BOOK REVIEW

Models of Trade Association Cooperation, by Mark Boléat

Reviewed by Adrian Coles

It is hardly news to state that financial markets have changed rapidly all over the world during the last 20 years. The key drivers have been new technology and deregulation. As a result, the old boundaries between banks, building societies, savings and loan institutions, insurance companies, securities houses and fund management firms have almost disappeared. In the United Kingdom, a number of building societies have turned into banks. Most large retail insurance companies have banking subsidiaries; most large banks have insurance company subsidiaries. Banks, building societies, and insurance companies all offer mutual funds (known as unit trusts in the U.K.). In the United States, the old barriers between insurance, banking and security companies are breaking down, as are the restrictions preventing inter-state branching. In many parts of Europe the specialist mortgage institutions have become subsidiaries of commercial banks.

Perhaps surprisingly, at the same time as some institutions are seeking to rapidly expand the range of services they offer, the mortgage market is seeing moves towards a concentration on what the business jargon describes as "core competences." With the U.S. leading the way, the old model of a mortgage lender finding the customers, lending money which it has raised itself, administering the loan and coping with any loan delinquency problems, is breaking down. Rather, the mortgage lending process in the U.S. has been unbundled with different organizations concentrating on those facets of mortgage lending which they do best. The same process is just beginning in the U.K.

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Also in the U.K., the very concept of a mortgage loan is beginning to be called into question. One institution has combined a mortgage account with a current (checking) account and a credit card account. An individual's salary is paid into the account, thus reducing the mortgage; each check or credit card payment increases the mortgage. Borrowers can overpay or underpay (within limits) depending on the expenditure, which they incur in any particular month. Other institutions are following a similar approach, netting off the interest charged on the mortgage against interest on any savings or current account balances held by the individual with the same institution. A third group of institutions are offering flexible mortgages where borrowers can overpay in good times and underpay if they have difficulty meeting their mortgage repayments. Additional lending can be accessed without the need to go through any further mortgage application procedures, and for any purpose.

Considering these changes, along with the revolution in communications between financial institutions and their customers heralded by the Internet, it is not beyond the bounds of possibility to say that within, say, five years it will be difficult, using today's concepts, to describe what a mortgage lender is (because the whole process has been unbundled into its various components), what a mortgage is (because, paradoxically, the mortgage loan has been bundled together with a range of other products), and where a lender is (because it exists solely in cyberspace).

THE IMPACT ON TRADE ASSOCIATIONS

Many of the articles in *Housing Finance International* have, over the last few years, examined the consequences for financial institutions of these changes. There is one particular set of institutions that will also need to consider their future carefully, as the nature of the environment in which they operate changes: trade associations. Many financial services trade associations were born in a different age, when there were clear demarcation lines between various types of institutions and markets. Twenty years ago (and for the 70 years before that), the International Union itself was called the International Union for Building Societies and Savings Associations (IUBSSA). It then changed its name to the International Union for Housing Finance Institutions, recognizing that its previous name was nowhere near all-encompassing. It has now shortened its name to the International Union for Housing Finance, acknowledging the fact that a wide range of institutions has a profound interest in and impact upon the housing finance world, without actually taking part in the process of lending money for house purchase.

In individual countries, trade associations have had to examine the impact of regulatory and technological change on their raison d'etre. In the past, for example, financial services trade associations have benefited from the homogeneity of their members. Twenty years ago, the British Building Societies Association, for example, had around 250 members, all of which provided only two products—mortgage and savings accounts; societies differed only in respect to size. The U.S. League of Savings and Loans enjoyed a similar position. In Denmark each of the wholesale funded mortgage banks were independent institutions; a similar situation obtained in Germany.

In the U.K., many building societies have turned themselves into banks and become members of the British Bankers Association. The societies that remain are far less homogenous than was the case 20 years ago; many have diversified into different areas. Nevertheless, the Building Societies Association has found a new lease on life as a stout promoter of mutuality, while loosening its relationship with the Council of Mortgage Lenders. In America, the U.S. League has turned itself, after a merger with a rival body, into America's Community Bankers. Recognizing that the interests of many of its members might be similar to those of the large money-center banks, there have recently been discussions about the possibility of merging with the American Bankers Association, although these have come to nothing. Many mortgage banks in Northern Europe are now subsidiaries of commercial banks; as a result, some previously independent mortgage lending trade associations have merged with their commercial banking counterparts.

Sometimes a reduction in subscription income has been a catalyst for change, at other times the driver has been globalization, as a number of previously independent members of a trade association become subsidiaries of overseas organizations with different agendas. The British Bankers Association, for example, has well over half of its membership based overseas. In the U.K. regulatory change could lead to trade body change. The U.K. is currently in the process of merging nine regulatory bodies into one. Trade associations can no longer lobby their regulator without considering the impact of any particular change on other industry segments. Moreover, the new regulator is regulating by levels of risk, rather than by type of institution, leaving trade bodies to find a new role.

For trade bodies operating in the countries of Europe there is another factor to consider —the impact of European-wide regulation through the European Union. If the path-breaking regulation is being made at the European level, will national trade bodies decline in importance?

Models of Trade Association Cooperation

There has, until now, been little analysis of the impact of industrial change on trade association organization. A new book by Mark Boléat (former Secretary General of the International Union and a former Director-General of the Building Societies Association, Council of Mortgage Lenders and Association of British Insurers in the U.K.), *Models of Trade Association Cooperation,* puts this right. He describes the changing environment for trade associations, summarizing the issues as follows:

a. Mergers within industrial sectors which reduce association's subscription income.

b. Globalization.

c. A blurring of the boundaries between products and markets.

d. Legislative and regulatory change.

e. The implications of the Internet.

f. Pressure from members and government for more effective representative mechanisms.

Given these changes, there is pressure for trade associations also to change. Some trade bodies will simply disappear. For others, however, observing the disappearance of boundaries between markets leads to consideration of the disappearance of the boundaries between trade associations and greater cooperation. Boléat's book examines the various models of cooperation which include:

a. Ad hoc informal cooperation for one-off issues.

b. Coalitions and alliances to deal with major issues which are important to a number of associations.

c. Joint organizations to cover some aspects of business, particularly at the European and international level.

d. Federations.

Most trade associations will be familiar with at least the first of these items. Very often, trade bodies align with those in similar fields in the light of overarching regulatory proposals that will have a widespread impact on markets and institutions. The further down the list one goes, the less likely it is that any single trade association will have had experience of that form of cooperation. Boléat's book devotes a substantial portion of its pages to examining why mergers between trade associations take place, what the show stoppers are, and how best to overcome these factors. The book also pays particular attention to the impact of the European Union on the operation of trade associations in Europe, although it also contains a useful appendix on the American experience with cooperation. Finally, the book contains a helpful section on guidelines for effective mergers.

CONCLUSION

The financial world is changing rapidly; it would be unrealistic to expect the world of trade associations within the financial services sector to be unchanged by this process. Mergers, or even cooperation with other bodies, will not always be the best way forward. A balance sometimes needs to be found between a focus on a narrow range of issues of intense interest to a relatively small group of institutions and the greater economic viability of more widely supported bodies. Moreover, trade associations can be intensely political organizations; it is not possible to buy a controlling interest as one would with a quoted company. Change is much more difficult to enforce; a process of negotiation and diplomacy is more likely to produce results than a hostile bid. Smaller members of trade associations often find that they currently have less in common with larger members than perhaps they used to. Smaller institutions find also that niches in the market enable them to bypass some of the more important changes that their larger competitors are going through; accordingly, mergers that are forced through may lead to the formation of splinter bodies.

The huge value of Boléat's book is that it covers a wide range of issues. While written from a British viewpoint and not particularly concentrating on financial trade associations, it will, nevertheless, be of tremendous value to any trade association contemplating its future (which should be all of them) in a rapidly changing world and trying to work out whether its best response includes working with other trade bodies.

CONTACT DETAILS

Copies of *Models of Trade Association Cooperation* by Mark Boléat are available, price 15, from the Trade Association Forum, Centre Point, 103 New Oxford Street, London WC1A 1DU, United Kingdom, telephone +44 20 7395 8283, fax +44 20 7836 5856. Relevant web sites include www.taforum.org.uk and www.martex.co.uk/boleat.