

Banking focus: market overview

The type and number of banking services on offer to charities has dramatically increased over the past few years, and the sector now has the ability to pick and choose its suppliers, says Peter Mitchell, CAF director of charity financial services operations

Charity finance is big business. From large NGOs that invest hundreds of thousands of pounds, to local scout groups looking for convenient deposit facilities, there is a growing demand for tailor-made financial products and services that keep pace with those enjoyed by the commercial sector. And as with any growing market, particularly one as diverse and progressive as the voluntary sector, there is no shortage of providers stepping forward to meet these needs.

Just 20 years ago things were different for charities. The range of products on offer and level of customer service offered by the mainstream banks was often perceived as second-class. It was felt that non-profit organisations were viewed as precisely that – non-profit (for the banks), because the ‘cross-selling’ opportunities such as life insurances, mortgages, loans and credit cards were limited. The most charities could expect at the time were basic banking facilities with ‘bog-standard’ account support.

But thanks largely to better awareness and the need for charities to make every pound work smarter, trustees are now far more clued up about how to maximise the funds they are entrusted with, and are subsequently demanding more from financial providers. Courses and workshops developed by organisations such as CAF, which educate trustees on money management and investment procedures, have played a significant role in fuelling this growth. Even small charities are now planning their finances more strategically and expecting more competitive returns and greater flexibility for their assets.

Charities are also taking the time to identify both their short and long-term financial needs and actively to seek the best providers for each. According to research undertaken for CAF Bank a couple of years ago, SMEs (small to medium-sized enterprises) which include the majority of charitable organisations, fundamentally require from their banking facilities easy access, a personal service, and a good return on their ‘free balances’, particularly as they can apply to receive gross interest on their capital. These are closely followed by flexibility, an ‘in tune’ attitude and low costs.

Both high street banks, which provide off-the-shelf style packages, and niche providers who offer a more personal approach, claim to cater to these needs, although few are likely to be the best at everything. Charities are beginning to realise this and are looking to select the providers most suitable for their needs.

The pros and cons of service providers and associated facilities are relatively clear. Mainstream banks usually offer a branch network presence, which may be a priority for charities that deal with high volumes of notes and coins, (although branches are rapidly disappearing as e-banking becomes more commonplace). And they are likely to supply online and telephone banking too, though some might see their call-centre service as rather impersonal. However, disadvantages expressed by charities include frequent staff changes, and a focus on “sales” of other products rather than addressing the charities’ needs.

Advantages of using an internet and/or telephone banking service are extended hours of access (internet is 24/7

effectively) and bringing the bank to your desktop. The accepted downside to this is that customers can sometimes feel ‘remote’ from the people looking after their affairs.

Niche providers, on the other hand, usually offer a higher level of personal service, dedicated account managers and good internet and telephone banking facilities, but are unlikely to have a high street presence. Legislatively speaking, there is no difference as all banks in the UK are required to be authorised and regulated by the Financial Services Authority (FSA) whether they are traditional branch-based operations or otherwise.

Following the updating of the Trustees Act in 2001, charities are now taking advantage of the greater control they have over their finances, and becoming more selective when it comes to future spending, income needs, risk limitations and any ethical or accessibility issues that may be of concern. Charities that are prepared to take a degree of risk are now dipping their toes in the waters of investments and exploring UK and international equities for regular income and long-term growth.

Unquestionably, the financial choices available to charity customers are growing rapidly. This is good news. For along with greater choice comes the freedom to ‘cherry pick’ the products, services and providers most suited to individual needs, placing charities firmly in the financial driving seat; an enviable position they are likely to occupy for some time to come.

