

Top challenges facing charities

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From an ever-changing regulation and taxation picture to the latest cyber threats, there seems to be a fresh challenge facing the third sector every week.

In a recent survey, we asked charities¹ what they think the biggest risks facing their sector will be in 2018, and while continued pressure on funding was top of the list, the impact of potential Government changes was in second place (see box on page 10).

This is perhaps unsurprising given that 2017 saw the introduction of the fundraising regulator, further funding cuts and tax changes such as the rate of Insurance Premium Tax (IPT) increasing to 12%.

It's important that philanthropists are kept informed about the challenges facing not-for-profit organisations, including upcoming regulation like General Data Protection Regulation (GDPR) that will impact on how charities can use their data and communicate with them from May 2018. This would also see charities exposed to major fines in the event of data breaches – the fourth biggest risk that charities identified in our survey.

Addressing funding issues

But, while all of these emerging threats are undoubtedly hurdles, it's important not to lose sight of the fact that the third sector's biggest headache continues to be funding. After all, it was pressure on funding that finished out in front with 84% of the vote in our survey.

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The use of direct mail and face-to-face fundraising has also been affected after a series of stories hit the

headlines in 2015, revealing some of the more dubious practices used in the industry. The resulting media and regulatory focus has meant that, unsurprisingly, charities are now exploring different avenues.

The State of the Sector research carried out by New Philanthropy Capital (NPC)² and sponsored by Ecclesiastical found that 74% of charities expect to explore a broader range of activities in the next three years.

There's no doubt that many charities are becoming ever more innovative as they look to survive and thrive in a difficult financial climate. While maintaining loyal and fruitful relationships with long-standing supporters remains key, NPC's research showed that more than half of charities said they are taking more risks than three years ago.

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Managing risk

If charities are to future-proof themselves, this diversification of funding is vital and having a positive attitude to risk is imperative.

Embracing digital, for example, gives charities opportunities to make gains operationally, decrease costs, aid collaboration, increase awareness and engage with a wider audience in new ways. But a lack of confidence in online security and a lack of employees with experience of using digital methods can create barriers to tapping into this potential. It also increases risk, particularly with cyber-attacks rising in frequency and ingenuity.

While evidence of impact is understandably a philanthropist's top priority, now, more than ever, donors need to be reassured that the charities they support are managing risk effectively. After all, reputational damage in the wake of a crisis can reach far and wide – from volunteers and staff through to trustees and even supporters.

Conclusion

As a specialist insurer of charities, we've seen first-hand that good risk management coupled with the right level of professional expertise can act as an enabler to positive transformation and ensure that charities can continue to provide the most impactful support to the people and communities they help.

Top 10 risks (charities who said they were concerned or very concerned)

1. Funding 84%
2. Impact of Government changes 72%
3. Reputational risk 66%
4. GDPR/data protection 65%
5. Cyber/internet crime 63%
6. Grant providers 62%
7. Employer liability 53%
8. Exposure to social media 51%
9. Increased focus on governance 45%
10. Impact of Brexit 44%

David Britton is the Charity Director at specialist insurer, Ecclesiastical. He is responsible for the continuous improvement of products and services and acts in an advisory role to the company's broker network and partners.

He also actively contributes to the work of key third sector bodies and charities, providing insight on the opportunities and challenges facing the sector, particularly in relation to risk management. Ecclesiastical recently sponsored New Philanthropy Capital's State of the Sector research.

While Ecclesiastical is a commercial business, it is owned by a charity and a significant proportion of the company's profits go to its owner, Allchurches Trust, which donates these independently to good causes. Ecclesiastical also has its own extensive programme of charitable giving.

¹ FWD research of 101 charities commissioned by Ecclesiastical in October 2017

² Findings from NPC's State of the Sector research <http://www.thinknpc.org/our-work/projects/state-of-the-sector/>