



**National Savings and Investments**  
Annual Report and Accounts 2002-03

national savings  
& investments



**ns&i**

*“I am very impressed  
by what the organisation  
has achieved so far and  
I am determined to  
take it to another level.”*

Alan Cook  
Chief Executive



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## National Savings and Investments

Annual Report and Accounts 2002-03

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**I joined National Savings and Investments as Chief Executive and Director of Savings in September 2002, impressed by all the organisation had already achieved and looking forward to new challenges.**

*Alan Cook*

# A strong force in the market

I was attracted and excited by National Savings and Investments' incredibly strong customer loyalty backed by absolute security, the power of which cannot be underestimated in these times of financial uncertainty. For me personally, the role offers a truly unique opportunity in what has been a long career in retail financial services.

It took me a little while to fully understand the exact nature of the organisation. National Savings and Investments is so many different things to a wide range of stakeholders. It is a Government department; an Executive Agency of the Chancellor of the Exchequer; a source of financing for the national debt; a public private partnership; and most importantly of all, a commercially-run enterprise operating in a competitive market, offering a range of savings and investments products to the public.

National Savings and Investments provides a secure base for any savings and investment portfolio and there is already a strong emotional attachment and affinity for what we offer. My main challenge therefore, is not to just talk products but to look at the reality of all the benefits we bring.

## Achieving ambitious plans

For 2002-03 we had developed ambitious plans to improve the efficiency of the organisation, virtually all of which have been achieved. We now have a clear corporate strategy and most of the systems in place. And with our partners Siemens Business Services and the Post Office, we also have the skills, resources, distribution channels and long-term commitment to move our business forward – for the benefit of both the taxpayer and our customers.

Since our partnership with Siemens Business Services was formed in 1999, customer service levels have been truly transformed. Although calls have increased by 400%, answering times have continued to improve, from 80% of calls being answered within 20 seconds to more than 92% being answered within the same timescale. In addition, sales over the

telephone have increased by 600%. Paper processing times have nearly halved from an average of nine days to under five days. In total 99.2% of performance targets were achieved during 2002-03 and 100% achieved in the last three months of the year.

Progress also continues with the migration of nearly 30 million customer records to our new computer system. We plan to complete this exercise in the coming year, providing an even more efficient and fully integrated service to our customers, no matter how many different products they hold.

It was anticipated that total funds invested in National Savings and Investments would fall by £1.5 billion in 2002-03. However, as financial markets began to suffer and our new capabilities were delivered, it became clear that savers and investors were increasingly looking for safety and security, coupled with a fair return on their savings. This is the essence of National Savings and Investments. The

*“My main challenge therefore, is not to just talk products but to look at the reality of all the benefits we bring.”*

Government's borrowing requirement increased so, in November, we began a marketing and communication campaign to remind existing and inform potential customers of our strengths.

As a result, instead of falling by £1.5 billion, funds actually increased by more than £750 million to £63 billion. This represents 19.5% of the national debt outstanding at 31 March 2003. Our growth was primarily driven by a resurgence in the popularity of Premium Bonds and three successful issues of our new Guaranteed Equity Bond. More than £1 billion of Premium Bonds were sold in the first nine weeks of 2003, while total sales of all of our products for the entire year

amounted to £11.2 billion, up almost £1 billion from last year.

Our Value Added for 2002-03 was £237 million. Value Added measures how cost-effective we are at providing funding to the Government, relative to other methods.

In parallel to the resurgence in sales in the latter part of the year, we developed a detailed and challenging five-year plan, known as Direction 2007, that will grow the level of funds invested in National Savings and Investments.

## Improving speed and effectiveness

During the year we have developed an even closer working relationship with our primary partner, Siemens Business Services. The Siemens Business Services Account Executive Director has now joined our Executive Management Team, a move which improves the speed and effectiveness of our decision-making. This ensures that all decisions continue to be made for the

benefit of our entire business, including our customers, HM Treasury and our partners.

All of this could not have been done without the ongoing support and commitment of our staff. They live our brand values and deliver our customer offer. It has been a transitional time for the people here and everyone

has risen admirably to the challenge.

I am impressed by what National Savings and Investments has achieved so far and I am determined to take the organisation to another level. This year we have been laying the foundations and forming the strategy that will carry us forward. There will be many changes in the coming years that will be exciting, challenging for us and hopefully of great interest and relevance to our customers.

This is the start of my role as Chief Executive and a new beginning for National Savings and Investments.

**Alan Cook**  
Chief Executive

# Our role and responsibilities

National Savings and Investments is one of the largest savings organisations in the UK, offering savings and investment products to personal savers and investors. We are also a Government department and an Executive Agency of the Chancellor of the Exchequer. The money placed with us by customers is used by HM Treasury to help manage the national debt cost-effectively, contributing towards the Government's financing needs.

When customers invest with us they are lending money to the Government, which in return pays them interest or Premium Bond prizes in return. Our products are backed by HM Treasury, making them the most secure cash deposits in the UK market.

#### Our mission

Our aim is to help reduce the cost to the taxpayer of Government borrowing now and in the future. To achieve this, our single strategic objective is to provide the Government with cost-effective retail finance compared with raising funds on the wholesale market.

#### Our vision

We aspire to be a distinct and valued part of most people's savings and investments.

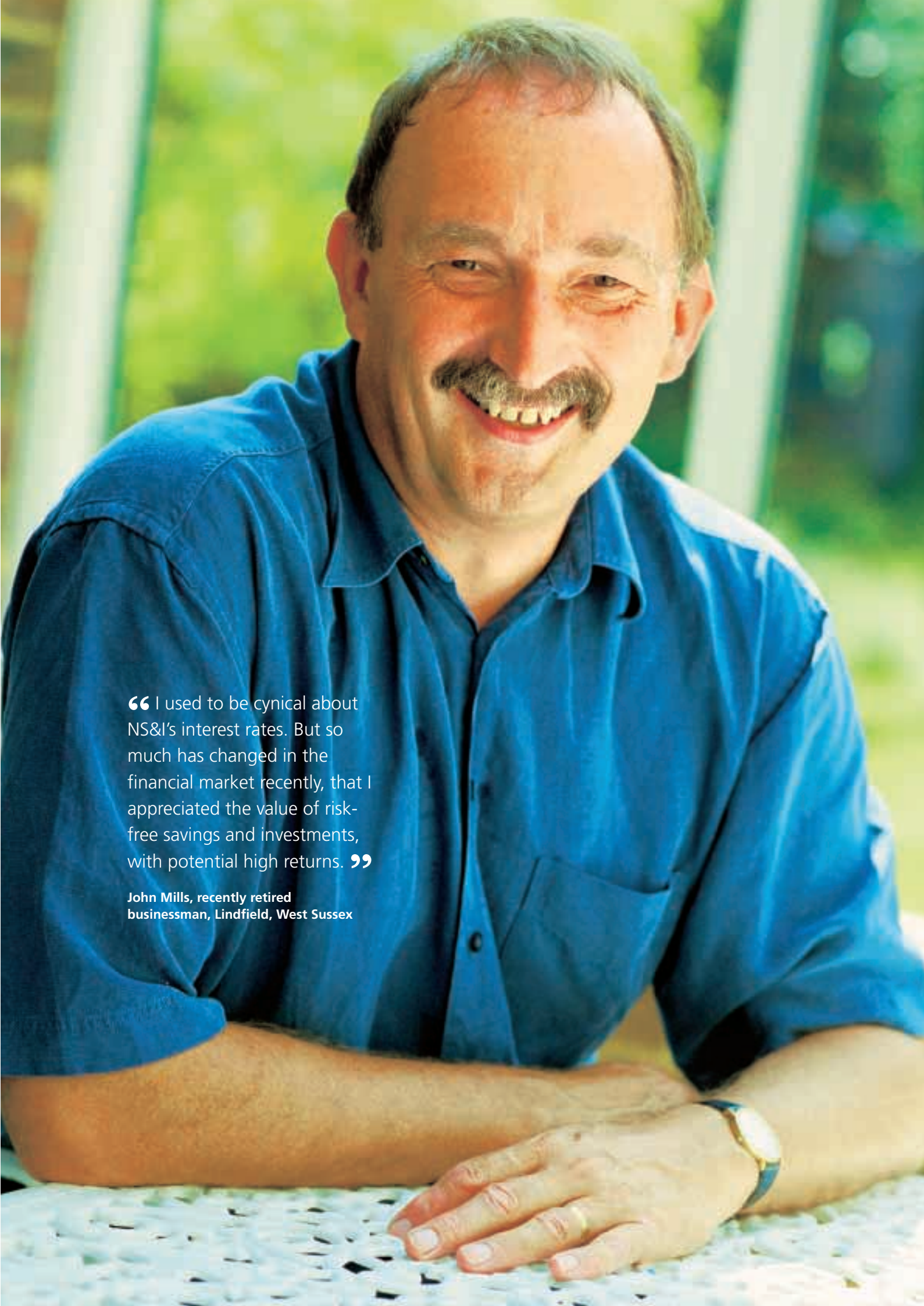


#### To fulfil our vision we will:

- focus on delivering consistently good value to customers
  - build exceptional relationships between the organisations and people involved in delivering the business
- It is by fulfilling our vision that we will achieve our overall objective of reducing the cost of Government borrowing now and in the future.

- **Who we are**  
National Savings and Investments is a Government department and an Executive Agency of the Chancellor of the Exchequer
- **Why we are here**  
Our aim is to help reduce the cost to the taxpayer of Government borrowing now and in the future
- **What we stand for**  
Our business and brand values are security, straightforwardness and integrity – delivered with a human touch
- **How we work**  
We work in partnership with Siemens Business Services and Post Office Limited for our customers
- **How we are changing**  
We are transforming the business with the help of our partners by modernising our operations and improving our customer offer
- **What drives us**  
We aspire to be a distinct and valued part of most people's savings and investments

*Our single strategic objective is to provide the Government with cost-effective retail finance compared to raising funds on the wholesale market*



“ I used to be cynical about NS&I’s interest rates. But so much has changed in the financial market recently, that I appreciated the value of risk-free savings and investments, with potential high returns. ”

**John Mills, recently retired  
businessman, Lindfield, West Sussex**



“ I trust National Savings and Investments to look after my money. When I was seven I opened an **Investment Account** which I still have today because it's simple and convenient. I also have some **Premium Bonds**. Although I can check my numbers on the internet, I think half the fun is finding a Premium Bond prize waiting on the doorstep. ”

**Will Hawkins, Senior Account Manager and sports enthusiast, Andover, Hampshire**

## How we add value

As well as providing value to customers by offering competitive, totally secure savings and investments, we also save taxpayers' money.

When the Government spends more than it receives in income, it borrows money to finance the difference. It does this in two ways:

- by selling gilts (marketable Government bonds) and Treasury Bills – mostly to the wholesale market, such as pension fund managers or investment companies, through the UK Debt Management Office
- by selling savings and investment products to the retail market, ie personal savers and investors, through National Savings and Investments

Money borrowed by the Government is called the national debt, and paying interest on this debt accounts for a sizeable part of the Government's annual expenditure. National Savings and Investments helps to keep down this expense by providing funds at a lower

overall cost than financing the same amount through gilts and Treasury Bills.

Value Added is the name given to the way we measure how cost effective we are at raising finance for Government. The total cost of raising funds, including our operating costs, is compared with how much it would cost the Government to raise funds in the wholesale market.

In order to achieve Value Added we must give customers a fair deal. We operate in a highly competitive market so it is important that we offer products that suit our customers' needs based on security, benefits and returns backed by excellent service.

## Our brand values – simple but powerful

Our brand values are security, straightforwardness and integrity – delivered with a human touch. For our customers this means:

- **Security:** our backing by HM Treasury is fundamental to our business and is unique in retail financial services
- **Straightforwardness:** describing our products and services in easy to understand language
- **Integrity:** earning the respect and trust of our customers
- **Delivered with a human touch:** remembering that customers are individuals and should be treated as such. This is our most challenging and aspirational value, and is the most important one in terms of meeting customer expectations

## Value Added performance

Our actual cost-effectiveness is reported as Value Added. As unanticipated interest movements impact on this, 'delagged' Value Added is used to measure and target business performance. The delagged measure allows for timing differences between product interest rate changes being announced and the rate coming into effect. (See table above right.)

## How we set our interest rates

As with any commercial operation a reasonable return must be provided to both customers and owners. For National Savings and Investments the owner is the taxpayer. The return is assessed by comparing our overall cost of funds with two benchmarks.

## Value Added figures for the last three years

	2002-03*	2001-02	2000-01
	£'million	£'million	£'million
Value Added	224.1	76.3	82.5
Adjustment for timing and other differences	12.7	100.0	34.9
Value Added – delagged	236.8	176.3	117.4

\*The method of calculating Value Added has been refined. The principal change is that whereas previously Value Added for fixed rate products was calculated over the term of the product but accounted for in the month of sale, it is now accounted for month-by-month over the term of the product. This better reflects the value from the stock of fixed rate products. Additionally, there has been a change to how the adjustment for timing differences is calculated.

- The first compares the cost of our variable rate products with the cost of Treasury Bills. These costs are influenced by changes in short-term interest rates, most notably changes to the Bank of England base rate
- The second compares the cost of our fixed rate products with the yield on equivalent gilts  
We set our interest rates to create value and meet our financing requirement, while delivering consistently good value to our customers. We also consider the interest rates and terms and conditions offered on similar products by other providers in the market when making interest rate decisions.

We may adjust interest rates at different times and possibly in different directions because we use different benchmarks for fixed rate and variable rate products. We always try to act fairly and not to favour one group of customers over another. We are transparent in setting our interest rates by adopting policies consistent with both our brand values and our subscription to the Banking Code.





# The impact of market conditions

**Overall, the market conditions of the last year have been favourable for National Savings and Investments as savers and investors increasingly look for safety and security, coupled with fair returns.**

The UK savings and investments market has been through a difficult two years, with the stock market falling from an all-time high to a six-year low, and interest rates falling further to their lowest level for more than 40 years. This has created some of the most challenging times for savers and investors.

One of the notable effects of the reductions in stock market values is the impact on pensions and endowments, the values of which have been hit severely in recent times. Many people are now expecting to have less than originally anticipated when they retire.

There is a greater degree of caution in making investment decisions, combined with a heightened level of uncertainty. Investment in equity backed ISAs has

reduced significantly compared to previous years, leaving investors with funds available for other products.

Institutions have responded by launching safer products such as Guaranteed Equity Bonds and Fixed Term Bonds. With a few notable exceptions, there has also been a reduction in specialist competitors offering attractive introductory rates to savers willing to use direct channels without offering 'face-to-face' service.

National Savings and Investments faces competition from a wide range of sources within the low-risk investment markets, including deposit account providers, cash ISA managers and suppliers of products with a varied bond portfolio.

# Key figures

## 2002-03

Over the past year National Savings and Investments has increased the total invested by customers, more than met our Value Added targets and firmly established the call centre and the internet as ways of communicating with our customers.

### Financial results

**£63.1 billion** total invested by customers in National Savings and Investments at the end of the year

**£784 million** net financing for Government during the year

**£237 million** Value Added (delagged) for the year after allowing for operating costs

**£160 million** net operating costs of National Savings and Investments

**£11.2 billion** gross sales of all National Savings and Investments products

**£4.75 billion** National Savings and Investments Premium Bonds sales. More than £604 million of Premium Bonds were sold in February 2003, at the time the highest level of monthly sales recorded since their launch in 1956

**£500 million** telephone sales

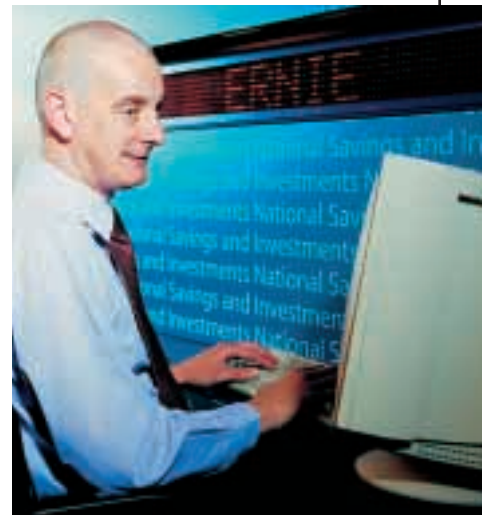
**£147 million** sales generated via the internet

**£4.7 billion** sales through the Post Office

**50 million** transactions processed by Siemens Business Services

**17 million** customer transactions via the Post Office

**2 million** calls to the call centre, up 21% on last year



# Creating customer focus

**We value our customers and are developing many new ways of doing business with us. We need to understand how our customers want to contact us and what is important to them. This is one of our reasons for our subscription to the Banking Code.**

## Website

The new internet site, [www.nsandi.com](http://www.nsandi.com) was launched on 17 July 2002. The website is now easier to read and navigate. It also offers several new features including an on-line Premium Bonds prize checker, an investment calculator, a product chooser, and the means to purchase some products on-line, making it easier for customers to save and invest with us.

The popularity of the internet site has

grown significantly during 2002-03, with the average number of visitors nearly trebling throughout the year to up to 30,000 per day. The website generated £147 million in sales during 2002-03.

Feedback from customers and staff plays an invaluable role in shaping the website as we continually seek ways to improve it.

## Post Office advisers

Over the last year National Savings and

Investments has been trialling visits by advisers to Post Office branches. The advisers talk to customers about our products and promote sales by training and encouraging Post Office staff.

Results from the 160 Post Office branches in the trial are favourable, achieving an average 12.5% increase in sales after taking into account market conditions. Customer feedback was also positive, with more than 99% of those surveyed in favour of National Savings and Investments staff visiting Post Office branches on a regular basis.

Advisers are now visiting 250 of our top-selling Post Office branches across the UK. If this proves a success, additional branches could be added. Success is being measured, not just by sales but also by customer and staff feedback from all the Post Office branches taking part.

## Banking Code – customer commitment

National Savings and Investments subscribes to the Banking Code which sets standards of good banking practice. Our application to the Code was submitted and approved by the Banking Code Standards Board in November 2002. Our subscription started on 1 March 2003 when the new Banking Code came into effect.

As a voluntary code, the Banking Code allows competition and market forces to work encouraging higher standards for the benefit of customers. Key commitments of the Banking Code are:

- Act fairly and reasonably in all our dealings with you
- Help you to understand how our financial products and services work
- Deal with things that go wrong quickly





- and sympathetically
- Publicise the code, have copies available and make sure our staff are trained to put it into practice

**By subscribing to the Banking Code, National Savings and Investments will:**

- Advise variable rate product holders with more than £500 in their account, of interest rates that apply to their accounts and other variable rate products over the last 12 months
- Advise customers with non branch-based products personally, and others through Post Offices and press adverts, all within 30 days of interest rate changes
- Advise variable rate product holders with £250 or more in their account if National Savings and Investments alters the

interest rates on their accounts by more than 0.5% in relation to the base rate over a 12 month rolling period

- Provide all customers with the opportunity to 'opt out' of marketing mailings at least every three years

**Marketing communication – a record year**

In 2002-03 record sales of over £965 million were directly attributed to our marketing communication campaigns. By promoting our products and the key benefits that no other financial provider can match – 100% security for 100% of their investment – we were able to offer customers the security they were looking for in unstable market conditions.

We also achieved record levels of

investment in Premium Bonds during the course of the year. Customers attracted by potentially high stock market linked returns but with no risk to their capital invested in three further issues of our FTSE™ based Guaranteed Equity Bond.

**Guaranteed Equity Bond**

In 2002-03 we sold three successful issues of our Guaranteed Equity Bond. Media coverage and research shows that the simplicity and security of the product is proving popular with both existing and new investors.

Existing customers looking to expand their savings portfolio are attracted by the potentially high returns, while being reassured that their capital is guaranteed by the security offered by National Savings and



“ My parents gave me **Savings Certificates** as a child and I’ve continued with this family tradition. These days it’s the tax-free benefit that is important to me as well as the security. I’d like to think that I’ll win the million pound **Premium Bonds** prize, but if I don’t... Well, there’s always next month. ”

**Mrs Marjorie Blennerhassett, volunteer worker with a child contact centre, North West England**

Investments. The Guaranteed Equity Bond also appeals to new customers such as investors who want a low risk opportunity for equity-linked growth potential.

## Brand implementation

Since the new National Savings and Investments brand was launched in February 2002, research carried out by an independent research agency\* shows that there has been a significant improvement in the likelihood of customers considering purchasing our products. This improvement was not as a result of advertising. The name change has brought with it an increased perception as a serious place to save and clearer links to investment products.

\*Source: Millward Brown

The research results illustrate we have a clearly defined position, providing tax-free products for the serious investor while maintaining a wide appeal and offering security of capital as well as a fair return.

We have continued to phase in the new brand identity ensuring we minimise cost and disruption. More than 70% of forms and letters have been updated with the remainder due to be completed by March 2004.

Major milestones included redesigning all our sales brochures and Post Office posters and rebranding all National Savings and Investments sites to ensure a consistent look and feel in all locations.

## Tracing Service

Successfully launched in November 2001, our free Tracing Service which helps customers track down any forgotten or lost funds invested in our products, is proving particularly newsworthy. As a result of the large amount of favourable media coverage, awareness of the service continues to grow with enquiry levels doubling to more than 2,000 each month.

During 2002-03 we successfully traced assets to the value of £4 million on behalf of 3,900 customers. Over that period more than 16,800 customers have made an enquiry about the service.

## Media relations

2002-03 saw a significant improvement in National Savings and Investment's media coverage. The introduction of new products such as our Guaranteed Equity Bond, and enhancements to other products gives us much more to talk about. Journalists also have a greater appreciation of the value of our unrivalled security in the face of a falling stock market.

The appointment of a new Chief

Executive generated significant interest in National Savings and Investments, which is increasingly viewed by the media as a modern and competitive financial institution. In addition, our new brand name – National Savings and Investments – began to be consistently used and recognised within the media.

For the first time in more than 10 years the Premium Bonds £1 million jackpot winning number is now being announced each month on national radio and television. In February 2003, Classic FM agreed to announce the winning number and in March, ITV started broadcasting the



*Sponsorship is highly successful in raising awareness of our new name and improvements to our products and services.*

number during its 'Good Morning' television show.

We launched 'Unlocking Britain's Best Kept Secret', our campaign to promote Premium Bonds. The subsequent increase in media coverage helped further raise the profile of our full range of products and services.

Daily Mirror readers once again voted us 'Best Savings Provider', our second consecutive award in the 'Mirror Money Awards'.

## Sponsorship – Classic FM

Throughout 2002-03 National Savings and Investments sponsored the Classic FM Breakfast Show which has the largest audience of all commercial radio programmes. Research shows that the

sponsorship is highly successful in raising awareness of our new name and improvements to our products and services.

## Customer satisfaction

In November 2002, National Savings and Investments introduced a new way of monitoring how satisfied our customers are with the organisation as a whole. Telephone surveys now allow customers to feed back their reactions on topics ranging from our products and services to how valued they feel as a customer.

In the coming year we will be using these results to establish how we can further increase our levels of customer satisfaction.

## Telephone mystery shopping

November 2002 saw the introduction of a programme of telephone mystery shopping to assess the level of service our customers are receiving.

Specialist mystery shopping researchers make approximately 250 calls to our call centre each month, using a variety of different scenarios to make sure that the information given to customers is communicated in the best possible way. Results have been very positive and are fed into staff training so that we can continually improve our customer service.

## Customer understanding

We regularly research both our industry and our customers to ensure that we have a detailed understanding of the needs and attitudes of savers and investors. This is important to us because we want to make sure that we continue to meet the needs of our customers. Through this knowledge we can plan and deliver better products and services.

## Freedom of Information

Under the Freedom of Information Act 2000, each public authority is required to produce a Publication Scheme explaining the different types of information it intends to publish. The scheme outlines how the information will be published and whether it is available free of charge or on payment. Our Publication Scheme can be found on our website or requested in hard copy. If you cannot find the information you are looking for this may be because it is exempt from publication under the Act.

If you would like further information about our Freedom of Information service please check the website [www.nsandi.com](http://www.nsandi.com) or email [foi@nsandi.com](mailto:foi@nsandi.com) for further details.



## Defining our business ...our products

We are committed to keeping our range of products under review so that we continue to meet the changing needs of our customers. We have tax-free investments for taxpayers, gross-paying investments for non-taxpayers, and savings schemes for all ages.

### Premium Bonds

**£1 million jackpot and hundreds of thousands of other prizes every month**

Your chance to become a millionaire overnight! There are over 700,000 prizes – including a guaranteed £1 million jackpot – every month. And all prizes are tax-free. You can invest between £100 and £30,000 and get your money back whenever you choose with no notice and no penalty.

### Index-linked Savings Certificates

**Beat inflation, tax-free**

Ideal if you want to be sure of protecting your money against inflation, tax-free. The value of Certificates moves in line with the Retail Price Index – a commonly used measure of inflation – as well as earning interest at guaranteed rates. There is a choice of terms on offer, currently three or five years. You can invest from £100 to £10,000 in each issue, and this is in addition to your ISA allowance.

### Fixed Interest Savings Certificates

**Guaranteed returns, tax-free**

When you want to know at the outset exactly what return your money will earn. There is a choice of terms on offer, currently two or five years. You can invest from

£100 to £10,000 in each issue even if you already have an ISA. The return is tax-free.

### Guaranteed Equity Bond

**Stock market returns without risking a penny**

This popular new investment opportunity offers you the chance to benefit from the growth potential of the stock market without compromising security. Even if the stock market falls, the capital will always be returned in full at the end of the five-year term because it is backed by HM Treasury. The minimum you can invest is £2,000 up to a maximum of £1 million in each issue.

Guaranteed Equity Bonds are only available for limited periods.

### Income Bonds

**Regular monthly income with tiered interest rates**

These pay you monthly income at variable rates of interest, with six weeks' notice of any change. Although the interest is taxable, it is paid gross. You can invest between £500 and £1 million. There is a higher rate of interest for investments of £25,000 and over.

### Children's Bonus Bonds

**Invest tax-free for your child's future**

A child can earn interest at a rate fixed for five years at



a time, with a guaranteed bonus every fifth anniversary. Bonds mature on their 21st birthday, when a final bonus is paid. They can be bought by anyone aged 16 or over for a child under 16. All interest and bonuses are tax-free, even if the child starts work and becomes a taxpayer before cashing in their Bond. You can invest from £25 to £1,000 in each issue.

**Pensioners Guaranteed Income Bonds**  
**Guaranteed monthly income with a choice of terms**

Specially designed for you if you're aged 60 or over, these pay monthly income at a guaranteed rate. There is a choice of terms on offer, currently one, two or five years. Although the interest is taxable, it is automatically paid gross. You can invest from £500 to £1 million.

**Fixed Rate Savings Bonds**  
**Guaranteed returns, flexible terms**

Gives you the certainty of knowing exactly what return you will get on your money. The Bond is a lump sum investment that earns guaranteed rates of interest, with a choice of reinvesting interest to grow your investment or receiving an income – either annually or monthly. There is also a choice of terms on offer, currently one, three or five years. Interest is paid net and you can invest from £500 to £1 million.



**Capital Bonds**

**Fixed rates that rise over five years**

You have the security of knowing exactly what you will be paid when your Bond matures. The rates of interest are guaranteed over five years. Although the interest is taxable, it is paid without deducting income tax. You can invest from £100 to £1 million.

**Investment Accounts**

**Straightforward savings account**

This is a one month notice deposit account which offers you variable tiered rates of interest and a passbook. Deposits can be made at Post Office branches. Although the interest is taxable, it is paid gross. You can use this account for regular savings by standing order from a bank or building society account. The minimum for each deposit is £20 and you can save up to £100,000.

**Ordinary Accounts**

**Instant access to your money over the counter at Post Office branches**

An instant access account which you can operate with a passbook. You can make deposits and withdrawals at Post Office branches and the first £70 of interest each year is free of tax. The minimum for each deposit is £10.

**Cash mini ISAs**

**Tax-free saving the easy way**

Our Cash mini ISA is a straightforward tax-free savings account offering you a competitive variable rate of interest. It fully meets the government's CAT standards, which means no Charges, easy Access and fair Terms. Our Cash mini ISA can be opened with just £10 and you can invest up to £3,000 each tax year. We also offer a TESSA-only ISA for those with maturing TESSAs.

**Treasurer's Accounts**

**Specially for non-profit organisations**

This is a deposit account specially designed for non-profit-making organisations such as charities and clubs. Interest rates are variable and tiered, and the interest is automatically credited gross. Organisations can make withdrawals and check the details of their account by telephone.

# Partnership and business transformation

**In April 1999, following a competitive tendering exercise, the operations part of National Savings and Investments was outsourced to Siemens Business Services. The partnership is for 10-15 years and is at the heart of the business transformation programme.**

The contract is one of the largest outsourcing arrangements of its kind in both the public and the financial services sector. One of the most innovative elements of the contract with Siemens Business Services is the creation of joint goals at all levels through both organisations. This partnership is at the heart of the business transformation programme.

### **Continuous improvement**

Throughout 2002-03 there has been a focused drive to improve our operational processes and procedures. Every part of the organisation will benefit from the adoption of a structured approach to reducing waste

and eliminating processes which add no value to the end product delivered to our customers. This approach uses techniques, already proven to work in other financial services organisations, and engages our staff in the continuous improvement process. The result has been a more streamlined approach and improving customer response times.



### **Operational and customer service**

In 2002-3 Siemens Business Services met 2,300 of its target of 2,319 key performance measures, a success rate of 99.2%. This success rate was particularly impressive as we conducted our largest ever Premium Bonds marketing and communications campaign during the year. The success of our joint working and whole business approach enabled us to maintain our high standards of service to customers during the campaign.

During 2002-03 National Savings and Investments issued a temporary relaxation on some performance areas to allow for system changes and process improvements. Siemens Business Services processed more than 50 million customer transactions and responded to customers with an average turnaround of 4.8 days for sales, payments and general correspondence.


### **National Audit Office partnership review**

The partnership between National Savings



“ Janet is good with money. We decide on most things together and share things out. We are putting our money into **Premium Bonds** to help save for a new car. Premium Bonds are like a liquid asset waiting for that rainy day. ”

Ron Fletcher, musician and digital photographer, husband of Janet, Doncaster, South Yorkshire



“ Ron is more cautious with his money than I am. He's very steady and dependable. We buy **Premium Bonds** on a monthly basis so it's like having regular savings but with the opportunity to win a better return. ”

Janet Fletcher, wife of Ron, Doncaster,  
South Yorkshire

and Investments and Siemens Business Services was reviewed by the National Audit Office. The primary function of the review was to determine whether the partnership had delivered what it had intended to deliver and whether it still represented value for money for the taxpayer.

Overall the report, published on 8 May 2003, gave a positive account of the partnership, highlighting that any issues and

*The contract is one of the largest outsourcing arrangements of its kind in both the public and the financial services sector.*

difficulties had been identified and addressed. It also outlined the lessons learned from the experience and that a whole business focus was key to the success of the partnership. The NAO review concluded that the partnership has led to improvements in customer service and cost.

#### **Siemens Business Services – Investor in People**

Siemens Business Services successfully gained Investor in People re-accreditation in April 2003. This national standard sets a

level of good practice for improving business performance and provides the framework for integrating our people and business strategies. This ensures that there is a structured approach to continually reviewing and improving learning and development activities.

The Investor in People report was very positive and praised a number of changes introduced over the previous year, notably regular business update briefings, training and continuous development.

#### **Euro compliance planning**

HM Treasury guidance recommends all Government departments and agencies make preparations for euro conversion if a decision is made to join the European single currency. Together with Siemens Business Services we developed a product-by-product review to fully understand the extent of systems and process conversion. The plan was completed during a six month period and has provided assurance that

should be able to meet the timetable for conversion as set by HM Treasury.

The conversion plan includes costs and timings that can be used if needed and is reviewed on a quarterly basis to ensure that it remains relevant.

#### **The Post Office**

The Post Office continues to be our main sales channel. Greater emphasis is being placed on increasing the value of branch and direct sales. This is instead of the traditional approach based primarily on the volume of transactions taking place and work continues to develop contract payments that reflect the changing nature of our relationship.

The Post Office is in the process of a major change programme and we support its aspirations to build an organisation based upon both quality of service and growth through sales revenues. By our joint involvement – in areas such as sales promotion, counter staff training and incentive schemes – we aim to develop common goals that benefit both businesses.

#### **Independent Financial Advisers**

Recent market conditions have meant that consumers are showing an increased interest in risk-free, low cost savings and investments. Independent Financial Advisers (IFAs) increasingly want to demonstrate added value and impartiality, providing clients with comprehensive advice including recommendations on cash-based savings and investments.

We are seeing tangible rewards from building our relationships with Independent Financial Advisers, with business more than doubling over the year. There has also been a marked increase in positive comments from IFAs who speak to the media.

Our success has been achieved by increasing our visibility among IFAs. Throughout the year we have attended a number of Financial Adviser focused exhibitions, conferences and events, and canvassed opinion on products and services offered by National Savings and Investments. We have also tailored specific marketing campaigns for IFAs generating renewed interest in our product range.



# Management and change

**The National Savings and Investments Board has changed significantly since the last Annual Report. Alan Cook was appointed as Chief Executive from 30 September 2002, following Peter Bateau's retirement on 30 August 2002. Trevor Bayley was acting Chief Executive in the interim and was also appointed as Deputy Chief Executive from 30 September 2002.**

On 30 August 2002 Scott Speedie retired as Personnel Director, and Jeannie Bevan resigned at the end of October 2002. At the end of 2002-03, the Treasury representatives on the board, Paul Mills and Stephen Evans, moved on to other roles within the Treasury and were replaced on the Board by Sue Owen and Allison Holland. Sue Owen is a Director within Macroeconomic Policy and International

Finance and Allison Holland has replaced Paul Mills as head of the Debt and Reserves Management team.

Sandra Postles joined the Board as Human Resources Director in July 2003 and John Prout joined in the newly created post of Sales Director at the beginning of August 2003.

Having worked with us for the last six years non-executive Directors James Turner and Judy Lowe left National Savings and Investments at the end of August 2003 following the completion of their maximum two terms of appointment. Paul Spencer and Michael Medicott have been appointed as replacements and started on 1 September 2003.

*We are committed to equal opportunity in all our employment practices, policies and procedures.*

## **Whole business**

In line with managing National Savings and Investments with a single business focus we have recognised the need to continually improve and make changes. This includes making decisions based on what is best for the whole business rather than for NS&I and Siemens Business Services individually.

As the partnership with Siemens Business Services continues we have both changed our respective joint governance structures to ensure that the whole business approach is fully adopted, taking into account future corporate as well as operational strategy.

## **Looking after our staff**

We are committed to equal opportunity in all our employment practices, policies and





procedures. No existing or potential employee will receive less favourable treatment due to prejudice of any kind.

National Savings and Investments qualified as a user of the 'Positive about Disabled People' (Two Ticks) symbol in 1996. We continue to meet and frequently exceed the five commitments to action.

The application and impact of our employment policies, practices and procedures, including those covering recruitment, promotion and performance appraisal, are monitored to ensure equality of opportunity for all our disabled staff. We also provide special equipment or assistance required by disabled staff to help them to perform their job.



### **Recruitment monitoring**

National Savings and Investments has a monitoring system in place to ensure that recruitment is carried out on the basis of fair and open competition. Selection is based on merit, in accordance with guidelines laid down by the Civil Service Commissioners, and is subject to internal and external audit.

During 2002-03 there were a total of 24 appointments, which is summarised in the table on page 32. There were no permitted exceptions to the recruitment principle of fair and open competition.

# Future business – Direction 2007

**Our modernisation strategy began in the mid-1990s. It resulted in an ambitious transformation programme targeting improved efficiency, capability, customer service and reduced cost to the taxpayer of Government borrowing.**



Central to this modernisation was a 10-15 year public private partnership with Siemens Business Services to manage, re-engineer and improve the efficiency of the business operations.

The 2002-03 corporate plan focused on continuing the delivery of the modernisation strategy. We also undertook a major review of our corporate strategy to ensure that we are well positioned for the future. The output of this review was a five-year strategic plan, 'Direction 2007', to deliver significant growth and focus on the customer as the centre of value creation, building on the modernisation of the business.

Through 'Direction 2007' we aim to grow total financing by £10 billion over five years and add incremental Value Added as we continue to deliver against our value based objective. 'Direction 2007' touches on all areas of the business and is built around five core statements of intent:



#### **We will enrich our customer knowledge**

- by further developing our data warehouse, building on the data with additional customer information and applying our detailed customer understanding. Once delivered, this will allow greater tailoring of offers and marketing materials to key customer segments and improved targeting.

#### **We will refresh our existing product portfolio and seek new product opportunities**

- by introducing enhancements to existing



products, developing several major products to meet customer needs not served by the existing portfolio and managing remaining legacy products and systems.

performance management arrangements and increasing empowerment of employees by harnessing capabilities across the whole business.

*Direction 2007 delivers significant growth and focuses on the customer as the centre of value creation, building on the modernisation of the business.*

**We will build and manage a multi-channel sales capability in line with customer preferences**

- by rapidly developing call centre capacity and operator capabilities, revitalising the role of the Post Office – our most prominent sales and distribution channel – testing the scale of the appetite of alternative sales/distribution partners through pilots and steadily extending the scope of our electronic channels.

**We will deliver an efficient and effective operations business**

- by increasing the amount of fully automated electronic transaction processing, completing the migration of products on to a single banking system and re-engineering a number of the core business processes to improve efficiency in the back-office.

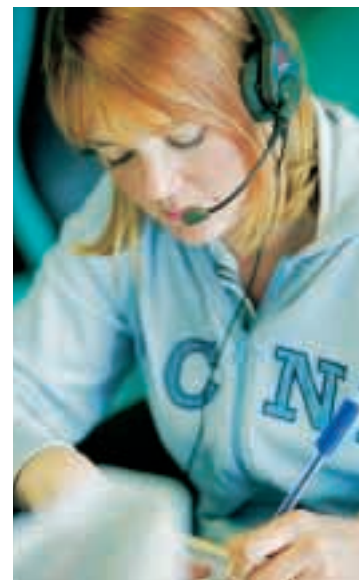
**We will significantly develop organisational capability and instil new ways of working**

- by establishing a responsive, 'networked' organisational structure, refining the

**Corporate Plan 2003-04**

Our Corporate Plan for 2003-04 encapsulates the mobilisation and first stages of delivery of the five-year strategic plan, highlights of which include:

- continuing to provide cost-effective financing for the Government in line with the targets agreed with HM Treasury
- applying the customer understanding to the data warehouse
- marketing to significant numbers of customers through direct campaigns
- raising the maximum investment limit on Premium Bonds
- reviewing and updating our product range
- expanding the call centre and training operators
- increasing the automation of business processes
- restructuring the organisation – creating a sales directorate and refining a number of functional teams – and realigning the governance and management of the business.





“ There is no one company that offers a ‘perfect match’ for our clients’ entire financial needs. The ‘art’ is to put together a financial plan that makes the most of assets available, taking into consideration the personality of the client, while still maintaining a balance between risk and returns. National Savings and Investments can be an integral part of that balance. ”

**Gillian Cardy, ‘Professional Partnerships’  
Independent Financial Adviser, London**

# Summary of unaudited accounts

The resource accounts on pages 30-64 only cover the administration of National Savings and Investments. Separate accounts are produced for our products and will be published later in the year. A summary of the unaudited product figures are provided below.

## Transactions and funds invested by product (unaudited)

Product	Unaudited Received from investors	Unaudited Interest and prizes earned	Unaudited Paid to investors including tax deducted at source	Unaudited Invested at 31 March 2003	Audited Invested at 31 March 2002
	£'million	£'million	£'million	£'million	£'million
Premium Bonds	4,750	427	(2,765)	19,711	17,299
Fixed rate products	3,742	1,046	(5,728)	24,158	25,098
Variable rate products	2,756	601	(3,610)	18,833	19,086
Products no longer on sale	–	18	(453)	400	835
<b>TOTAL</b>	<b>11,248</b>	<b>2,092</b>	<b>(12,556)</b>	<b>63,102</b>	<b>62,318</b>


## Transactions with investors (unaudited)

	Unaudited 2002-03	Audited 2001-02
	£'million	£'million
Received from investors	11,248	10,295
Interest and prizes earned	2,092	2,447
	13,340	12,742
Paid to investors	(12,547)	(13,067)
Tax deducted on interest	(9)	(11)
	(12,556)	
Increase/(decrease) in liability to investors	784	(336)
Funds invested at the beginning of the year	62,318	62,654
Funds invested at the end of the year	63,102	62,318

# Targets how we performed

The following tables shows our performance against our published targets, as reported in the previous two annual reports. We also show our current and future targets.

## Targets 2000-01

<b>Financing remit</b> To work within the terms of the financing remit	<b>Met</b>
<b>Efficiency and customer service</b> To establish a baseline for cost income ratio and pilot two alternative business efficiency measures	<b>Met</b>
97% of all customer sales documents to be issued within agreed timescales	<b>Met</b>
98% of all customer sales documents to be 100% accurate	<b>Met</b>
97% of all customer payment documents to be issued within agreed timescales	<b>Met</b>
98% of all customer payment documents to be 100% accurate	<b>Met</b>
97% of all after-sales customer correspondence to be responded to within agreed timescales	<b>Met</b>
<b>Milestone targets</b> To develop a more commercially focused relationship with Post Office Limited, with enhanced and extended Key Performance Indicators for inclusion in new contract while reducing the overall level of charges	<b>Met</b>
 To ensure the major components of the Business Transformation programme – single customer view, data warehouse and new channel delivery – are completed to plan. Our emphasis this year was on telephony, with the development of call centre facilities exceeding expectations, while the e-commerce development was rescheduled to better fit our business strategy	<b>Met</b>
To develop and publish a National Savings and Investments Customer Code	<b>Met</b>

## Targets 2001-02

<b>Financing remit</b> to work within the terms of the financing remit	<b>Met</b>
<b>Efficiency</b> to establish an indexed supplier transactions costs measure	<b>Met</b>
<b>Customer service</b> to show a measured annual improvement in comparative benchmarked levels of service	<b>Met</b>
to improve specified timeliness of targets by an average of 5% a year until 2004	<b>Met</b>
<b>Milestone targets</b> to implement 24x7x365 telephony service by December 2001	<b>Met</b>
to implement an electronic transaction option for all investment products by 31 December 2002	<b>On target</b>
to introduce effective benchmarks for all access channels as they come on-line	<b>no new channels established</b>



The target tables for 2000-01 and 2001-02 show our performance against published targets as reported in the previous two annual reports. Opposite: the table for 2002-03 summarises our objectives, targets, measures and performance for 2002-03 and the table for future targets shows our goals, objectives and performance measures for 2003-04.

### NOTES: TARGETS 2002-03

1. Our website enables customers to download application forms for all products and during 2002-03 online sales functionality was added for all products on the single banking system, except GEB and Capital Bonds (which was only transferred onto the single banking system in the final quarter of the year). The business case for providing an electronic transaction option for these products will be assessed in due course.
2. An interim review of business performance reporting formats was undertaken in 2002-03 while awaiting the completion of the strategy review and a more comprehensive assessment of performance measures.

## Targets 2002-03

Objective	Agreed Target	2002-03 Measure	2002-03 Target	Performance
To deliver an agreed amount of Added Value and level of net financing, while still maintaining and enhancing the long term value of the NS&I business	Targets agreed annually with HM Treasury before the start of the financial year	Minimum Value Added requirement	Confidential	<b>Met</b>
		Assumed Net Financing (with range)	£0.5 billion (+/-£0.5 billion)	<b>Met</b>
To raise customer service levels and establish appropriate benchmarks	Measured annual improvement in comparative benchmarked levels of service	Performance against accuracy Key Performance Indicators (KPIs)	98.5%	<b>Met</b>
	Improved specified timeliness targets by an average of 5% a year until 2004	Percentage improvement from the average experienced across 2000-01 to the average across the current year in the average targets set for Timeliness KPIs with Siemens Business Services	10% (over 2 years)	<b>Met</b>
		Performance against Timeliness KPIs	96%	<b>Met</b>
To improve availability of customer access to best practice standards	By 31 December 2001 implement 24x7x365 telephony service	Extend capability against products migrated and new products	Continue	<b>Met</b>
	By 31 December 2002 implement electronic transaction option for all investment products	Capability against products migrated and new products	Continue and implement e-sales	<b>Partly met<sup>1</sup></b>
	To introduce effective benchmarks for all access channels as they come online	Introduce status report	Introduce and maintain as appropriate	<b>Met</b>
To make continuous improvements in quality and efficiency	Efficiency milestones, set annually by Ministers, according to the Business Plan and market conditions. Subject to the Value Added and net financing targets	Establish indexed transaction costs measure	Improve underlying data	<b>Met</b>
		Review business performance measures	Agree measures/reporting	<b>Partly met<sup>2</sup></b>

## Future targets 2003-04

Goals	Objectives	Performance Measures	Targets
1. To achieve the financing remit and improve efficiency	To create at least an agreed amount of Value Added	Absolute amount of Value Added	Confidential
	To raise an amount of net financing within an agreed range	Absolute amount of net financing from all our products	£1.5 billion (mid-point range)
	To invest in capability and subsequently return the efficiency of administering total funds to the level achieved in 2002-03	Ratio of our total administrative costs to average funds invested by customers	Less than 30 basis points
2. To improve the effectiveness of fraud management	To minimise the proportion of fraud resulting in actual loss	Ratio of net fraud losses after blame assessment to the total fraud detected	Less than 25%
3. To improve our accessibility for customers	To increase the proportion of our customer transactions <i>capable</i> of being carried out via non-paper based means	Ratio of the number of customer transactions capable of being carried out via non-paper based means to the total number of customer transactions	At least 60%
	To increase the percentage of customer transactions with us <i>actually</i> carried out by non-paper based means	Ratio of the number of customer transactions actually carried out via non-paper based means to the total number of customer transactions	At least 20%
4. To maintain the current high levels of customer service and satisfaction	To achieve consistent accuracy in meeting increasingly challenging targets	Average performance against Accuracy Key Performance Indicator targets	At least 98.5%
	To achieve consistent timeliness in meeting increasingly challenging targets	Average performance against Timeliness Key Performance Indicator targets	At least 96%
	To establish and then exceed a threshold level of customer satisfaction	New measure to be established during 2003-04	Establish new measure

## The Board

There have been many changes to the Board since the end of the 2002-03 financial year. As we have published this Annual Report in September 2003 we have also included the changes to the Board within our Corporate Governance section on page 20.



**Alan Cook**  
Chief Executive  
New Director of Savings and  
Department Accounting Officer.  
Appointed in September 2002.



**Stephen Evans**  
Debt and Reserves  
Management  
HM Treasury  
Appointed – 27 September 2000



**Trevor Bayley**  
Deputy Chief Executive and  
Finance Director  
Responsibility for relationship with  
HM Treasury, accounting, planning,  
project management, budgeting,  
compliance, audit, risk  
management, management  
information and product pricing.



**Judy Lowe**  
Non-executive Director  
Appointed – 1 September 1997



**Gill Cattanach**  
Commercial Director  
Responsibility for delivery of the  
customer offer, including customer  
service and customer relationship  
management.



**Paul Mills**  
Team Leader, Debt and  
Reserves Management  
HM Treasury  
Appointed – 27 September 2000



**Steve Owen**  
Partnerships and Operations  
Director  
Responsible for managing key  
relationships with Siemens  
Business Services, Post Office  
Limited and other suppliers.



**Maria Stafford**  
Non-executive Director  
Appointed – 1 January 2002



**Richard Wright**  
Non-executive Chairman  
of the Board  
Appointed – 1 January 2002



**James Turner**  
Non-executive Director  
Appointed – 1 September 1997