

Our strategy

2008–09 was the second year of NS&I adding value, our five-year strategy which aims to deliver sustainable, long-term value to customers and taxpayers alike. Chief Executive Jane Platt, Finance and Risk Director Mike Chilton, and Change and Strategy Director Julian Hynd, reflect on progress during the year.

First, what did you set out to achieve in year two of the strategy?

Julian

We divided the five-year strategy into three phases – optimise and build, improve and leverage, and then growth. Last year was the second part of the optimise and build phase, which was focused on analysing customer requirements, modernising our product range and building the capabilities required to increase channel diversification.

Mike

Alongside that, we also set ourselves some specific goals in terms of reducing our long-term operational costs and increasing our voluntary compliance with Financial Services Authority (FSA) regulation, as part of enhancing our overall risk management framework.

Jane

There was also an important people element, which was to increase our skills and capability so that we can move even faster, which is so important in today's volatile markets.

And how much of that has been completed?

Julian

A significant amount – and more importantly, all of the highest priority tasks we had planned for this year. We have begun a major refresh of our IT infrastructure, from desktops to our data centres, updating systems to give us the platform we want for the next phase of the strategy. On top of that, we've done some important work standardising a lot of processes, updating the way we manage some of our older products in particular.

Mike

We've also continued to invest in our risk and compliance frameworks in line with FSA guidelines. This includes enhancements in areas such as anti-money laundering, Treating Customers Fairly, information security and our overall governance processes.

Jane

None of those workstreams sounds particularly glamorous, but they are very important and the reality is that we are putting in the foundations needed to start making significant operational cost reductions, to strengthen our direct channels and to improve the way we support and communicate with our customers. It is a five-year strategy, and in many ways (though not all) we're where we want to be after two years.

The previous pages have mentioned that the measure of Value Add has had to be suspended this year. Wasn't that the key to the whole strategy?

Jane

That's part of what I meant by saying we're not quite where we expected to be at this point. The temporary suspension of Value Add has come about because of factors beyond NS&I's control which mean that it is no longer a reliable measure of the value we contribute. But the **NS&I adding value** strategy is all about the five-year modernisation, simplification and diversification of the business, and that remains absolutely valid and substantially on track. We have lost surprisingly little momentum given the unexpected volumes that we've had to process. Value Add is just one of the ways of gauging the success of the strategy and I hope that we will be able to re-introduce it as soon as possible. Certainly we'll discuss this with HM Treasury as part of target setting for 2009–10.

Mike

Value Add is a relative measure. It looks at how efficient we are at raising money for the Government compared to its other sources of financing, such as gilts. This year, due to a whole range of factors, that relative measure actually wouldn't give an accurate picture of our efficiency. First, base rates have fallen to unprecedented levels. Second, financial markets have been unusually volatile.

Jane

I think the key point for us was that – as agreed with HM Treasury – we needed to stay open for business during the 'flight to safety' and maintain our high levels of customer service.

So, without Value Add, how do you plan to measure progress against the strategy going forward?

Mike

There are other performance indicators, from organisation-wide measures like Net Financing, customer satisfaction, compliance and fraud levels to programme-specific measures. But to provide the measure of efficiency, we can look at our administrative ratio: comparing our total administrative costs to the average funds invested by customers. We measure it in basis points and have done for a number of years, so it offers a comparable way of showing our efficiency given the higher levels of funds we're dealing with and anticipated higher volumes of transactions. Currently, it stands at 20 basis points.

Jane

I'd also underline the fact that we're not saying Value Add is an invalid measure; we're still committed to it in the longer term. For next year, however, we have no target against it.

Were there any other changes to the strategy during the year?

Julian

One change is that we had initially planned to launch our new banking system by the end of the year. This has been moved into 2009–10. The reason is, quite simply, we won't go live unless we're 100% satisfied that there will be no disruption to the business. With the exceptional, unsolicited volumes we experienced this year, it was harder to prove this to our satisfaction than would normally be the case.

Finally, what are the key plans for next year? And what are the challenges?

Julian

Obviously the new banking system is a key step for us. It's the end of the optimise and build phase, and will really drive us forward into phase two where we will start to reap the benefits of this new infrastructure in terms of efficiency and customer service. At the same time as the launch of our new banking system we will deploy a new internet platform which will be a major milestone that is tangible for customers. The benefits of all the work we've done in the back office will become much clearer then, when customers are able to transact more easily online.

Mike

In terms of challenges, one of the big issues we face is around financing our strategic initiatives. We're a bigger business overall, and therefore need to service a larger customer base and increased transaction volumes. At the same time, we are upgrading our infrastructure in line with our strategy and we need to continue to offer great service to our customers.

Jane

If anything, that underlines the need to focus on our strategy, continuing to grow our direct channels alongside the Post Office®, building on our excellent partnership with Siemens so that we are able to bring costs down. It's going to be hugely challenging, but the foundations we have put in place already give us every reason to be confident.

Our performance in 2008–09

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. Specific targets are agreed each year with the Economic Secretary to the Treasury (EST).

Goals and objectives	Measure	Performance 2007–08	Target 2008–09	Performance 2008–09	Target 2009–10
1. Value Add To create at least an agreed amount of Value Add	Absolute amount of (lagged) Value Add from NS&I products	£375 million – exceeded target	Target of at least £275 million	Target suspended HM Treasury and NS&I agreed to suspend the target for 2008–09 at the end of Q3 2008–09 as a result of exceptional market conditions	Target suspended
2. Net Finance To raise an amount of Net Financing within an agreed range	Absolute amount of Net Financing from all NS&I products	£5.9 billion – exceeded target (hence target not met)	Target revised to £11 billion (+/- £2 billion) in Pre-Budget Report in November 2008	Met £12.5 billion	£0 billion (+/- £2 billion)
3. Customer satisfaction To exceed a threshold of customer satisfaction with NS&I	Average level of satisfaction against question, 'Taking everything into account, how would you rate NS&I's customer service?'	93% – met target	At least 87.0%	Met 92.2%	At least 87.0%
4. Customer service – timeliness To meet a consistently high timeliness target	Average performance against timeliness key performance indicator (KPI) targets	99.4% – met target	At least 97.0%	Met 98.3%	At least 97.0%
5. Customer service – accuracy To meet a consistently high accuracy target	Average performance against accuracy KPI targets	99.4% – met target	At least 98.5%	Met 99.2%	At least 98.5%
6. Ratio of total NS&I administrative costs to average funds invested by customers To invest in capability and continue to improve the efficiency of administering total funds	Ratio of total NS&I administrative costs to average funds invested by customers	18 basis points – met target	Less than 23 basis points	Met 20 basis points	20 basis points or less
7. Banking Code To ensure compliance with the Banking Code	Self-assessment of compliance checked by Banking Code Standards Board	Compliance achieved	Compliance with Banking Code	Maintained NS&I has maintained green status with the Banking Code	Compliance with Banking Code
8. Financial Ombudsman Service (FOS)* To ensure compliance with the FOS	Percentage of complaints escalated to FOS adjudicated in our favour	98.8% of escalated complaints adjudicated in our favour	At least 98.0%	Met 100%	At least 98.0%
9. Fraud** To improve the effectiveness of fraud management	Ratio of net fraud losses to total customer repayments	10%	Less than £35 per £1 million repayments	Met £27 per £1 million repayments	Less than £35 per £1 million repayments

Our SDMs were established at the end of the 2004 Spending Review (SR2004). Because our core business goals have stayed the same, our SDM goals have likewise remained the same. However, two of the metrics have been revised as detailed above.

* This metric was introduced during 2007–08. For 2009–10, it will continue to exclude fraud cases that will become eligible for FOS referral during the year, since we are unable to reasonably estimate the direct impact on this metric. We plan to include these cases from 2010–11 onwards.

** This metric was revised for 2008–09 and was previously (including the 2007–08 figure shown above) expressed as percentage of total fraud detected resulting in actual loss. Therefore, the 2007–08 figure is not comparable with the 2008–09 figure.

Project cost as a percentage of NS&I's total spend			
	Total spend £ million	Project spend £ million	Percentage
2008–09	184	21	11.2
2007–08	154	9	5.6
2006–07	168	15	8.7
2005–06	175	13	7.7
2004–05	166	14	8.5

NS&I adding value – progress at a glance

Last year's Annual Report identified some key workstreams we would be taking forward in 2008–09. In addition to the achievements discussed, the following list highlights some key strategic activities from the year.

We said we would sharpen our customer focus and build our knowledge of our customers.

We have validated our customer segmentation to confirm it remains an effective way to group customers who have similar attitudes or behaviours through further customer research. We have also been able to use the data to refine our understanding of our customers.

We said we would improve our product mix and start the migration of products on to a new banking system.

We have followed the introduction of Guaranteed Growth Bonds and Guaranteed Income Bonds at the end of last year with the decision to close our Cash ISA to new sales. We already offer a very similar product, Direct ISA, which is more popular with customers, so we've adapted that to make it more accessible. We are in the final stages of testing our new banking system before we begin migration in the new financial year.

We said we would increase channel optimisation and encourage customers to purchase directly from us, while continuing to offer the choice of access through the Post Office® and WHSmith.

We have continued to develop a more interactive internet platform for launch in the coming year. When we resumed discretionary marketing, in late March 2009,

we focused on directing people to our website, www.nsandi.com. The Post Office® and WHSmith both remain valued partners and key distribution channels. £9.28 billion was sold through our principal direct channels in 2008–09.

We said we would enhance our skills and capability enabling us to become even more delivery focused and faster moving.

We have launched a learning and development programme focusing on pace and confidence which has yielded results in terms of speed and delivery – for instance, successfully delivering more projects.

We said we would reduce our long-term operational costs to ensure we have an affordable and sustainable business model.

We have invested in our infrastructure and our property using the funds we had put by in previous years for this very reason, both of which will reduce running costs in the future. We have maintained our efficiency ratio at 20 basis points or below, despite the additional costs of both the 'flight to safety' and these infrastructure upgrades.

We said we would embed compliance in everything we do.

We have enhanced our internal assurance processes and our processes for the development and approval of marketing and communications material. We have also reviewed core processes around risk management and fraud detection to confirm they remain compliant and effective.