Ben Koehne, *Partner - Head of Financial Services Sector*
Christina Proffitt, *Knowledge Counsel*

11:
Law and regulation

Executive Summary

- The legal and regulatory framework governing building societies, particularly the Building Societies Act 1986, has provided a durable foundation for the sector. However, looking ahead to 2050, the framework requires modernisation in a number of areas to enable societies to innovate, grow, and compete effectively in a rapidly evolving financial landscape. If successful, a modernised legal and regulatory framework should deliver direct benefits to members, improving access to mortgages, supporting long-term savings, and ensuring the continued availability of community-focused financial services.
- Law and regulation should be harnessed as strategic enablers, not constraints, supporting building societies to deliver enhanced member value through digital transformation, product diversification, and collaborative infrastructure, while maintaining a level playing field with banks and other competitors.
- Good governance will remain a key differentiator in the run up to 2050 and beyond. Societies that invest in strong, forward-looking governance which integrates digital and ESG oversight with appropriate risk management, will build trust, resilience, and the agility needed to respond to changing member and regulatory expectations.
- The sector's ability to shape proportionate, practical regulation and prudential standards, through collective action and robust evidence, will be critical to ensuring mutuals can scale, collaborate, and sustain their distinct model without being hampered by excessive compliance burdens.
- Proactive engagement both collectively (via the Building Societies Association, (the "BSA")) and at board level within individual societies, is essential to drive legislative reform and secure a modern, enabling framework that supports a confident, sustainable mutual sector for the next generation.

As the building societies sector looks towards 2050, a central question is whether the legal and regulatory architecture will actively enable societies to thrive in a transformed financial and technological environment or leave the sector competing at the margins. This chapter takes an aspirational view. Law and regulation can, and should, operate as an enabler of a confident mutual future, setting clear guardrails while creating room for innovation, collaboration and member-led growth, in which building societies are able to spearhead strategic transformation and compete on a level playing field with financial services sector peers, with collective action acting as a catalyst for future change.

1. The legal architecture of mutuality

The Building Societies Act 1986 (as amended) (the "BSA 1986") currently remains the foundational statute governing the way building societies operate. It does more than just define organisational form: it hardwires the mutual bargain into law within a dedicated statutory framework. The BSA 1986 is what makes a building society a building society, rather than a bank with a different name. It enshrines the principal purpose of a building society as being that of making loans which are secured on residential property funded substantially by its members, reinforced by nature limits (the funding limit and lending limit). Importantly, it frames democratic accountability to members, underpinned by the principle of one member one vote, and alongside the broader duties of the directors under common law and equity, as an essential element of how a society operates, rather than a voluntary governance choice.

The current legislative framework has proven remarkably durable since the mid-1980s; it has adapted to major market, regulatory and technological change, including, amongst other things, the demutualisation era of the late 1990s / early 2000s, the introduction of the Financial Services and Markets Act 2000, the global financial crisis of 2008 and significant industry consolidation and transformation.

But durability alone is not enough. Looking to 2050, the regime must keep pace with evolving ways of delivering member value. It must be ready to provide an up to date and practical framework in which building societies as modern mutuals can effectively operate, innovate, collaborate within the sector, while competing on a level playing-field with banks and other industry competitors and minimising unnecessary complexity.

Some particular themes to be addressed through a supportive legal and regulatory regime include ensuring that:

- Societies can meet evolving customer demands by easily extending their products and services (whether digital-first savings products or mortgage features, current accounts, lending, payments or other more diversified services and solutions) in a responsible manner that reflects modern banking practices, without running up against unnecessary friction or barriers.
- Societies are not placed at a practical disadvantage to ring-fenced or other banks in relation to the flexibilities afforded to them.
- Smaller societies have greater access to a comparable range of capital instruments and markets to banking and other industry competitors, enhancing their options for growth and resilience without triggering disproportionate regulatory cost.
- Societies can operate more collaboratively with each other (for example, through the use of jointly operated technology platforms or shared financial crime utilities with other mutuals) without unnecessary legal and regulatory friction and/or uncertainty.
- Societies and their members continue to enjoy the maximum flexibility to operate in an increasingly digital age, including from a customer perspective and in relation to attendance and participation in non-physical member meetings.

Adverse scenario: Macro-economic, geopolitical and pressures consume Parliamentary time; needed reform is deprioritised. If the regime fails to keep pace, building societies cannot realise their full potential, adapt to changing customer demands or compete effectively, leading to the erosion of customer choice.

Positive scenario: The legislative and regulatory regime is modernised in a timely, targeted way; unnecessary friction is removed and reforms keep pace with market developments. Societies gain greater freedom to tailor products and services to customer needs, operate flexibly in a digital environment and pursue new opportunities to strengthen and diversify their business models. A modern framework should also support more effective domestic and international collaboration, including in technology and financial crime infrastructure; alongside this, the PRA's Strong and Simple framework offers real potential for proportionate prudential treatment, enabling societies to redirect resources from compliance processes to member-focused innovation.

2. Governance as a competitive advantage

Good governance should be seen as a strategic opportunity for building societies, creating a competitive advantage. Its focus on accountability, transparency and robust procedures, both to protect members' interests and assets and to reduce the risk of harm, are fundamental to building trust among a society's members, its workforce and its regulators. This can lead to a stronger, more loyal and engaged customer and member base, as well as an ability to attract and retain talent.

Good governance also supports the directors' core fiduciary duty to act in the best interests of the society, with the interests of current and future members - primarily as customers and secondarily as owners - at the heart of decision-making. This underlines the important role governance plays in ensuring that societies seek to understand and assess member interests both in the short and long term. In doing so societies are able to proactively respond to and pre-empt member/customer needs, with a strong emphasis on offering attractive products and high standards of service. At the same time, good governance ensures that societies remain focussed on managing risk and remaining sustainable within a prudent legal and regulatory framework, rather than being principally focussed on external shareholder returns.

By 2050, governance will become an even more critical differentiator. In particular:

- In an increasingly crowded and diversified market within the retail banking sector and with the accelerating disruption resulting from new technologies and changes in consumer behaviour, societies must strengthen member engagement and reinforce the mutual model.
- In an uncertain environment, robust governance will support stronger risk management and faster, more effective decision-making.
- Boards must continue to adapt their skills to address regulatory complexity; proactive identification of gaps, particularly in AI and cybersecurity, will be essential.
- Societies will need to embed Environmental, Social and Governance issues more deeply across their strategy, risk management, remuneration and reporting, with greater scrutiny likely to focus on issues such as climate-related financial risk considerations, social impact and financial inclusion, financial wellbeing, and the use of ethical supply chains.

The most resilient building societies in 2050 will be those that are investing now in enhancing their governance frameworks; approaching governance as a strategic strength and opportunity rather than a compliance obligation.

3. Regulatory futures: a scenario analysis

The regulatory environment in 2050 will be shaped by forces that are, at present, only partially visible today. The table below maps four plausible (non-exhaustive) trajectories. These scenarios are not mutually exclusive; elements of each may materialise in combination.

Scenario	Description	Pressure Points	Implications for building societies
Proportionality Dividend	Regulators use the Financial Services and Markets Act 2023 competitiveness objective to design lighter, better-calibrated rules for smaller mutual institutions.	Political will to sustain proportionality over multiple regulatory cycles; risk of regulatory drift back toward one-size-fits-all.	Boards treat regulatory engagement as strategic. Compliance savings reinvested in product innovation, digital capability and member engagement. Mutual model strengthened.
Compliance Convergence	Internationally driven frameworks covering financial crime, data, operational resilience, and capital become so demanding and uniform that smaller societies struggle to keep pace.	Compliance/technology cost erodes mutual cost-model advantages; pressure toward consolidation or demutualisation.	Early investment in scalable compliance infrastructure essential. Sector-level shared services for certain societies become critical. Otherwise, an existential risk for some societies.
Digital Accountability Inflection	Regulation shifts focus towards AI-governance, algorithmic accountability, and digital consumer protection; creating new expectations for technology-enabled firms.	Societies without adequate digital governance face supervisory scrutiny; but those who lead may gain competitive advantage through trust.	Governance frameworks must integrate technology oversight at board level; digital ethics as a mutual differentiator.
Consolidation Imperative	Regulatory and market pressures, including Strong and Simple eligibility decisions, shared infrastructure governance, and Consumer Duty evidencing, accelerate sector consolidation.	Certain societies face strategic choices — whether to merge, convert, or establish a sustainable niche — but similar questions increasingly arise for less innovative societies, where organic growth alone may not address structural pressures. In all cases, accountability to current and future members and the best interests of the Society remain paramount	Proactive policymaker engagement essential. Strategic consolidation pursued from a position of strength, not weakness strongly preferable. Consolidation, wind down or resolution as a result of regulatory cost/potential distress may be viewed negatively and potentially as a loss for customers/communities; consolidation by strategic choice can amplify mutual scale.

4. Prudential considerations for mutual scale

The prudential framework will be a critical determinant of the sector's shape by 2050. Financial soundness is essential to operate as a deposit taker, sustain depositor confidence, expand lending, and meet regulatory expectations of safety and resilience. The sector already operates within a differentiated prudential landscape; larger societies face more complex capital, reporting and resolution requirements. Smaller societies benefit from simplified prudential treatment benefit, but must actively manage their balance sheets and growth trajectories to remain eligible. Prudential design is therefore likely to operate not only as a risk control mechanism, but as a structural influence on scale, growth and consolidation within the sector.

Capital and leverage requirements should also reflect the risks actually posed by the mutual model. Building societies' concentration in prime residential lending, funded predominantly by retail deposits, can present a different risk profile from that of shareholder-owned banks, yet the framework does not always differentiate accordingly. The leverage ratio in particular can bear disproportionately on low-risk, mortgage-focused balance sheets. Policymakers should also be open to new models, approaches and sources of capital for the sector over the coming decades, whether through instruments, pooled or aggregated issuance by smaller societies, or potentially support from institutions such as the British Business Bank, so that the sector's capacity to grow is not constrained by the structural limits of retained earnings alone.

Adverse scenario: Eligibility for simplified prudential treatment is set too narrowly, or applied rigidly; a structural gap emerges between simplified requirements and the full capital and resolution framework, creating a two-tier sector. Societies approaching scale face disproportionate increases in regulatory complexity and costs, creating a legal disincentive to grow beyond certain thresholds. Regulatory design, rather than member need or commercial logic, becomes the primary constraint on expansion.

Positive scenario: The simplified prudential regime is implemented in a stable and proportionate manner, with eligibility criteria reflecting the risk profile, funding model and governance of mutuals, with clear transition pathways to avoid cliff-edge effects. The distinction between simplified and full prudential requirements supports effective supervision without creating barriers to growth. Qualifying societies benefit from clearer supervisory expectations and reduced complexity, enabling resources to be redeployed toward core mutual activities such as mortgage lending and savings provision, reinforcing the case for mutuality as a durable and distinct model.

5. Consolidation and structural evolution

The drivers of structural change are well-understood. The key test is whether any such change, whether by organic growth, consolidation, or other strategic transactions, is in the best interests of each society's respective members and that the rationale for pursuing a particular opportunity is driven by compelling strategic drivers. Looking to 2050 the question is not only whether societies can meet the required standards and legal and regulatory expectations to remain sustainable for the future, but whether the sector can pro-actively harness these requirements to preserve and enhance member value - through greater scale, collaboration and smarter infrastructure.

6. Law as a Strategic Capability and the Role of the Sector in Shaping Its Future

Law and regulation are not external constraints to be managed: they should be viewed as key enablers. A modernised statutory framework, proportionate prudential and conduct expectations, and a regulatory culture that understands the distinctive governance of mutual institutions are all key building blocks of a sector that can serve the next generation of members as effectively as it has served the last. The BSA 1986 created the modern sector; successor legislation will shape its future, and societies should help drive reform through early engagement and practical proposals.

For policymakers and legislators, the message is equally clear. Building societies are not relics of an earlier financial era: they are a proven resilient and dynamic force within the United Kingdom's financial services sector that delivers real value to communities across the United Kingdom. The legal and regulatory framework should reflect that.

No individual building society, however well-governed or resourced, can modernise the statutory and regulatory framework alone. This requires, amongst other things, parliamentary time, political will and a robust evidence base. This makes the role of the BSA, and the sector's collective engagement through it, central to the modernisation agenda.

The BSA has an important role to play as a co-ordinator and facilitator working closely with societies to translate their operational and practical experience and vision into coherent, future-focused reform proposals that policymakers can act upon.

In the run up to 2050, this means:

- Building and sustaining a cross-party parliamentary coalition for BSA 1986 reform, grounded in the clear public benefit of the mutual model, as acknowledged by both the current and previous Governments, and the important role that building societies play in helping people get access to mortgages to buy homes, supporting long-term savings, improving financial inclusion and providing important financial services to local communities.
- Proactively engaging with the PRA and FCA to shape proportionality frameworks, Strong and Simple eligibility criteria, and Consumer Duty guidance in ways that recognise the distinctive governance and risk profile of mutual institutions.
- Developing robust, sector-wide data and evidence on member outcomes, the compliance burden, and the economic contribution of the mutual model, to make a compelling case for reform to HM Treasury and relevant regulators.
- Exploring, where appropriate, shared infrastructure arrangements, e.g. across technology, financial crime, compliance functions, to enable smaller societies to meet rising regulatory standards cost effectively and sustainably.

Conclusion

- Collective action across the sector will remain essential in the run up to 2050. The societies best placed to prepare for 2050 will be those whose boards treat legal and regulatory strategy and policy engagement as a core capability; for example, actively inputting into consultations, responding to discussion papers, and maintaining direct engagement with the BSA and decision makers to amplify the sector's collective voice, helping to shape the sector's future framework as architects, not as passive recipients.
- However, urgent action is needed now to identify and set out the changes the sector wants to see for the future. If the sector does not act, there is a risk that the existing framework could become a constraint on mutual ambition.
- Legislative modernisation must start today, framed as a national-interest case. The sector must proactively influence and shape both legislation and regulation to secure the outcomes it needs for long-term success.

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