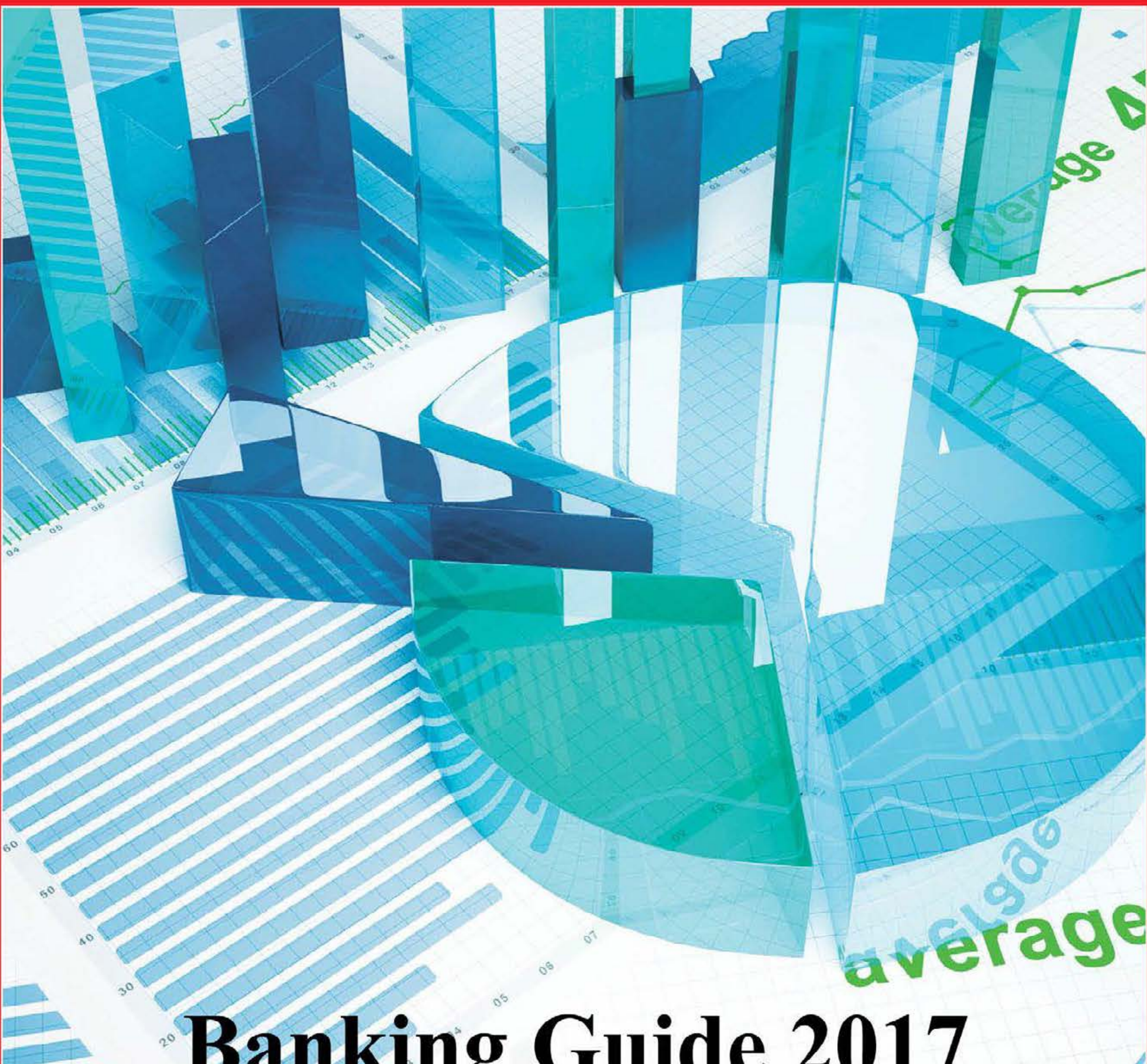
charitytimes



Banking Guide 2017

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Trust and choice

A review of some of the key views and themes that emerge throughout the Charity Times Banking Guide 2017

The relationship between a charity and its bank is a crucial one, probably even more so than is the case between banks and their private company clients. Collectively the top 5,000 charities hold current cash assets worth £15.5bn, according to the most recent edition of *Charity Financials Banking Spotlight* report.
Within these top 5,000 charities – measured by income, spending, or total funds/net assets – there were 7,746 banking relationships across 80 different providers.

Values

Charities will have a variety of reasons for choosing their banking provider, and Huw Davies of Triodos Bank says the ethical policy of the financial institution can be an important consideration.

Consider the good that could be done with the force of the £15.5bn in cash the largest 5,000 UK charities have at bank. Or, going further, the additional tens of billions that all UK charities have in their bank accounts.

Davies highlights the logical disconnect between charities going to great lengths to ensuring their equity or bond assets are invested in line with their charitable objectives without extending the same diligence to the cash held by their banks.

Davies urges charities who wish to ensure their cash is working for good to look into how banks screen the companies they invest in or lend to, and bear this in mind when choosing where to place their funds.

De-risking

Andrew O'Brien, head of policy and engagement at the Charity Finance Group, returns to our banking guide this year with an update on a situation that came into sharp focus in 2015.

A series of terrorist attacks in 2015 put authorities on high alert and charities working internationally were caught by the fallout.

Banks seeking to de-risk their operations and wary of being accused of assisting in financing international extremist groups suspended the accounts of some charities working in highly sensitive environments.

This move would help if an organisation was financing a proscribed organisation, or being exploited by one. On the other hand suspending accounts makes it much more difficult for vital funds to get to where they are desperately needed, which is a major loss when no misdeeds are taking place.

But O'Brien brings good news. While the problem has not been solved or gone away, there has been good multi-lateral work towards making it easier for charities working in troubled parts of the world to keep their cash flowing.

Progress

David McHattie of Barclays stresses that the trust of the public is a core asset for charities, and technology can play a valuable role in building it.

Part of this is simply moving with the times. McHattie points out that people of all ages are growing increasingly comfortable with financial activity online, a trend charities should not ignore.

Meanwhile, younger demographics carry out a large proportion of their overall interactions over web platforms, providing opportunities for charities to increase brand awareness and drive donations.

Contactless solutions are also providing opportunities. Fixed contactless donation terminals can replace or complement the collection tin, while mobile options are increasingly available and have been trialled by a number of charities.

McHattie also highlights Blockchain as a potentially game changing technology.

Essentially a decentralised public ledger, currently best known as the technology underpinning cryptocurrency Bitcoin, Blockchain has the potential to revolutionise the way people give to charity and the way those donations are recorded and managed.

Trust

Trust is a theme that runs through this guide, with all of our authors exploring or touching on the issue from one angle or another.

Obviously it is a key factor between a charity and its bank. But the way a charity manages its cash, and who it chooses to do this on its behalf, can flow through into the relationship with supporters.

Matt Ritchie
Editor of Charity Times

The threat of de-risking continues to haunt charities

There are things charities can do to keep access to their banking services

Over the past few years charities have found it harder to transfer money overseas, open new bank accounts, and in some cases have seen their accounts closed. This has been put under the term 'de-risking'.

Banks are trying to reduce the risks of being fined or sanctioned by regulators by reducing or more closely monitoring banking activity. Increasing compliance in itself is no bad thing but, for many charities, it is becoming a barrier to them carrying out their charitable activities.

The Financial Conduct Authority (which regulates banks) this year commissioned research which found that charities were facing problems in accessing banking services. The report identified three main reasons for this trend.

Firstly, many charities are working in close proximity to potential terrorist and criminal threats. The Middle East, with ISIS continuing to hold large amounts of territory in Syria, is seen as more unstable. The UK government has pledged over £1bn to helping refugees and humanitarian assistance for Syria, and UK charities have spent hundreds of millions more in support of the people there. But it isn't just limited to the 'usual suspects'. CFG has spoken with charities that have had difficulties in places such as East Africa and South America, where banks are judging that the risks of transferring money to these places outweigh the potential rewards.

Secondly, there is no commonly accepted method of identifying criminal or terrorist financing risk. Although charities have been judged as 'medium-high' risk in the UK's National Risk Assessment (despite admitting that actual evidence of abuse is rare), the truth is banks don't really know what the characteristics are of an organisation that is likely to be abused. This means banks fall back on very generic methods for reducing risk – for example, not sending money to 'country X' or increasing due diligence on transactions.

Finally, the 'tone' of regulators and governments makes banks nervous. Governments continue to support charities, but the rhetoric around ISIS and terrorist financing is very strong. Banks are still smarting from large fines handed down for breaking sanctions or having their banks abused for money laundering. This means that banks are cautious and are not in the mood for giving charities (or anyone else) the 'benefit of the doubt'.

However, there has been some progress since last year. Over the summer, the Financial Action Task Force (FATF) which sets global standards on rules for combatting terrorism and criminal financing, clarified that charities were not 'particularly vulnerable' to abuse. Previous guidance had specifically referenced charities as an area for close attention. A global coalition, with the Charity Commission and UK charities such as CFG playing a key role, led an improvement and also made clear that governments need to avoid regulations having a disproportionate impact on legitimate charitable activities. This change is going to take time to have an impact, but it is a start and with the UK due to have a FATF review of its terrorist and criminal financing regulations in 2017, we have an opportunity to embed this change further.

There has also been continued dialogue with the banking sector and government, with acceptance on both sides that something needs to be done. This gives a good platform for 2017, although arguably this is still too slow.

Increasingly, there are things charities can do to keep access to their banking services. Regular communication with your bank is critical. A survey of our members conducted for our Banking Forum in the summer found that nearly 60% of respondents did not regularly discuss work or future plans with their bank. A lack of communication creates uncertainty, which leads to caution from banks. Shopping around for banks that have good relationship managers or services, for example, can help charities help themselves.

Many banks are not aware of the steps charities are taking to improve their due diligence and ensure money reaches the intended locations. Charities need to make them aware, and demonstrate their robustness. Trustees also have to be carefully considered. Unfortunately many banks see foreign nationals as trustees (particularly from fragile parts of the world) as a 'red flag'. Charities need to think carefully about how they get the right balance between getting the expertise and independence of their board, with the need to have the confidence of their bankers.

These issues are not going to go away in 2017, but let's hope that next year there'll be better news to report.

Andrew O'Brien, head of policy and engagement, Charity Finance Group

CFG INSPIRING FINANCIAL LEADERSHIP

Trust: the most valuable asset of all

Barclays' head of charities David McHattie says smart use of technology can be a valuable tool for charities looking to build trust with the public

The UK is still the most generous country in the EU, according to the Charities Aid Foundation World Giving Index. But a recent report commissioned by the Charity Commission found that 33% of people say their trust and confidence in charities has decreased. A third of this group cited media coverage of how charities spend their donations as the reason for this decline in trust.

With 'loss of income stream' cited as the number one risk to charities by 50% of the top 100 UK charities, the relationship between trust and income should not be underestimated.

Head out of the sand

The government has already recognised the importance of trust in the sector. In July 2016, responsibility for the Code of Fundraising Practice was transferred to the Fundraising Regulator to safeguard its independence, although fundraising remains self-regulating.

Charity trustees must now know how their fundraising is conducted and monitored – and ensure any third parties they use also comply with their corporate governance standards.

The importance of demographics

Charities are increasingly using their online presence to improve trust by sharing more information about the work they do, their values and how the donations they receive are spent. In particular, social media is an important tool for this awareness project. A recent report showed that 72% of chief executives of the top 100 charities were using Facebook, LinkedIn and Twitter.

Social media is a useful tool to communicate with younger people. Charities should be communicating with a younger demographic to build familiarity and lay the foundations "for a lifetime of giving".

The importance of this should not be underestimated given the larger increase in donations from the younger generation (30%) compared with the older generation (24%).

Innovation is key

As their donor demographics continue to evolve, charities need to think about the changing donations landscape and how to diversify their fundraising channels in response to this. This is vital given that the majority of charities receive donations through offline channels (76%), compared with a mere 24% of donations being received online.

People of all ages are becoming more comfortable with financial activity online, meaning that use of 'donation apps' and websites will no doubt rise. In recent years, we have also witnessed the steady decline in cash usage and the consequent popularity of contactless payments. As society moves from cash to cards, charities need to ensure they have the facilities in place to accept donations at the greatest convenience to the donor.

In response to this, Barclaycard are currently trialling a product to enable charities to take donations through a fixed contactless solution, thereby increasing the speed, security and efficiency of the donation process and enabling the acceptance of donations from increasing swathes of the population who do not carry cash on them.

New kid on the block

No matter which demographic the majority of your donor base forms part of, there is no doubt that technology will continue to revolutionise the nature of giving to charity. Blockchain is no longer simply a vehicle for cryptocurrencies such as Bitcoin, but could facilitate donations while providing a permanent record of who gave what and when.

In fact, it can also record the transfer of any asset or contract and could, in the near future, open up valuable new fundraising channels for charities.

Blockchain is a young and unregulated area and developments in the charities sector will not appear overnight.

However, given that it is a technology which is attracting investment from both entrepreneurial FinTech companies and established financial institutions alike, it could prove instrumental in rebuilding trust between charities and the people that support them.

- Trust between charities and donors remains a core asset
- Online channels open up new doors for brand awareness
- Fixed contactless solutions can facilitate quick and convenient donations
- Blockchain technology could open innovative donation channels for the sector.

David McHattie, head of charities, Barclays

BARCLAYS

For over ten years, Barclays has been at the forefront in providing support, funding and specialist advice to the charities and not-for-profit sector. Working with our team of dedicated charities and not-for-profit Relationship Directors, you can be confident that you will always have access to the right specialists, perfectly placed to understand your charity and connect you to the expertise you need.

To find out how we can help your charity succeed, call David McHattie, Head of Charities, on 07775 540 814* or visit barclays.com/corporatebanking

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Are your cash reserves undermining your purpose?

Huw Davies says there is huge potential for charities to bring about positive social impact through their cash reserves

Cash reserves play an important role in charities' investment strategies, as they are often accessible at short notice. However, charities don't often apply the same socially responsible policies to deposit accounts as they do to traditional investments.

The social impact of a charity's deposits depends on which financial institutions they are placed with. Each institution will differ in its approach to lending. It seems counterproductive that while trustees often take care to not invest in companies that contradict their charitable purpose, the banks they hold deposits with may finance them anyway.

Ethical investments and cash deposits

While charities invest for a variety of reasons, ranging from generating income to financial security, maintaining liquidity is often high on the agenda for charities of all sizes.

Charities often need access to cash at short notice. The NCVO estimates charities in the UK held a combined £50.1bn in easily accessible reserves in 2014. While, on average, cash holdings make up a fifth of their total investment portfolio, and 8% of charities' gross assets.

This represents a real opportunity for UK charities to have greater positive impact through their cash reserves. While charity trustees are adopting socially responsible policies for traditional investments, like stocks, shares and bonds, more could be done to apply the same policies to cash deposits.

Can you apply an ethical approach to cash deposits?

The Charity Commission is clear that where cash is deposited, it should be considered part of a charity's overall investment strategy, and all the same legal requirements apply.

Trustees must invest a charity's funds in ways that further the charity's aims. Until recently this was limited to those that yielded the best financial return, within the charity's tolerance for risk. The returns would then be spent furthering the charity's aims.

Since the Charities (Protection and Social Investment) Act 2016, trustees have been able to decide to invest ethically, even if doing so might provide a lower rate of return. However, a trustee must be able to justify why it is in the charity's best interests to invest in a certain way.

The Charity Commission provides the following three reasons as justifications for investing ethically:

- A particular investment conflicts with the charities' aims,
- The charity might lose supporters or beneficiaries if it does not invest ethically,
- There is no significant financial detriment.

Screening approaches

An integral part of a socially responsible approach to finance is deciding how to screen potential investment opportunities. For cash deposits, you could compare the bank or building society's screening approach with your charity's own responsible investment policy.

There are three main ways in which financial institutions screen the companies they invest in or lend to, from an ethical point of view.

1. **No screening**. Decisions on whether to lend to an organisation are made from a financial and legal point of view only. So long as an organisation is legal and presents a good financial case, it could be considered. The majority of mainstream financial institutions follow this approach.
2. **Negative screening**. Avoiding companies whose activities are seen to have a negative impact on the world. Exactly which activities these include will depend on the institution, but you would expect policies to cover arms production, environmental protection and human rights.
3. **Positive screening**. Lending only to those companies that demonstrate clear benefits to people and the planet. Again, this will vary depending on the institution, and some are more aligned to certain sectors than others.

Can cash deposits make a difference?

The amount of cash that the charitable sector holds in reserve has huge potential for positive impact.

The Charity Commission supports trustees looking to extend a socially responsible approach to cash deposits. Different institutions apply different screening policies; you can deposit cash with an institution which has a similar policy to your own.

Where cash is deposited makes a difference. The question is, what difference would you like to make?

Huw Davies is head of retail banking at Triodos Bank

www.triodos.co.uk


From loans to social impact bonds - explore some of the funding options available for charities today.
Choosing the right funding route for your charity
Download the eGuide:
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Barclays

Barclays is a transatlantic consumer, corporate and investment bank offering products and services across personal, corporate and investment banking, credit cards and wealth management. The bank moves, lends, invests and protects money for customers and clients worldwide.

With a dedicated team of UK Relationship Directors offering over 100 years of collective charity finance experience, Barclays is committed to meeting your needs. We're at the forefront of this diverse sector, working with registered charities, not-for-profit and global development organisations and government bodies.

As one of our charities and not-for-profit clients, you can benefit from our broad product offering, including day-to-day banking services, special deposit rates and funding packages. We also offer free business process reviews, designed to help streamline your current processes and lower your overall cost of banking. These reviews also help us gain a greater understanding of your organisation and how we can best support you.

You can also benefit from working with a bank that is considered to be a trusted voice within the sector. We work hard to build relationships with key industry bodies and share thought leadership on the challenges and opportunities facing your charity and the sector as a whole.

Perhaps that's why 22% of the top 5,000 charities have relationships with us and 32% of the top 100 charities use Barclays as their main bank.

For further information about Barclays, please contact:

Contact details:
David McHattie,
Head of Charities, Barclays

Tel: + 44 (0)7775 540 814
Email: david.mchattie@barclays.com
barclays.com/corporatebanking

Triodos Bank

Triodos Bank is the UK's leading social banking specialist. It provides range of services for organisations of all sizes, including term loans and overdrafts, deposit and current accounts and capital raising via its corporate finance team.

Triodos lends more than £650 million pounds exclusively to organisations which actively deliver social, cultural or environmental benefits. The charities we lend to receive informed advice, based on our team's in-depth understanding of how to balance financial and ethical business objectives. This is supported by a community of savers and investors who want their money to support a more sustainable economy, and across Europe Triodos manages total assets of more than €12.6 billion.

Triodos is also a pioneer in the UK's social investment market, with a track record of using finance in innovative ways to raise capital, including Community Investment Tax Relief, Social Impact Bonds and retail bonds for charities and social enterprises. Since 2011, Triodos Bank's corporate finance team has raised more than £70m from a wide range of investors for our clients.

Triodos is one of the UK's leading advisers on social impact bonds (SIBs) and has an excellent record of successful transactions for clients in high social impact areas including youth unemployment, homelessness and edge of care. Its specialism is in advising social organisations who can deliver impactful interventions such as charities and social enterprises. Triodos has helped clients secure contracts with a range of commissioners including DWP (Innovation Fund and Youth Engagement Fund), DCLG (Fair Chance Fund) and Greater London Authority.

Contact details:

Tel + 44 (0)800 328 2181
www.triodos.co.uk