

Charity risk survey

Attitudes and approaches to risk in the voluntary sector





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Foreword

Views on risk management from Amy Brettell, Head of Charities and Social Organisations at Zurich and Caron Bradshaw, Chief Executive of CFG



Zurich Insurance is pleased to have teamed up with Charity Times to produce this snapshot of how charities view risk in their businesses.

Increasingly the shape of risk for the voluntary sector means there is a bigger impact and wider repercussions when things don't go to plan. It is good to see from this survey that risk management is taken seriously and most charities go beyond their regulatory duties to identify and manage threats to their organisation. I realise this is not easy when many charities may only have the capacity to fire fight at present.

Looking at the responses to this survey, unsurprisingly financial security is front of mind for all sizes and all sorts of charities. There seems to be a general confidence in current and individual ability to deal with financial risk, however it is obvious from more detailed questions that some aspects, like income generation, are of specific concern. With the reduction in government funding, dwindling donor contributions and legacies, and disappointing investment returns, the biggest risk on chief executives' and trustees' minds may be future viability.

Supply chains and partnerships

With sustainable income as the driver, charities are having to think again about new operating models. Zurich has seen charities operate more creatively.

Partnerships and supply chains – at whichever end you sit – have to be options for discussion. Many charities are becoming less risk averse to forming new formal relationships.

Sustainability concerns will have some charities looking further afield, with promises of future financial security. Many are attracted to alliances (inside and outside of the third sector) and service provision to new commissioners. New opportunities need to be looked at carefully and understood as they also present new risks.

It can be attractive for charities to bid for services for a local authority or to partner with others as a combined supplier. The pros are a regular, long-term income with guaranteed terms and payments, and the ability to plug a gap in community services and use grassroots knowledge to help people. However, some opportunities can be threats if it takes charities away from the purpose and principles of their charitable status or sustainable delivery is beyond a charity's current means.

This risk survey shows greater concern over supply chains and partnerships. Maybe that's because many charities are moving – some faster than others – out of their comfort zones and

are not yet skilled or resourced sufficiently to manage new ventures. Service agreements and contract management can be tricky for smaller, inexperienced or non-specialist providers. Research and anecdotal evidence from Zurich shows negotiating and supporting contracts is an increasingly risky area. The devolution of public services and assets to the third and private sectors at a time of reduced resources and skills shortages presents new problems. Unfortunately you only have to look at the media to see stories of failure.

Emerging risk

As organisations change, so do the risks that confront them and their ability to manage them. Emerging risk was another category that showed a wobble in charities' confidence.

Reputation risk may not be new but may emerge as a more dominant factor. In our experience the jury is still out on whether reputational damage is a risk at all, or merely a difficult consequence of risky behaviour or management failings.

As charities extend themselves to bring in income, reputation risk grows. We have seen that over extension is the greatest threat, with partnerships a close second. Business decisions depend on the risk appetite of an individual organisation. When there's more than one involved, risk attitudes and policies need to be aligned to protect service delivery, public benefit, governance and reputation.

Technology

Many charities feel reputation is closely linked to technology issues too. We have seen that cyber security and social media slip-ups can cause sleepless nights for chief executives. The aligned subject of 'data protection' was another higher risk subject in this survey.

We have witnessed an inadequate understanding of cyber risk and data protection and their management, across all public service organisations. With data being shared more frequently across agencies and partners, the risk of unintentional disclosure or technological vulnerability increases. This may be of particular concern to charities given the often sensitive nature of the data they handle.

An overwhelming reliance on outsourced providers or, if you are a large organisation, 'the IT department' and 'Information Management team' means these risks can be seen as something that are handled by someone else. Cyber security and crucially, data protection, have to be the responsibility of everyone to be effective. We have done a lot of work in this area and have undergone a wholesale change of culture within our own businesses in recent times to meet these challenges.

The voluntary sector is undergoing a profound level of change as public sector austerity continues to bite. With change inevitably comes new risks. However, risk should not be feared - if understood and managed correctly it can create great opportunities and breed innovation.

I hope this report gives you food for thought about the risks and opportunities facing your own organisations.

To find out more about Zurich, go to: www.zurich.co.uk/charityandcommunity

Amy Brettell, Head of Charities & Social Organisations, Zurich



Risk overview

As the CEO of CFG, risk management and the pursuit of best practice is central to my work. Yet it is not always easy.

Over the years 'risk' has become an industry in its own right; with tools and guidance available from many sources and professionals. These resources are hugely welcome but charities must always remember risk management is not about compliance. It isn't about filling in forms or producing colour coded registers. It is about behaviours, mind-sets and actions; it's about understanding what is going on within an organisation and the sector and ensuring measures are in place to navigate risk. As the operating environment for charities has become more complex, managing risks has become a key challenge facing the sector.

Risk management is the responsibility of all; it should be embedded throughout the organisation with the tone being set from the top and the threats and opportunities understood in all areas.

Within this survey charities have identified cost and time as the biggest barriers to tackling risk. But time spent understanding and responding to risk is time well spent, because risk isn't just about avoiding pitfalls, it's also about seeking out opportunities. Sometimes changing nothing is riskier than seeking out new ways of working!

I invite readers to reflect on whether the risk appetites of executive teams and their boards are matched. One person's 'bold' may be another's 'reckless'. If charities are to avoid

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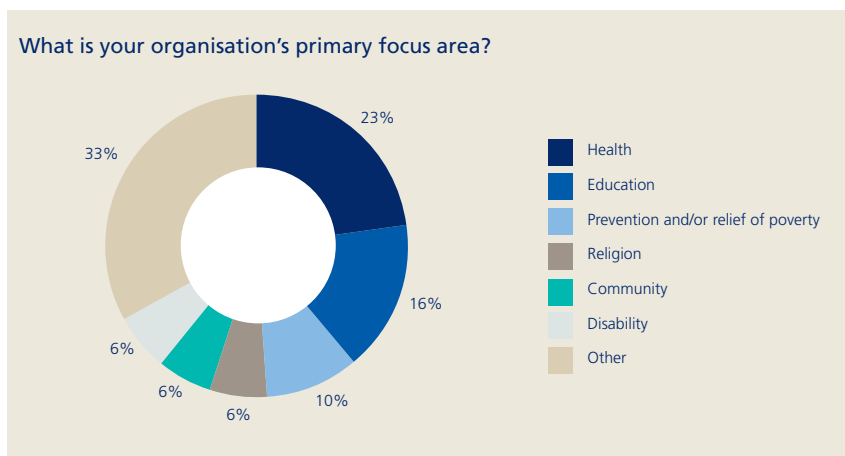
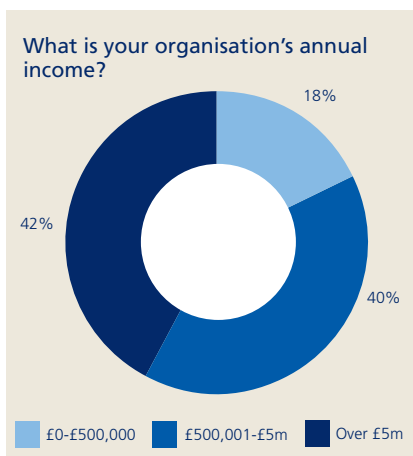
True risk management is the responsibility of all; it should be embedded throughout the organisation”

governance challenges and operating problems, it is important there is agreement on an organisation's risk appetite. Shared understanding of the hazards to avoid, the risks to manage and, crucially, the opportunities to pursue, should help charities move forward with confidence.

Caron Bradshaw, Chief Executive, CFG

Survey overview

142 senior charity decision-makers completed this survey online between December 2014 and February 2015. Respondents were mostly national in scope with 37 per cent reporting they are acting at a countrywide level

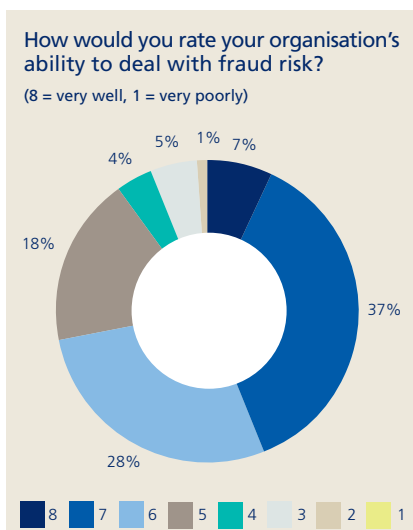


Fraud

Charities were confident in their ability to deal with fraud risk, 72 per cent ranking their ability as a six or higher out of eight. This was in line with risk management capabilities stated elsewhere in the survey. Cyber fraud was the most worrying to respondents, with over a quarter rating it as highly or

very highly significant. Fraud perpetrated by staff or volunteers and third parties was generally considered a medium or low risk. But responses on the potential impact of falling victim to fraud suggest many charities consider such threats as low-probability, high-impact events.

Reputational risk associated with fraud (or alleged fraud) against a charity hitting the headlines was considered significant by 40 per cent of respondents. This indicates a strong approach to managing fraud when it arises, but charities may need support to manage potential media coverage.



Finance

Income a key concern

Given the difficult funding environment at present, it came as little surprise that financial risks were in focus among those running charities. There was a relatively high degree of confidence in dealing with financial risks.

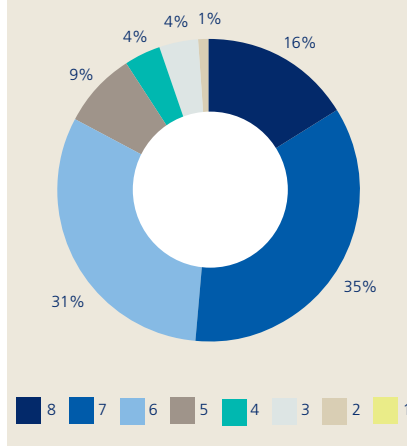
No respondents ranked their ability to deal with financial risks as very poor, and on a scale of one to eight more than 80 per cent of charities felt they could deal with these issues well or very well.

However, income generation remained a concern for the majority of charities. Indeed, it was the most concerning element of running their organisation for most respondents. Asked to label how significant a risk income generation was to their charity, 58 per cent ranked it as high to very high.

This indicates charities may need to review funding models and identify other potential sources of income to protect their organisations in the future.

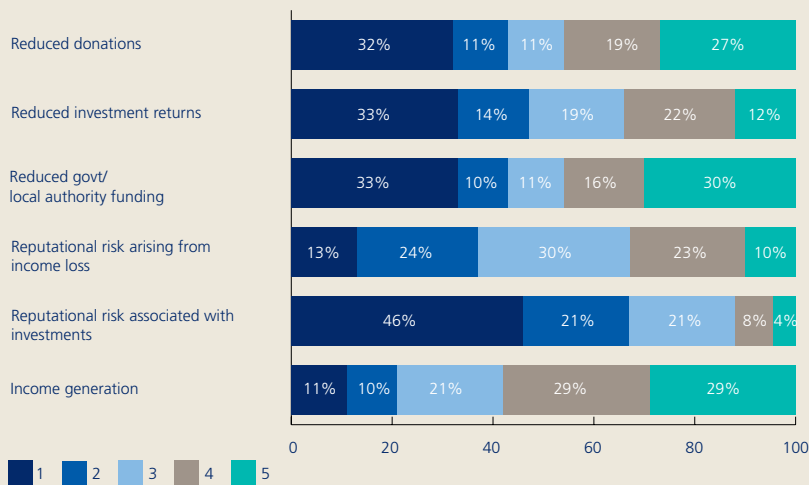
How would you rate your organisation's ability to deal with financial risk?

(8 = very well, 1 = very poorly)



Please indicate how significant these risks are to your organisation

(1 = very low significance, 5 = very high significance)



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Financial security is front of mind for all sizes and all sorts of charities”

- Amy Brettell, Head of Charities & Social Organisations, Zurich

Technology

Social media, reputation in focus

Charities similarly had a fairly high degree of confidence in their ability to deal with technological risks. The results suggest this is due to these potential threats being front of mind. Although there was a greater spread of views on how well organisations could deal with technological risks, confidence still tended towards the high side. However, very few respondents reported their organisations were 'very well' equipped to deal with technological risks.

Drilling down, technological issues are perceived as a threat. Potential reputational damage associated with technology such as social media was

ranked as a significant risk by 45 per cent of respondents. Clearly as charities increasingly turn to social media to take advantage of its power as a virtually free communication tool, valuable in terms of stakeholder engagement and income generation, they are aware of the potential pitfalls.

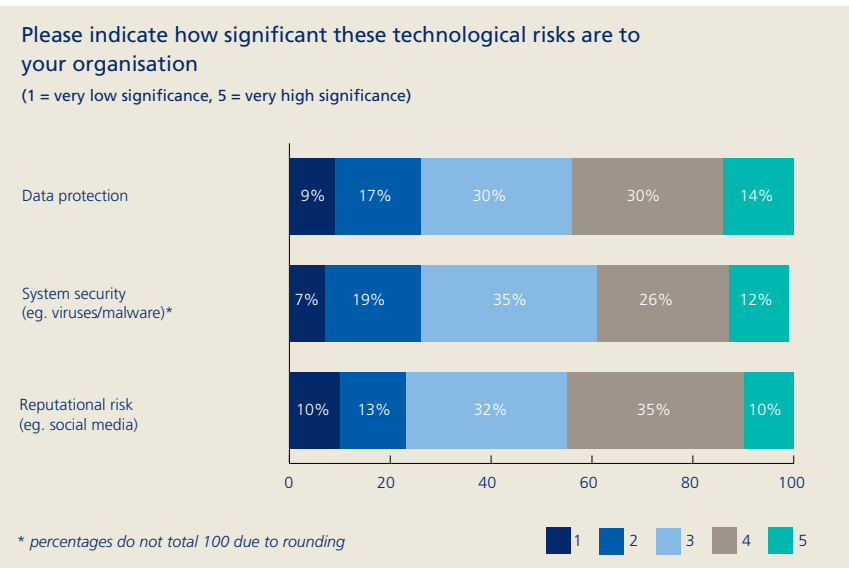
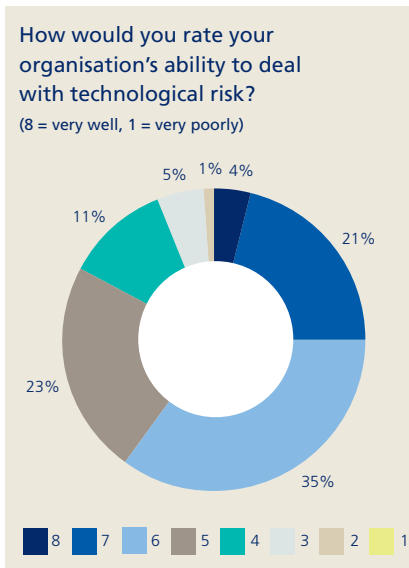
Data protection

Many charities hold a large amount of data, from information on donors to beneficiaries and stakeholders. This can in some cases be very sensitive personal information, for example in health charities, which were strongly represented in our survey. Unsurprising and encouraging then, that the risk of failing to

adequately protect this data is widely recognised.

Both data protection and keeping IT systems secure from malicious threats were recognised by respondents, with around three quarters ranking these risks as of medium to high significance.

It is clear that charities are approaching technology seriously. Data protection, together with keeping IT systems safe is important. Social media needs good management and organisations need to be prepared to manage both positive and negative engagements and conversations. This is vital for charities who want to unlock the potential of social media, such as using it as a fundraising tool.



Regulation

Given that the country was at a pinch point of the electoral cycle at the time of the survey, and the sustained protests around the Lobbying Act, it was perhaps a surprise to see regulatory issues did not emerge as a more acute concern.

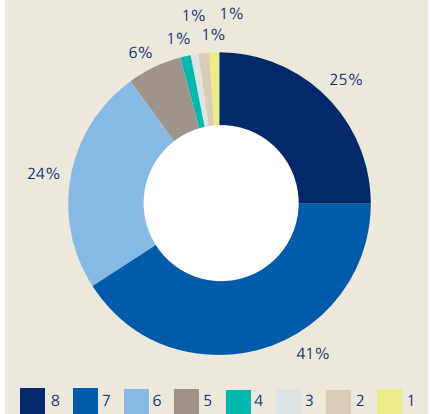
Two thirds of respondents felt their charities were well equipped to deal with risk factors associated with regulatory compliance, and just 4 per cent ranked their ability to deal with regulatory risk as a four out of eight or less.

Complying with fundraising regulations was the most concerning factor for charities surveyed, as 23 per cent ranked this as a significant or very significant risk. On the other hand, just 8 per cent of respondents said the same about the Lobbying Act.

The significance of new accounting standards for charities was ranked as a three out of five or less by 84 per cent of respondents. This would be an interesting view to revisit in the second half of the year when most charities affected by the rules are or have been required to comply in practice.

How would you rate your organisation's ability to deal with risk related to regulatory compliance?

(8 = very well, 1 = very poorly)



People & Governance

Encouragingly, the survey revealed a healthy relationship between charity executives and their boards, 63 per cent of respondents were highly confident with their organisation's ability to deal with governance risks.

The level of concern over various risks associated with governance showed a fairly even spread, although attracting capable trustees was identified as a

high or very high concern by over a third of respondents. The relationship and communication between the board and management team was considered a low or very low risk by 55 per cent of respondents.

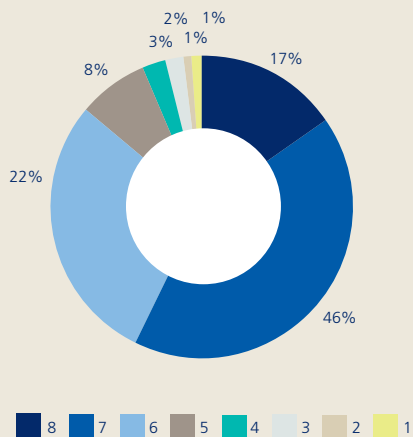
Most charities were confident in their ability to deal with issues around staff, including volunteers and skill development.

The area that caused the most sleepless nights was around key person risk, considered to be a significant or very significant factor by 43 per cent of respondents.

Recruitment was less of a concern, but still noteworthy, with 32 per cent highlighting it as a significant or very significant issue.

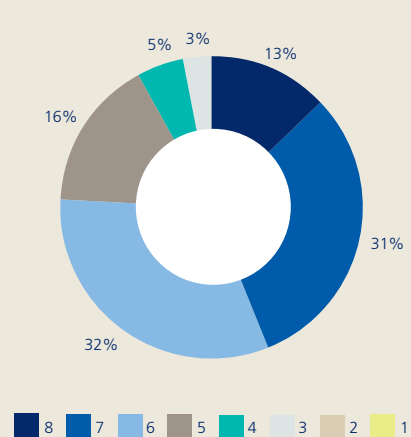
How would you rate your organisation's ability to deal with risk related to governance?

(8 = very well, 1 = very poorly)



How would you rate your organisation's ability to deal with risk related to staffing, including volunteers and skills?

(8 = very well, 1 = very poorly)



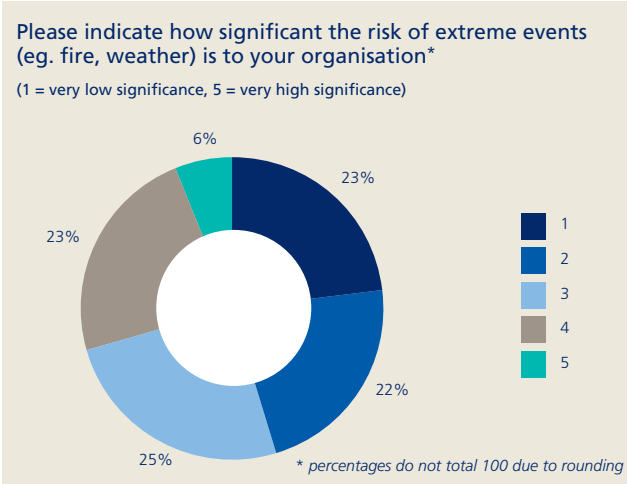
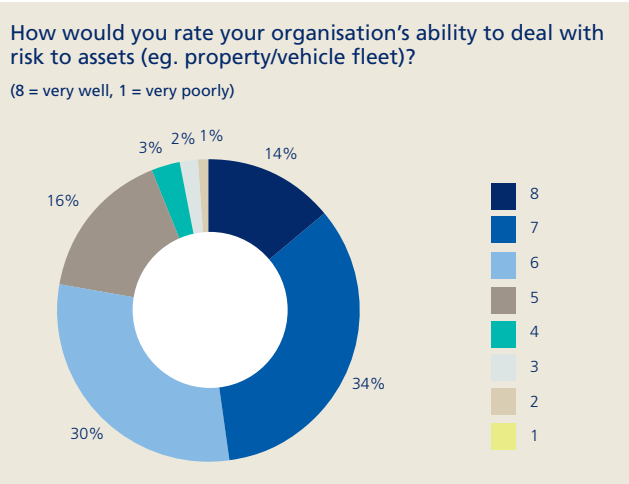
Assets

The ability to deal with risks to physical assets such as property or vehicle fleets was ranked as high by 48 per cent of respondents.

The risk posed by extreme events was ranked as significant by 29 per cent

of respondents, but just 6 per cent ranked the risk as very significant. Asset replacement and the impact on business continuity was the second highest concern of the categories put forward, with 25 per cent citing the risk as significant.

Charities may be well advised to review business continuity plans, and ensure asset management plans are regularly refreshed, to ensure organisations are aware of the scale of any threats.



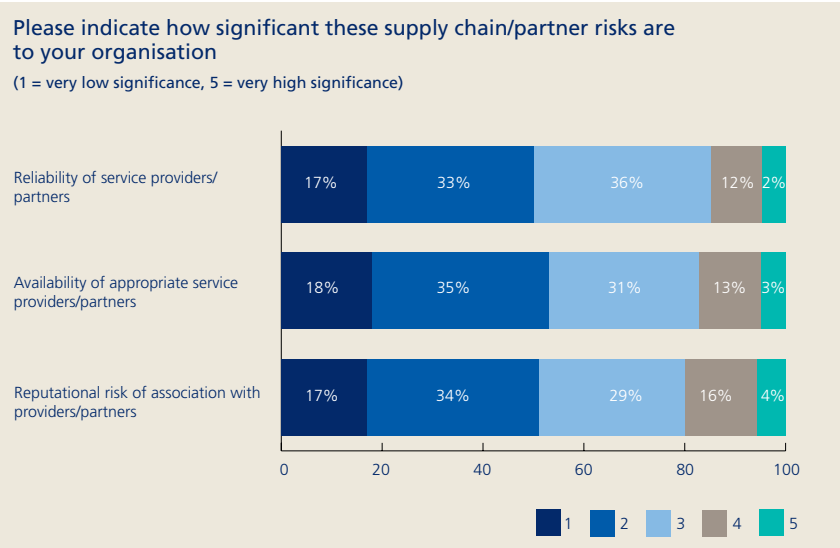
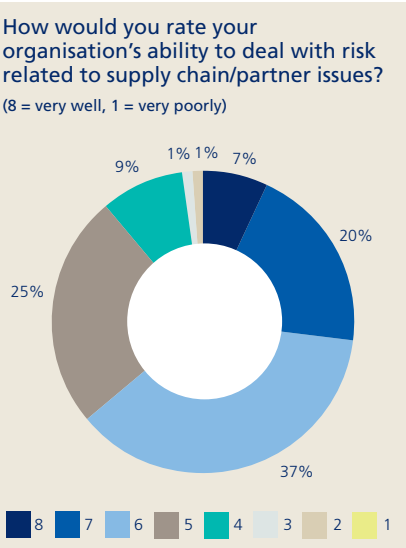
Supply chains and partners

As charities have engaged in more contracting activity for public services, and increasingly work alongside private sector partners, they have become exposed to a wider range of risks. While most organisations in our survey

displayed confidence in their ability to manage these risks, there was a degree of uncertainty.

Concerns around the reliability and availability of supply chain partners,

and reputational impact of associations, were fairly consistent with over half of respondents ranking these aspects at low significance. Charities therefore appear quite confident in their supply chain partners.



Case study: The Rose Foundation

Trustee Martin Rose says financial risk is the small charity's biggest concern

The Rose Foundation provides financial assistance to registered charities and exempt bodies undertaking building projects of less than £200,000 in value, within the M25 London area. The Foundation was formed and endowed in 1978 by the trustees Martin, Paul, Alan and John Rose and their late fathers Philip and Jack Rose. The current phase of the foundation's existence came into being in 1986, when the trustees sold their shareholding in a property development and investment company.

Martin Rose, Trustee, The Rose Foundation explains how the charity manages risk:

"We are a small charity with four trustees plus a book keeper and part-time secretary. We also employ a full time facilities manager for the building we own and work out of, most of which is occupied rent free by St John's Ambulance for their training centre and some administrative offices. We maintain the building on their behalf.

Monitoring

"We find it easy to follow the rules and have drivers to do so. Trustees manage risk and we meet frequently, but formally three times a year. **We make sure we keep up to date on legislation and Charity Commission guidelines and we monitor how we follow them.**

"We talk to our auditor regularly and our fund manager reports formally. The book keeper reports monthly on cash flow.

Financial Risk

"Like many charities, financial risk is our biggest concern. We are less vulnerable than charities that fundraise as we just have to look after our assets. However if our capital were prejudiced it would damage the viability of the charity. Currently there is less income as interest rates are so low. As yields are less we are giving away less. We do our best to keep costs down but we have few overheads we can cut.

"We have given away a healthy amount since the 1980's. It has only reduced slightly since quantitative easing. We are income orientated and don't give away everything. We have no borrowings and we can modify our investments and our donations to meet financial pressures.

Income

"We have a small income from residential property letting, which remains secure, so we are reasonably watertight. We own our building in central London, so we have a good asset. Commercial property in London has soared in the last 18 months and any charity subject to a commercial lease will be feeling it. There is bound to be less money for property maintenance and improvements, which is where the Rose Foundation can help.

"I can't tell if there is a more desperate need for funds than there used to be, as our applications have remained constant. There are fewer grants around for charities to use for small building maintenance projects but our area is very specific.

The real difference I have noticed in recent years is a greater sophistication in charities' approach. Applications are a better fit to our criteria and we can often make an assessment based on a first application, which wasn't common previously.

Simplicity

"We used to have more risks: we used to do the construction work ourselves but decided it was too difficult, as all the risks became ours. Then we changed to only funding and advising on projects, monitoring the activities of other charities. We keep it simple: although we utilise modern technology we are an old-fashioned charity. What is required of us is old fashioned. What we do now is very similar to what we did in the 1960s. But there is a need for what we do, few others do it. You can't raise money for double glazing or replacing radiators with a grand ball!"

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As yields are less we are giving away less"

- Martin Rose, Trustee, The Rose Foundation

Case studies: Attitudes to risk

Here we feature two of the surveyed charities. IET Connect is in the medium-sized bracket of the survey respondents and ABF The Soldiers Charity is in the largest income section. They talked to us about their response to risk and approach to managing it

IET Connect is attached to the IET professional society and relies on donations via the society. ABF The Soldiers Charity is a fundraising organisation; income comes from high net worth donors, trusts and bequests. Although leaders at both charities recognise the current vulnerability of many charities, their focus is financial sustainability, not financial security.

With an eye on the long game, the risks these charities prioritise are staff retention and recruitment, including succession planning; cyber security and data protection; and regulatory change.



IET Connect helps members and former members of the Institution of Engineering and Technology (IET) and their dependants in times of need. It is one of around 1,900 benevolent funds in the UK.

The charity employs a CEO, deputy and seven charity workers, of which three are case workers. There are also ten trustees, including a treasurer and chairman, and over 25 volunteers.

theiet.org

Christine Oxland, CEO, IET Connect explains how the charity manages risk:

"I manage risk daily as part of our business operations. I use a wide variety of sources to help keep me informed on what's going on, including the charity press, ICOSA (as a member), our lawyers and auditors. A proactive relationship with the auditor is very important for us.

Governance

"I am keen that trustees are up to speed on risk and own it; after all, they have the ultimate responsibility for managing risk. There are five

trustee board meetings a year and at each meeting we look in detail at one of the five sections on the risk register. By taking a different topic each meeting all trustees get to see the whole risk register each year. We also discuss ongoing or emerging risks and trustees have a chance to voice concerns. Our risk register is based on an example provided by the Charity Commission (CC). We all come from organisations where risk registers have been used and have different views of how they should be structured: we have found it simpler to use the CC template recommended for charities.

Flexibility

"My philosophy is to be risk aware rather than risk averse: that is the stance I encourage with the Trustees. However, all of our Trustees are engineers and, by their very nature, tend to want to identify, analyse and mitigate every risk, and in an ideal world would try to eliminate it. In the worst case this can lead to a risk averse culture, which could result in paralysis. **We want to help people quickly and need to get involved fast. If you bring in too many checks and balances you don't help anyone, so why exist? We have to accept known risk, do all that we can to limit it, then carry on.**

Staff

"People are one of the biggest risks for this charity. My primary consideration is my staff. The quality of our service stands or falls on

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My philosophy is to be risk aware rather than risk averse: that is the stance I encourage with the Trustees”

- Christine Oxland, CEO, IET Connect

the skills of our case workers. They can be difficult to recruit and to retain. We have to bring in the right people on the right wage: it's very competitive.

"We are a small charity with just three highly trained, expert case workers and we don't have the capacity to carry people. We have to keep them busy too; they aren't happy unless the phone is ringing. Our marketing campaigns have been successful in bringing in more working age beneficiaries. One big attraction is that we empower staff to make their own decisions. They are highly experienced and know the welfare system inside out.

Volunteers

"Retention of volunteers is not a significant problem. We have introduced appropriate training, which our volunteers appreciate. Keeping them busy and engaged is more difficult. Due to our change to more short term help and less long-term assistance to beneficiaries we don't do as many home visits as we used to.

"From a reputation point of view our biggest risk is home visits. We rely on volunteers to call and visit beneficiaries to discuss support needs. On every first visit the volunteer is accompanied by a case worker, which not only reduces the risk but also can reassure the beneficiary.

"I suppose I'm a risk too. I am the only member of staff with a primarily governance and business role, and we do not have the capacity to duplicate that. I think all small charities have problems with succession planning."



ABF The Soldiers Charity gives lifetime support to serving and retired soldiers and their families. Half the money is given directly to individuals, the other half is given as grants to other charities.

The charity employs 100 paid staff, half in London, the other half around the UK. There are 63 county committees that look after several thousand volunteers. There are 13 trustees, including a president, chairman and deputy chairman.

soldierscharity.org

Brigadier Robin Bacon, Chief of Staff, ABF The Soldiers Charity explains how the charity manages risk:

"I've been at ABF for five years and I have made some changes to our practices. I oversee risk management. I used to do risk management for the MOD so I picked up how to avoid risk management becoming a cottage industry. I inherited a book instead of a risk register.

Communication

"Trustees take risk management very seriously and get involved. There are three meetings a year, plus a strategy meeting, and risk is discussed at all of them. There are also three finance and investment meetings a year and senior management board meetings monthly. The grid is reviewed monthly. The senior management team collectively works out how we can prevent things happening in the future and agree how we can learn from the past.

"The grid I use fits on an A3 size spreadsheet. It seems to work and

my trustees love it. At least six other major services charities use this system. It helps to understand where we are at a glance.

"So far no risks are red. We had a loss of income major event last year. A regional office staged a fundraising event and it had to be bailed out. The event did not have the head office control regime applied to it. We have learnt from it and now each event has a rigorous system applied to protect us from financial risk.

"Thankfully we are having a very good year so financial risk is not a high priority at present. We are always concerned about sustaining fundraising, which can rise and fall according to trends. We knew the phase where soldiers were high profile (in the Wootton Bassett days) would come to an end. So far we haven't dropped income but that is mainly due to us honing our marketing and fundraising activities.

Technology

"Data protection, cyber security and regulatory issues are our key concerns. I think everyone has an ongoing awareness of the first two and now the Charity Commission has become a regulator, you can't afford to ignore regulatory changes.

"Integrating information systems is a challenge. We use a complex database system; keeping it going and working with other databases needs a lot of attention. We keep trying to simplify everything but it all goes out of date so quickly. We are genuinely concerned that we manage data protection well.

"We manage all our risks well. We get a gold star from our auditors every year. Risk management is a good tool for moving the business forward. Managing risks makes us more aware of opportunities. We learn fast what works and what doesn't. We see how to do things better. I wouldn't be without my A3 piece of paper!"

Risk management approaches

How charities are approaching risk management, and the barriers they face

Most respondents had not changed their risk management approach in the past 12 months; 52 per cent of charities having used the same method for the preceding year. However, 42 per cent had adjusted their process while the remainder did not know if changes had been made.

A couple of charities reported having reviewed their approach in the past three years, largely taking the assistance of internal auditors or staff.

Whether or not charities have changed how they go about managing risks to their organisation is neither good nor poor practice, necessarily. But it is worth looking at the factors, internal and external, that can get in the way of charities protecting their organisations.

Encouragingly, 94 per cent of respondents did not consider access to risk management tools to be a barrier to uptake.

However, over 61 per cent of respondents highlighted the time necessary to implement risk management measures as a barrier their organisations had encountered.

Cost was flagged by 40 per cent, while the complexity of products or approaches was singled out by 22 per cent.

A number of respondents said views towards risk and its management within organisations was a barrier.

Asked to specify what other barriers to risk management their organisations had encountered, responses included “senior management buy-in”, “differing views of its importance”, “lack of knowledge of the senior management team”, and “organisational resistance”.

Interestingly, just 20 per cent of charities surveyed used an external supplier or partner to assist them in managing risks, while a huge 76 per cent were going it alone. Taking external professional advice was also an unpopular measure across the various areas of risk management covered in the survey.

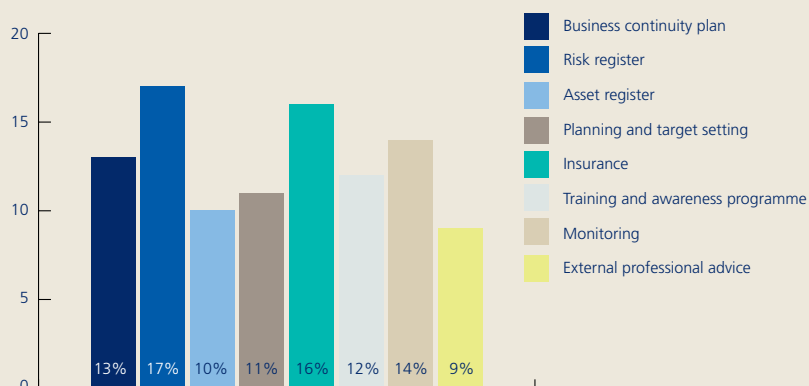
Approaches

Whilst take up of individual risk management measures was low, maintaining a risk register was the most common method in use by respondents across the various specific risk areas covered by the survey. Taking insurance cover for threats to the organisation or assets was also common, followed by monitoring.

CFG Chief Executive Caron Bradshaw earlier highlighted the importance of ensuring that risk management is embedded in the culture of an organisation, so the small proportion of charities reporting training and awareness programmes could be considered as an area for improvement. This is perhaps a symptom of the lack of management buy-in some of our respondents reported. It was however encouraging to see that those considered as key risks were more closely managed.

In-keeping with the importance charities in our survey place on financial risks facing their organisations, this business area had by far the most comprehensive range of risk management measures in place. Almost 90 per cent of respondents had insurance cover in place to protect their organisations from financial risks, and financial threats

Risk management measures in place (across finance, fraud, technology, staff, governance, safety, supply chain/partners, reputation, regulation, and assets)

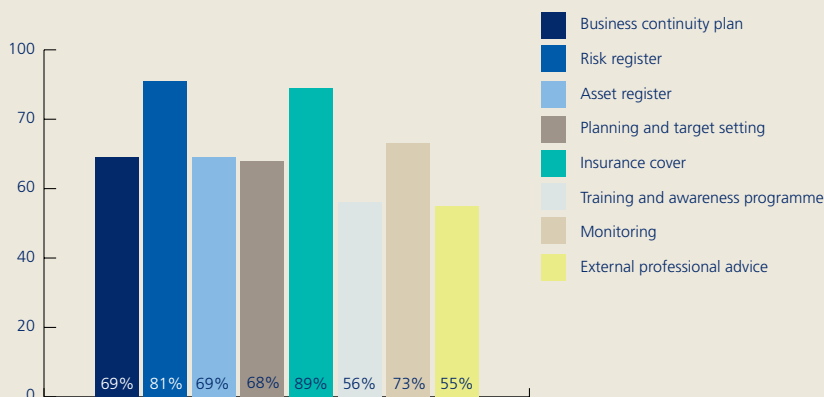


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We need to redefine our risk management processes. Our current risk approach, while comprehensive, is not a manageable tool and does not enable the charity to easily identify and actively manage the key risks”

- respondent

Risk management measures in use for dealing with financial risk



featured on risk registers in 91 per cent of cases.

Reflecting the uncertainty the survey revealed around the security of future income streams, 68 per cent of respondents had planning and target setting tools in place.

Training and awareness and external advice were the only approaches in use by fewer than 57 per cent of respondents.

As Amy Brettell highlighted in her introduction, the potential risks posed by increasingly critical technology tools are on the rise. This was reflected by

the significance survey respondents placed on technological risks.

The survey showed charities are taking technological risk seriously, and approach the area with confidence. Social media was the exception, potentially due to the lack of a simple solution to managing the potential reputational risk its use poses.

Technological issues featured on the risk registers of 70 per cent of respondents, while 66 per cent had insurance cover for potential threats. Business continuity plans to deal with technological

interruptions were in place for 64 per cent of charities surveyed.

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Risk should not be feared - if understood and managed correctly it can create great opportunities and breed innovation”

- Amy Brettell, Head of Charities and Social Organisations, Zurich

Summary

Responses to this survey paint an encouraging picture. Most charities are clearly taking risk seriously, and thinking deeply about its management. There was a high degree of confidence in the ability to deal with risks, even those considered to pose a clear threat.

But some areas are murkier than others. The increasingly blurry line between charities and their partners in other sectors, and emerging technological threats to charities pose risks that are not as comfortably shouldered as more traditional

challenges like threats to finances or assets. Even where charities are comfortable with these risks, the options for managing them can be limited.

In this changing landscape, it is all the more important to ensure there are no risk management blind spots within organisations. IET Connect and ABF The Soldiers Charity both stressed the importance of a sharp focus on risk management from a governance level, while CFG’s Caron Bradshaw highlights the importance of ensuring

risk management is embedded across the whole organisation. Time was the number one barrier to charities effectively managing risk, but as Bradshaw says in her introduction, “time spent understanding and responding to risk is time well spent”. Where there is resistance to addressing risk, or a low estimation of the importance of risk management within a charity, it is vital to have the potentially difficult conversations that will save time, money, and possibly even the very existence of the organisation into the future.



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