Charity sector insights

OUR GUIDE TO RISK IN A CHANGING LANDSCAPE

ecclesiastical

David Britton

At Ecclesiastical, we believe that working with key industry bodies, third sector groups and our customers is invaluable in gaining a true understanding of the challenges and opportunities the charity sector faces today.

That's why we were delighted to support initiatives like New Philanthropy Capital's (NPC's) State of the Sector programme - a piece of research which began to explore the new ways in which charities are adapting to change in order to deliver the best results.

In the 130 years we've been insuring not-for-profit organisations, we have developed specialist market knowledge and honed our expertise to share best practice and advice on how to manage risks in the sector.

Following our work with NPC and responding to concerns from charities about upcoming changes to the charity landscape, we wanted to take the opportunity to share our perspective on some of the topics you've told us are most important to the industry at this time.

It is undoubtedly a time of transformation, but the thing to remember is that with great change comes great opportunity.

Charity Director

Contents

Lucy de Las Casas, Head of Policy and External Affairs at NPC, says:
'At NPC, our State of the Sector programme underlined how charities are transforming in response to a changing environment with continued focus on collaboration; transparency; digital technology and a new attitude to risk.

If the sector is to step up to these challenges and make the most of opportunities, leaders will need to think very carefully about the risks involved. That's why we're happy to support Ecclesiastical's white paper which looks at how to address these risks and help give charities the confidence to deliver impactful results in a changing climate.'

Bringing back confidence

In recent years, public trust in the charity sector has dwindled. A series of stories that hit the headlines in 2015 sparked controversy and brought to the fore some of the more dubious practices used in the industry. While only a handful of charities were exposed, the impact reflected upon the 'charity' brand as a whole and raised questions and inquiry from both regulating bodies and the public.

In 2016, Populus conducted an annual survey on behalf of the Charity Commission which revealed the lowest public trust score since the survey began in 2005, with a third (33%) of respondents revealing that their confidence in charities had decreased in the last 12 months.[1] This lack of confidence in the sector led to a greater expectation on charities to demonstrate the impact of their work.

Why the lack of confidence?

When interviewed by NPC, charity leaders seemed to share the idea that public trust is related to fundraising.[1] In reality, trust filters through into all aspects of the organisation.

The Charity Commission delved deeper into the cause of this mistrust and the public most commonly identified the following reasons -

Media stories about a charity/charities generally	33%
Media coverage about how charities spend donations	32%
Don't trust them/I don't know where the money goes	21%
They use pressurising techniques, including in fundraising	18%
Too much money is spent on advertising/wages[2]	15%

Some in the sector have already begun to adapt and in 2017, results revealed a positive increase in public trust in charities.[3] However, 2015 was a catalyst which set many changes into motion, most of which are yet to come to fruition. The changes spell a better environment for not-for-profits as a whole but many will need to rethink their methods.

1 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/532104/Public_trust_and_confidence_in_charities_2016.pdf
  http://www.thinknpc.org/publications/charities-underestimating-trust/
2 https://charitycommission.blog.gov.uk/2016/06/28/how-can-we-rebuild-public-trust-in-charities/
3 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/624849/Trust_and_confidence_in_the_Charity_Commission_2017_infographic.pdf

What's new in the sector?

While charities are working hard to keep the public's confidence, imminent changes to the charity sector are also adding pressure on charities to make changes to the way they operate:
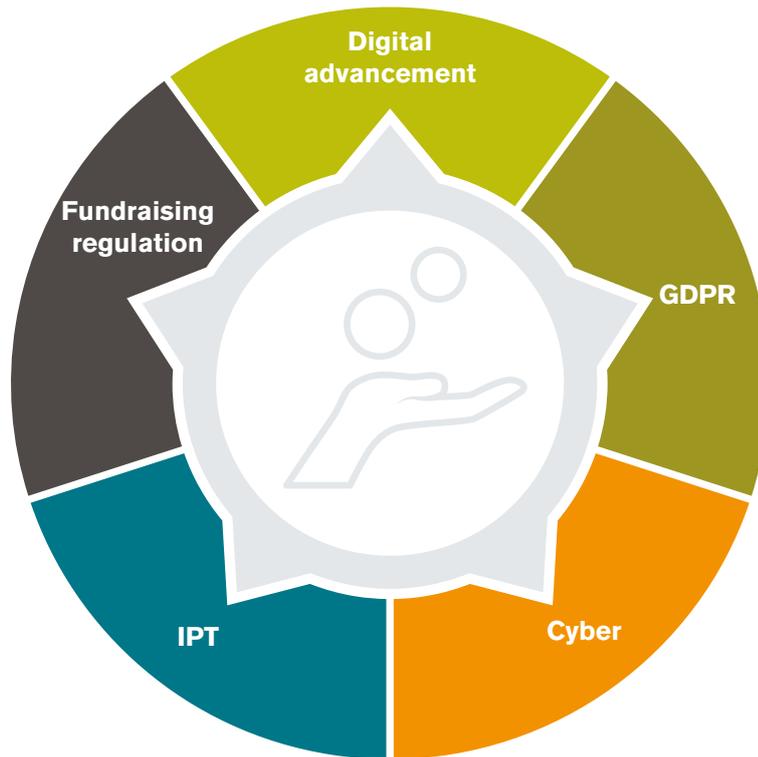
The challenge?

Juggling innovation and delivery with new governance and structures while continuing to provide the most impactful support to the people and communities that charities help.

The solution?

Through effective risk management and strategic planning, new goals can be achieved which will help to futureproof charities. Robust risk analysis gives stakeholders confidence. It minimises the organisation's exposure to risk and will help to achieve a greater impact.

Fundraising is no longer a numbers game

Fundraising encourages charities to be creative and stand out for all the right reasons, but over the years some tactics have worn thin with the public.

The Fundraising Regulator is charged with setting in place and promoting the Code of Fundraising Practice in consultation with the public and charity bodies. They aim to support charities by helping them regain public trust by protecting vulnerable donors and ensuring consistent fundraising standards.

Recent and upcoming changes to the Code of Fundraising Practice address some of the public's concerns but spell big changes for charities that have traditionally relied on volume of contact as a means of increasing donations.

What do charities need to know?

- A new regulator spells a tightened code

- A larger budget allocated to regulators will ensure stricter reinforcement of the rules

- The Fundraising Preference Service (FPS) has been introduced to give the public a method of avoiding excessive contact

- In May 2018, the new General Data Protection Regulation (GDPR) rules will take over from the Data Protection Act (1998), this will require most charities to review and amend current methods of data storage and sharing (see page 12 for more on the impact of GDPR).

Fundraisers	**Charity leaders**	**The public**
This group are feeling increased pressure and many think that the changes to the Fundraising Code will make their jobs harder.[4]	NPC found 73% identified fundraising as the key challenge for their organisation over the next 12 months.[5]	Some 6,300 requests to block unwanted communications were logged with the Fundraising Preference Service within the first month of its existence.[6]

[4] https://uploads.guim.co.uk/2016/06/22/Fundraising.pdf
[5] http://www.thinknpc.org/publications/charities-taking-charge/
[6] http://www.thirdsector.co.uk/fundraising-preference-service-suppression-requests-fall-sharply-weeks-launch/fundraising/article/1441545

Doing more with less

The majority of charity leaders expect to be doing the same or more fundraising in three years, but simply doing more of the same is not enough. Public perception of traditional face-to-face and telephone fundraising methods has led to an increase in the number of charities considering and implementing new ways of reaching their donors. In fact 74% expect to explore a broader range of activities in the next 12 months.[7]

While the initial focus may be around complying with the new regulation and ensuring every donor has 'opted in', the media and regulatory focus is firmly on traditional fundraising. It is therefore likely that many charities will look to move away from face-to-face or telephone fundraising completely. And, whilst we are still not clear about the future impact of opt-in consent, there is no doubt that it could hit fundraising revenues initially.

7 http://www.thinknpc.org/publications/charities-taking-charge/

Fundraising is already a crowded marketplace. Many charities will be looking for alternative and increasingly innovative ways to raise funds. Inevitably, unexplored fundraising models will create new risks as events become more and more varied in order to attract participants and donations.

The Ecclesiastical perspective

Fundraising activities should be planned in advance with thorough risk assesments. It's an opportunity to spot new risks and address them in advance of the event.

Conduct a thorough risk assessment

- Risk management is especially important when exploring new fundraising methods. Ensure you carry out regular risk assessments and keep a record. Accurate and timely records can be used to defend legal action brought against you.

- Regular risk assessments will help identify risks that have not previously been acknowledged and ensure that appropriate controls are in place to help manage those risks.

- Keep a record of your significant findings - the hazards, how people might be harmed by them and what you have in place to control the risks. Any records produced should be simple and focused on controls.

- Encourage staff and volunteers to advise you of new risks as soon as they are aware and make sure you address them immediately.

Build strong partnerships with trusted firms

Where charities are getting involved in more hazardous fundraising events such as obstacle course races and extreme challenges, it is critical that they engage with competent third parties who have both experience and their own insurance in place. As with the use of telephone fundraising agencies, it is a charity's responsibility to ensure they use appropriate sub-contractors, bearing in mind both the physical and reputational risks involved.

- Ensure that anyone acting on your behalf is suitable. If you use the services of contractors, they should be able to perform the tasks asked of them.

- Carry out appropriate due diligence before you agree to work with them.

- Any third parties should have their own public liability insurance cover with adequate limits of indemnity at least as high as your own cover.

Make sure members of staff know their responsibilities

- Whether your workforce is full or part-time, employees or volunteers, you need to be confident that everyone working for you fully understands their roles and responsibilities.

- These should be fully documented and clearly communicated to everyone to ensure they know what's expected of them and what falls within their remit.

- Volunteers may not see themselves as having formal responsibilities for the charity but the performance of their duties should be conducted and monitored in the same way as any paid member of staff.

For more guidance on how to conduct a risk assessment for your fundraising event you can find full details and a useful risk assessment template form in our charity guidance notes.

Also on the horizon

Charities will also need to take into consideration the Government's decision to increase Insurance Premium Tax (IPT). The tax, which is currently set at 12%, increased from 10% in June 2017, is now double what it was in 2015.

The impact in the rise in IPT on an average charity insurance premium of £2,500.

IPT at 6%	£150
IPT at 10%	£250
IPT at 12%	£300

The impact on charities

In respect of IPT, charities are treated in the same way as private companies and individuals. Charities are usually exempt from VAT on their activities which provide welfare, education and cultural services. While charities are becoming ever more innovative with their fundraising and in making efficiency savings, increases in costs that they cannot avoid, like IPT, can only have a negative impact on the work they do.

The CFG are lobbying in favour of charities with support from Ecclesiastical Insurance. The two organisations are hoping for exemption for charities due to their charitable status and their work for the greater good. You can read the Charity Tax Plan from CFG for more information on the change.

Andrew O'Brien from the Charity Finance Group (CFG) shared his thoughts - "We think this support is needed to protect charities from tax. There is no point having tax-free donations if the government is going to get the money anyway through the back door. There is an increasing risk that taxes such as business rates and IPT are becoming stealth taxes on charitable activities."

Chances to win big with digital

Options to donate online can be easier, quicker and therefore generate more income than traditional methods. NPC found 80% of charity leaders are already exploring new approaches to fundraising.[8] But it's important to understand that looking to the internet provides more than just an avenue for fundraising.

There are opportunities for charities to:

- make gains operationally

- to decrease costs

- aid collaboration

- increase awareness

- engage with a wider audience in new ways.

> The rise of digital technology and social media presents many new opportunities to charities re-thinking their fundraising techniques.

Despite the multiple benefits of having a presence online, it's clear that for many charities there are still barriers preventing them from becoming 'digitally savvy'. Both a lack of confidence in online security and a lack of employees with experience using digital methods create barriers for charities trying to tap into their digital potential.

Lloyds Bank surveyed charities and found that 43% do not have their own website and 49% lack basic digital skills.[9] Interestingly, 58% of charities do not believe that having a website would help increase their funding, however the charities that are considered to have a higher digital maturity were more than twice as likely to see an increase in funding based on this activity.[10]

Action is needed to create greater awareness of the positive impact a digital strategy can have for charity organisations. Where charities do not have the skills in-house they should look to engage staff and volunteers with experience, provide training or ask for support from partners who can offer digital skills and advice.

8 http://www.thinknpc.org/publications/charities-taking-charge/
9 http://resources.lloydsbank.com/insight/uk-business-digital-index/
10 http://resources.lloydsbank.com/insight/uk-business-digital-index/

New opportunities mean new risks

Planning and strategy are even more important for charities looking to adopt online methods for the first time. Existing infrastructures and methods may not be aligned with a digital approach, so while there's a world of opportunity it's vital to manage, minimise and mitigate the risks.

Top tips for embracing digital

1. **Check the Fundraising Code's section on Digital Media.** This has been designed specifically to give 'best practice' advice on digital fundraising and will help you identify the must-have information you need to provide to your audience.

2. **Make it mobile friendly.** In the UK, on average 61% of the time spent browsing the internet is via a mobile phone.[11] Your charity's website should be easy to use and show the relevant regulatory information on all devices.

3. **Make it secure.** Data must be adequately protected. Your organisation should take measures to ensure data security as a first line of defence (see page 13) and it's advisable to purchase cyber insurance as a second line of defence so you have financial support and advice in case of an attack.

4. **Always celebrate a donation.** Thanking your donors is just as important online. Make sure you follow up donations with a well thought out email or 'thank you page' to make them feel good about themselves and encourage future contributions.

5. **Think carefully before sharing data.** From May 2018, the GDPR will mean that charities who hold personal or sensitive data need to review how they manage and share data.

6. **Give your supporters ideas about how they can contribute in small ways.** Getting involved doesn't always mean asking for money. Encouraging supporters to share your message will help to create awareness, generate more donations and increase engagement with your charity.

7. **Benefit from Google Ad Grants.** If you use Google AdWords, you can apply for a Google Ad Grant. Fill out the application and make sure your charity's website is eligible and you could win a grant to spend on Google advertising.

8. **Give people the option of how they would like to be contacted.** If you break down the different ways you might contact a person in the future, you may find people don't mind an email but prefer not to be contacted by phone or vice-versa.

9. **Carry out a risk management assessment and create contingency plans for worst case scenarios.** If digital fundraising is a new venture for your charity, it's vital you understand the risks and address them in the first instance. Specialist insurers like Ecclesiastical can often provide tools to help you.

11 http://www.smartinsights.com/mobile-marketing/mobile-marketing-analytics/mobile-marketing-statistics/attachment/mobile-share-of-online-time-percent-2017/

Trustees, governance and positive risk taking

In a changing climate, trustees may have more high profile or controversial decisions to make. It's a big responsibility to bear.

A trustee sitting on a charity's board carries the same responsibility as a director in a commercial organisation. They are subject to what is called 'joint and several liability' meaning they can be held responsible for the actions of their co-trustees.

This pressure can understandably lead to risk-averse charity boards, but with the sector in a state of flux, charity trustees need to have the confidence to make big, bold decisions.

The truth is trustees are vital to charities; 88% of charity leaders told NPC that trustees are their most important resource in delivering their mission.[12] Giving trustees the confidence to make big decisions and not be held personally accountable, may help them deliver the changes required to conduct more impactful campaigns.

The Charity Governance Code is essential reading for all trustees

12 https://www.barrowcadbury.org.uk/wp-content/uploads/2017/05/Charities-taking-charge-transforming-to-face-a-changing-world_NPC.pdf

What does charity trustee insurance protect against?

Charity trustee insurance protects trustees against having to personally pay when legal claims are made against them for a breach of trust, a breach of duty, or negligence, committed by them in their capacity as trustees. The main difference between charity trustee insurance, and other types of insurance taken out for the benefit of the charity, is that it can directly protect an individual trustee rather than the charity itself.

A policy will pick up the costs of legal fees that a trustee might incur in their defence against any allegation of wrongdoing. It will not, however, cover trustees' liability in respect of; fines imposed in criminal proceedings or penalties arising from regulatory action; where a trustee is convicted of fraud, dishonesty or wilful or reckless misconduct; or for conduct which the trustee knew, or should have known, was not in the interests of the charity.

Advice to trustees

Strong structure and governance should both be enablers of positive change, but it's important to back those decisions up with logic and written evidence. Below are some simple steps charity trustees can take to back up their decisions:

■ **Beware of delegation**

Be cautious of delegating management or operational responsibilities. Even where there is a paid management team in place, the ultimate decision-makers are at board level. Trustees should therefore ensure due diligence is exercised.

■ **Be confident when making decisions**

Although trustee liability insurance is not a legal requirement, this particular insurance cover is often considered essential by charities when seeking to recruit high-calibre trustees. Trustee liability insurance protects trustees against having to pay personally when legal claims are made against them in the capacity of their role.

■ **Keep detailed meeting notes and a proper audit trail**

It may sound simple but detailed meeting notes and thorough audit trails which outline decisions, appointed persons and any delegated authority, are a source of evidence. Should an issue arise these files will evidence why the decision was made and by whom.

■ **Conduct thorough risk assessments**

Charities have a duty of care to protect both their volunteers and the public from situations where they could be considered at-risk due to the charity's activities. Planning not only helps to protect all parties but will provide evidence that the risks were considered and mitigated where possible. If a liability claim were to be brought against the charity, this risk assessment can often be used as evidence to defend the case.

Ecclesiastical charity insurance customers have access to a range of risk assessment tools and guidance and also an in-house team to answer any risk-related questions that arise.

"Charities are constantly innovating and exploring new delivery. As they do, governance, risks and structures will change. For charities to continue providing the most impactful support to people and communities in this challenging climate, they will need to ensure their strategy addresses the emerging risks in the sector."
David Britton

Working together to deliver more

Collaboration is a hot topic in the charity sector but it's true that the operational, financial and strategic risks involved can act as a barrier.

NPC found 52% of charity leaders expect to be partnering with other charities more in three years' time. In a survey of our own charity customers we saw a similar increase, with 20% saying they were actively considering a full merger.[13]

Public sector contracts are a prime example of how collaboration can achieve better results for charities. 57% of charities reported having to turn down public sector contracts because the operational risks were too high.[14] By joining forces, charities can effectively compete for larger contracts. When done right, this can be a very efficient way of working as charities can share the administrative burden, resources and ideas.

Though collaboration can sometimes be a solution, responsibilities between charities can become blurred if proper guidelines are not established.

How can charities protect themselves?

- Ensure key people and trustees are in agreement before you start working together.

- Ensure everyone, including volunteers, understands these responsibilities, and communicate with stakeholders before you start collaborating.

- Take legal advice if you need help in documenting responsibilities and liabilities.

- Understand how the GDPR will affect your ability to share data between organisations.

- Talk to your insurance broker, tell them about your collaboration plans and seek advice on possible changes to your charity insurance policy.

- Ask the organisation you are collaborating with for a copy of their insurance, so your broker can check for any gaps or duplication.

- Keep your insurer and broker up-to-date if anything changes or regarding any new arrangements.

When your charity business model changes, so does your exposure to risk. Ecclesiastical has a reputation for helping customers successfully manage and reduce risks. We provide a risk advice line so our charity customers can seek risk advice from our experts at any time.

Take a look at our other factsheets to find out more at **www.ecclesiastical.com/charity-guidance**

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13 http://www.thinknpc.org/publications/charities-taking-charge/
14 http://www.thinknpc.org/media/press-releases/charities-must-take-charge-and-shift-their-thinking-to-succeed-new-npc-research-with-400-charity-leaders-shows/

Handling data in the digital age

Data protection is such a huge topic for charities, there is much to learn and understand.

Though many of the GDPR's main concepts and principles are much the same as those in the current Data Protection Act (DPA), no charity should assume their current processes are robust enough to comply with the new legislation.

In Ecclesiastical's annual tracking survey 2017, the biggest fear 77% of charities had in relation to a cyber attack was the subsequent loss of data.[15] Time is of the essence; the sooner charities can get to grips with the new regulation, the sooner they can understand the best way to deal with the consequences.

> The upcoming enforcement of the GDPR can feel daunting but Information Commissioner's Office have provided advice, with 12 steps organisations can take now to prepare for the new regulation.

Rules around notification of data breaches

One of the most significant changes to the law on data breaches is the requirement to notify the Information Commissioners Office (ICO) within 72 hours following a breach that puts personal data at risk. As well as that, there is also a requirement to notify individuals if there is a high-risk breach, for example if medical records were unavailable for a long period due to a cyber attack.

Consider a scenario where all of the organisation's data has been compromised by a ransomware attack and the records are encrypted with no backups available to restore the data. As of May 2018, the GDPR will require charities to let the individuals know, depending on the nature of the data. As the data hasn't been backed up and contact records can't be restored, this could be a complex and lengthy process.

The costs of a data breach can therefore be extremely significant, potentially stretching beyond financial losses to tarnish an organisation's reputation.

One important area for charities to consider in light of these changes is cyber insurance.

How does cyber insurance work?

Cyber insurance can cover a variety of different risks associated with cyber and data, such as the costs of dealing with data breaches or lost income after a cyber event. It can also support with the impact of hackers, ransomware and other tactics associated with cyber crime. It's important that organisations defend themselves by having measures in place to protect and back up their systems. If the organisation still has to deal with cyber events, cyber insurance can provide support.

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15 Ecclesiastical annual charity tracking survey 2017
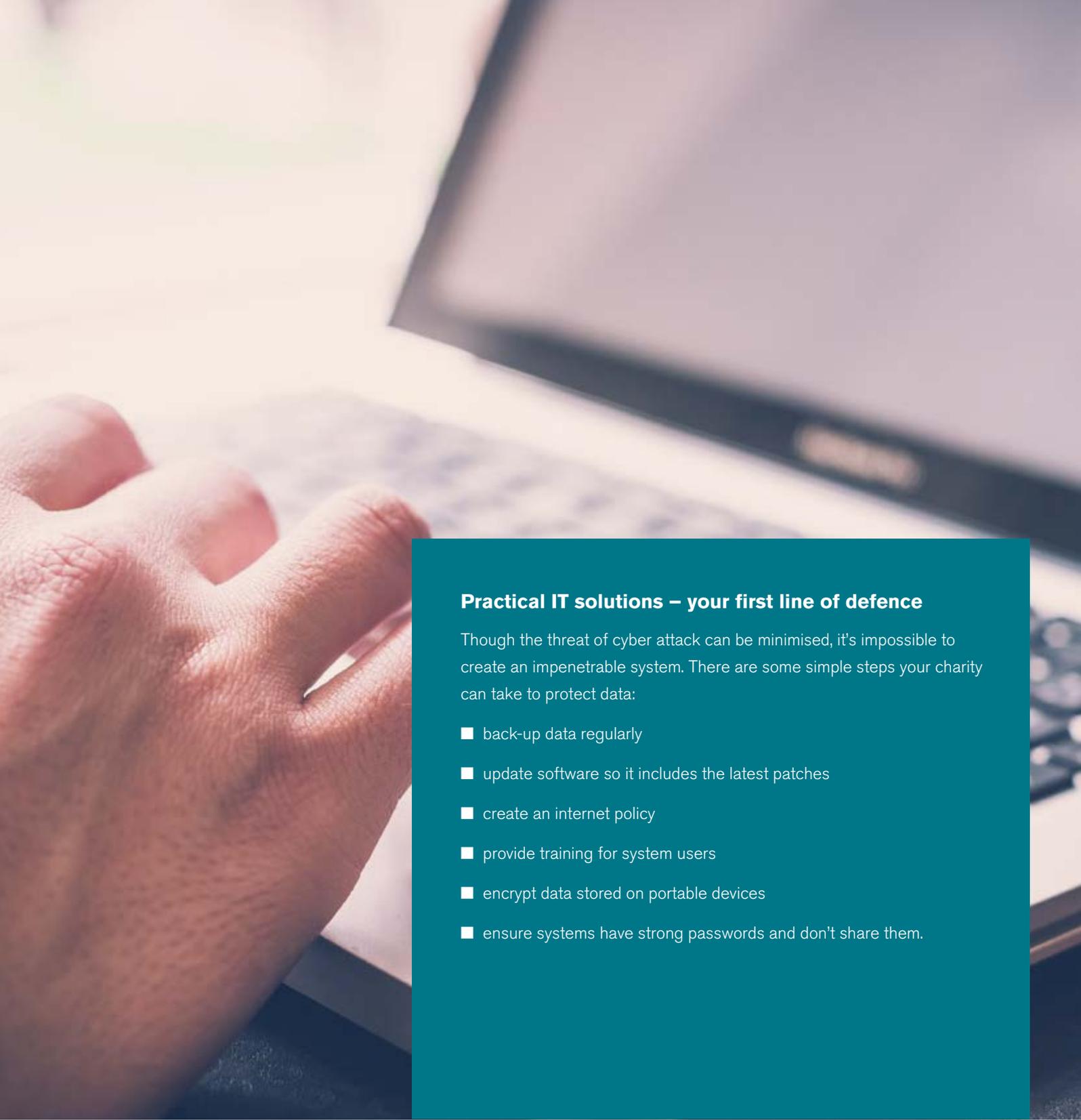
Practical IT solutions – your first line of defence

Though the threat of cyber attack can be minimised, it's impossible to create an impenetrable system. There are some simple steps your charity can take to protect data:

- back-up data regularly

- update software so it includes the latest patches

- create an internet policy

- provide training for system users

- encrypt data stored on portable devices

- ensure systems have strong passwords and don't share them.

Cyber considerations should also be built into risk management assessments, contingency and disaster planning reports. By identifying cyber crime as a risk and taking appropriate measures to prevent it, organisations will benefit from a better understanding of the potential issues and outcomes.

Final thoughts

In essence, this is an exciting time for charities. There may be some time to spend back at the drawing board, but with proper planning and consideration, charities could be set to discover new and impactful ways to spread their message. Fundraising may be a challenge, so planning and strategy will be even more important to ensure risks are minimised when testing new methods and models.

From a digital perspective, it seems that for some there is a lot to learn. The good news for those starting fresh in the world of digital, is that you are able to implement the right technology and consider the new regulations from the outset. For those already immersed in the digital space, consent notification and data storage are all challenges to tackle and all must pay attention to the risks that come from cyber crime.

Giving the board confidence to make big decisions will ensure the right changes can happen. And ultimately, provided there is transparency and consideration, impactful change can happen in the charity sector.

Doing more for charities

At Ecclesiastical, we believe in giving our customers more than just insurance. Our 130 years' experience insuring and supporting the charity sector has helped us gain insight and expertise which we share to keep our customers on track and able to do what they do best.

Our Charity and Community insurance policy was built to support the risks you face and gives you options to enhance or reduce cover so you can find the best fit for your organisation. But our service doesn't stop there.

We provide the following services to our customers – all at no additional cost.

Risk management assessments and building valuations

The effective management of risk involves understanding, assessing and addressing risk, with a view to preventing or mitigating the consequences of disruptive incidents. Our risk management experts can create bespoke risk reports for your organisation through self-assessment, desktop technology or onsite visits.

Risk advice line

Our dedicated risk advice line provides quality support to our customers whenever they need it. Our in-house specialists are able to give advice on a variety of topics and if we don't have the knowledge in house, we source answers from our expert partners. Ask us about:

- Health and safety
- Construction safety
- Food safety
- Occupational health
- Environmental management
- Water safety

- Asbestos
- Property protection
- Security
- Fire safety
- Business continuity planning.

Claims expertise

Following a claim event, each of our customers is assigned a dedicated claims adviser as their point of contact. Our team are experienced in dealing with liability claims and will help to defend your organisation and protect your best interests where possible.

We're proud to say 98% of customers who made a claim with us last year are satisfied or extremely satisfied with our claims service.[16]

16 Ecclesiastical claims customer survey 2016

For more information about how Ecclesiastical can support your charity please visit our charity insurance webpage or speak with your insurance broker.

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