or meaningful way of assessing our cost-effectiveness in raising money for government.

Given these circumstances, we worked closely with HM Treasury to revise our financial strategy and targets, both for this year and beyond. We decided to focus on gaining the maximum impact from our **NS&I adding value** strategy by extending it for two years, which takes us up to the point where our current Public Private Partnership contract with Siemens ends. This provides consistency and stability throughout the tender process, and will also give us more opportunity to maximise the benefits that our new infrastructure offers. For 2009–10, we have also added *leverage* as a key theme to the strategy to sit alongside *simplify*, *modernise* and *diversify*. This is explored in more detail in 'Our strategy' on pages 8–11, but it broadly reflects the fact that we believe our industry-leading infrastructure, partnerships and processes can provide the basis for delivering more value for the taxpayer.

### Measuring progress

We have worked to create a suitable alternative to Value Add, so that we can continue to demonstrate our cost-effectiveness, and have developed the Value Indicator. A full explanation of how this is calculated can be found on page 30; it provides a way of demonstrating how much we have reduced the cost of public borrowing. The Value Indicator measure shows that, in 2009–10, we delivered £1.4 billion of savings to the taxpayer. Over the coming year, our forecast is that NS&I will deliver a Value Indicator figure of £750 million. Our Net Financing target for the coming year is again £0 with a range of £2 billion either side of this – enabling us to continue to focus on delivering our broader strategy and also to maintain a stable position within the financial services marketplace as banks and building societies look to recover. To deliver our £0 Net Financing target we will need to deliver gross inflows of some £14 billion in 2010–11 to balance inflows with outflows.

Whichever way we are measured, I am confident that we can continue to deliver more value to government and the taxpayer in the future, as we become more efficient in the way we operate and realise the full potential of our new IT systems and the strong partnerships we have. I am pleased that our efficiency ratio at 18.5 basis points demonstrates how cost-effective we already are.

This year we have proved our ability to meet stretching targets in a challenging market; next year, I look forward to building on that.

Jane Platt

**Jane Platt**  
Chief Executive  
NS&I