

Our strategy

Our strategy, NS&I adding value, aims to deliver sustainable long-term value to stakeholders and customers by simplifying, modernising and diversifying the business. This year saw significant and visible progress towards our strategic goals, but we also took two important decisions: to extend the strategy by two more years up to 2013–14 and to add a fourth strategic aim – leveraging NS&I's broader capabilities, such as the infrastructure we are building.

Simplify

The simplification strand of our strategy focuses not only on removing unnecessary complexity from our operations but also on making it simpler for customers to understand our offer and do business with us.

Much of the work here remains rightly invisible to customers. Behind the scenes, we are actively identifying many areas where we can simplify operations to reduce risk, increase efficiency and deliver better service. In particular, as part of the preparation for migrating products onto our new infrastructure – discussed in the 'Modernise' section below – we are re-examining the way our products work. Some of these have been operating for decades in a largely unchanged way, often meaning that processes – though reliable – could be more efficient.

As we take each product forward, we anticipate removing complexities and inefficiencies to simplify our operations. The lessons we learn also feed into the development of new products in the future, which we can design in a more simple way from the start.

As part of the process of simplification, we are also looking to simplify the information we give customers. For example, we are working towards delivering a consistent approach to statements for all of our investments. This is a longer-term goal, which will follow from the technology changes that are at the core of the modernisation process.

Modernise

2009–10 was the year when the impact of the modernisation strand of our strategy really became visible to customers, with the launch of our new Direct Saver account. This product and our Direct ISA account are the first two NS&I products to run on our new infrastructure, where customers can log in online and manage their accounts fully. To accompany this, knowing how important security is to our customers, we have also introduced a new, industry-leading authentication security system for both online and telephone transactions.

Our website is underpinned by our new infrastructure, which was discussed in last year's report. Now fully operational, the new system makes it easier to manage transactions swiftly and offers us significant potential to improve service and efficiency. Our call centre staff now use the new system for any transactions on Direct ISA and Direct Saver, and are finding it easier and more intuitive to use.

We plan to move more products across to this system throughout 2010–11, giving customers the modern service they increasingly expect. This will improve the customer experience, for example by allowing people to log in and purchase more products without having to re-enter all their details every time.

In the last year, our two new modern data centres were completed. They ensure that we have both enhanced security for customer information and a high level of business continuity protection.

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Diversify

Figures for the year show that 2009–10 saw a significant shift to customers purchasing our products via direct channels – whether by telephone, post or online. This is in line with our expectation of an ongoing shift in customer behaviour: more and more people are choosing to manage their finances online or by phone.

Our strategic goal here is to continue to give customers the choice to interact with us in the ways that suit them best. While our improved internet platform and behind-the-scenes transfer of products onto our new infrastructure will help people manage investments online more easily, we remain committed to all channels, including maintaining the presence of a range of NS&I products in Post Office® branches.

Leverage

In the 10 years since we outsourced our back office operations to Siemens, NS&I has proven itself to be a robust provider of modern banking services. Over that time, we have also developed our systems and infrastructure to the extent that we now believe we can achieve much more with our banking platform than we currently offer. That is why our strategy now includes the goal of leveraging our own areas of expertise to share the benefits with other areas of government. For example, we are pleased that the Financial Services Bill 2010, which received Royal Assent in April, allows NS&I to undertake the operational processing work of the Court Funds Office. This will result in considerable savings for government.

Extending our strategy

As mentioned at the start, this year we took the important decision to extend our strategy from five to seven years. This was a direct consequence of the events of the previous year: having taken the decision to stay open for business during the market shocks of autumn 2008, we exceeded our initial Net Financing target (of £13 billion over five years) by delivering £19.9 billion within three years.

This meant we had to revise our financial strategy, which we did in partnership with HM Treasury at the start of the year. It also had an effect on other aspects of the strategy, in particular our plan to launch the first phase of our new infrastructure in 2009–10, which we acknowledged in last year's Annual Report. With the business absorbing the impact of servicing a larger deposit base and increased transaction volumes, we decided to extend the strategy to 2013–14.

To reap the full benefits of our **NS&I adding value** strategy it makes sense to extend the programme for two more years – particularly in terms of the way it will help us drive down costs and improve service once the projects are complete. Extending the programme now also gives us two years to leverage the strong platform we have developed and take NS&I forward in new ways.

Importantly, this also aligns the strategy cycle with the end of the existing Public Private Partnership contract. We are about to enter the tender process for the new outsourcing contract, starting in 2014. A stable strategy will not only help those tendering to assess costs accurately and understand our business, but it will also give us the ideal opportunity to refine and develop our strategy from the start of a new contract.

Our performance in 2009–10

The table below shows our performance against our Service Delivery Measures (SDMs). These were agreed by NS&I and HM Treasury as part of our reporting process and

measure our performance in relation to our overall objectives.

Goals and objectives	Measure	Performance 2008–09	Target 2009–10	Performance 2009–10	Target 2010–11
1. Net Finance To raise an amount of Net Financing within an agreed range	Absolute amount of Net Financing from all NS&I products	£12.5 billion	£0.0 billion (+/- £2 billion)	Met £1.6 billion	£0.0 billion (+/- £2 billion)
2. Value Indicator* To create at least an agreed minimum of value, measured using the Value Indicator	Absolute amount of value from NS&I products	Previous Value Add target suspended at the end of Q3 2008–09 as a result of exceptional market conditions	No Value Add target was set for 2009–10. The Value Indicator measure was developed in summer 2009 for use while the Value Add measure is suspended	NS&I delivered £1.4 billion of value measured by the Value Indicator	Forecast £750 million
3. Customer satisfaction To exceed a threshold level of customer satisfaction with NS&I	Average level of satisfaction against question 'How satisfied are you overall in terms of savings and investments with NS&I?'	92.2%	At least 87%	Met 91.5%	At least 87%
4. Customer service – timeliness To meet a consistently high timeliness target	Average performance against timeliness key performance indicator (KPI) targets	98.3%	At least 97%	Met 99.5%	At least 97%
5. Customer service – accuracy To meet a consistently high accuracy target	Average performance against accuracy KPI targets	99.2%	At least 98.5%	Met 99.4%	At least 98.5%
6. Efficient administration of funds To improve the efficiency of administering total funds	Ratio of total NS&I administrative costs to average funds invested by customers	20 basis points	Less than 20 basis points	Met 18.5 basis points	Less than 20 basis points
7. Banking Code To ensure compliance with the Banking Code	Self-assessment of compliance checked by Banking Code Standards Board	NS&I maintained green status with the Banking Code	Compliance with the Banking Code	Met Confirmation from the Banking Code Standards Board was received in May 2009 that NS&I remained compliant with the Code	This SDM was replaced with a new measure for 2010–11 following the Code being incorporated into the Financial Services Authority (FSA) rulebook – see page 11
8. Financial Ombudsman Service (FOS) To ensure compliance with the FOS	Percentage of complaints escalated to FOS adjudicated in our favour	Met 100%	At least 98.0%	Met 98.6%	This SDM was replaced with a new measure for 2010–11 to reflect the new FOS performance tables – see page 11
9. Fraud To improve the effectiveness of fraud management	Ratio of net fraud losses to total customer repayments	£27 per £1 million repayments	Less than £35 per £1 million repayments	Met £31 per £1 million repayments	Less than £35 per £1 million repayments

* The previous Economic Secretary to the Treasury and NS&I formally agreed to suspend the Value Add target for 2008–09 at the end of Q3 2008–09 as a result of exceptional market conditions. As an alternative, NS&I has developed the Value Indicator – see page 30 for more information.

Customer service: two new Service Delivery Measures (SDMs)

Good customer service is at the heart of how we operate and, as well as assessing our service against our own targets and performance in previous years, we benchmark it against the wider financial services sector. This helps to put some of the SDM figures into a broader context and gives us a clear insight into our overall performance.

As part of our survey for the customer satisfaction SDM, we ask customers to rate service in relation to a number of factors, including staff knowledge, overall quality of service and how effectively issues are resolved. During 2009–10, NS&I was rated at 92%, compared with the average score for respondents' other main financial services providers of 81%.

As in previous years, in 2009–10 we have had an SDM in relation to compliance with the Banking Code. On 1 November 2009, the Code was incorporated into the FSA Banking Conduct of Business sourcebook. We will continue to comply with these requirements but these will no longer be assessed by the Banking Code Standards Board, as it has ceased to exist. Our SDM will change to accreditation of the new Customer Service Excellence award. The accreditation follows a successful assessment of NS&I by an approved external body.

In 2009 the Financial Ombudsman Service (FOS), in consultation with the Financial Services Authority (FSA), decided to publish complaint league tables for the first time. These tables show the number of complaints escalated to the FOS and also how many are subsequently upheld in favour of the customer.

The tables showed that the number of complaints about NS&I escalated to the FOS is exceptionally low, particularly compared with our transaction volumes: between April 2009 and January 2010, the number of complaints overall equated to just 0.015% of transaction volumes, and of these only a fraction were escalated. Where these were escalated, the percentage of NS&I complaints upheld by the FOS in favour of the customer was 17%. The average across all banking and credit services was 47%.¹

While we are pleased to see that our complaints-handling process is effective – an essential part of Treating Customers Fairly – we are committed to reducing these numbers still further.

Now that the benchmarking data is available, we have changed our FOS SDM. The objective of our new FOS SDM is 'To minimise the incidence where FOS intervention is justified' and the measure is 'The relative performance of NS&I in the FOS performance tables, based on the percentage of complaints resolved in favour of the customer (from lowest to highest)'. Our agreed target for 2010–11 is to be 'Within the top 25% in the published FOS performance tables' for financial businesses (banking and credit).

¹ It is important to highlight the difference between the FOS figure and our current SDM on complaints. Any complaint unresolved after 40 days must be automatically referred to the FOS, even if we have not finished our investigation. When the FOS calculates its figure, it includes these as complaints upheld in favour of the customer. Our measure does not: instead, the current SDM reflects only those complaints where the FOS overturns our decision.