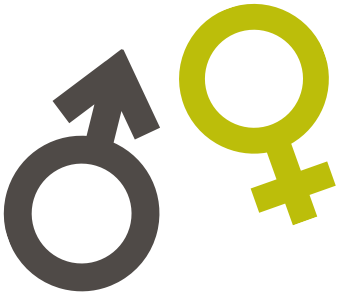
Charity Risk Barometer 2019

Risk and reward in an uncertain world



Ecclesiastical

Third Sector *insight*

Our aim is to help customers identify and manage risks and provide solutions for the longer term.

Angus Roy, Charity Director, Ecclesiastical Insurance

Introduction

We are living in possibly one of the most volatile periods in modern history, with ongoing austerity, changes in social attitudes, fake news, invasive social media, and the political and economic uncertainty caused by Brexit.

These issues have led to challenging times for all organisations, not least for the charity sector, which is facing increasing demands for its services while seeing cuts to funding. This is before charities even consider the potential risks associated with today's dynamic environment.

To gain a deeper understanding of the risks facing charities and how they are coping with them, Ecclesiastical Insurance hosted a panel of leading figures from the charity sector, in collaboration with Third Sector. This provided not only dedicated time to focus on the risks and potential rewards associated with the challenges that charities face now and in the future, but also a collaborative environment to openly discuss, share and learn from each other.

Panel members told us they really welcomed the opportunity to have the time and space to talk about risk. Even those who felt their charities had a strong risk management culture recognised that they needed to do more to embed risk into their strategic thinking. It also became clear from our discussion that the third sector is not easy to define. With so many diverse organisations meeting many different needs, it is a sector that is unique and complex.

We used the insight from the panel discussion to shape a survey of 200 senior leaders in the charity sector. This report presents the findings of our research and explores some of the immediate and emerging risks facing the sector as well as potential solutions.

As one of the leading insurers of charities in the UK, Ecclesiastical's goal is to be a strategic partner to the charity sector. Our aim is not only to help customers identify and manage their risks but also to work with them to provide solutions for the longer term – something I believe is critical in these turbulent times.

Angus Roy
Charity Director, Ecclesiastical Insurance

Taking a long-term view of risk

In these rapidly changing times, uncertainty is the new norm and new risks are emerging all the time. Increasingly, charities need to spend more time thinking about not only the potential rewards, but also the risks they are facing, and ensuring that they are doing enough to respond to internal and external change.

With limited time and resources it can be hard for charities to focus on anything but the immediate future. When we asked how far ahead charities were looking when assessing risks, one in five said only the next 12 months. With such a short-term view, charities may be limiting their ability to grasp new opportunities while also failing to spot potential risks.

Scanning the horizon over the longer term enables charities to plan more effectively. Ideally, boards should consider strategic risk as part of their three- to five-year planning cycle. However, our research shows that only **40%** of charities are looking beyond three years. If a charity is to survive, let alone flourish, then it is essential that it plans rigorously for the longer term. For example, our research shows that funding remains charities' biggest concern in the short, medium and long term; effective risk management can help them plan against the risk of funding drying up and to react promptly to stem the shortfall if it does.

Strong risk-management policies are necessary to support decision-making at all levels. Having a risk register in place can help charities decide if the risks of pursuing new funding streams can be mitigated and whether the benefits outweigh any potential harm. Our research found that only three-quarters of >

< charities have a risk register in place. Reporting on risk is a legal requirement for larger charities, but should be considered as good practice for all organisations in the sector.

Alyson Pepperill, chair of the Institute of Risk Management's Charity Special Interest Group, said: "In the face of pressures on funding and a requirement to demonstrate greater social responsibility, it is important for the leadership of the charity to set out what constitutes unacceptable risks, whether that be child safeguarding or health, safety, welfare and security. Communication with key stakeholders on the importance the charity places on risk management will provide them with assurance that their interests are being protected through good governance."

It is best to think about risks when a charity is looking at its three- to five-year strategic plan.

Alyson Pepperill, Chair of the IRM's Charity SIG

With so much change affecting charities, risk needs to be a regular conversation at board level and considered throughout the organisation. It needs to be a real and living part of how the organisation operates every day. Our research found that three-quarters of boards have risk discussions as a standing agenda item, but one in four charity leaders felt they weren't spending enough time considering risk at a strategic level. This was a sentiment echoed by our charity panel, whose members welcomed the rare opportunity to consider the long-term trends and changes that could impact their charities.

Ultimately it is the responsibility of trustees to ensure that a strong risk management strategy is in place. The Institute of Risk Management's Charity Special Interest Group is committed to providing charities with practical support to do this, through events and publications. Alyson said: "It is best, and most logical, to think about risks when a charity is looking at its three- to five-year strategic plan. Our 'Getting Started with Risk Management' guide helps anyone on the starting line understand how to tackle risk management, and that it is essential to manage the risks that will stop you achieving your strategic objectives."

Key findings

We asked the senior leaders of 200 charities what their biggest concerns were over the short term (up to 12 months), medium term (one to three years) and long term (five years). Their charities ranged from community groups with incomes of less than £25,000 to large national charities with revenue of more than £10 million. The risks of most concern were:

Funding

Funding continues to be a major concern for all charities, regardless of size. Our research found it was the top issue for charity leaders for the short and medium term and the second-biggest concern over the next five years. This comes at a time when public and government funding is decreasing while demands for charities' services are increasing.

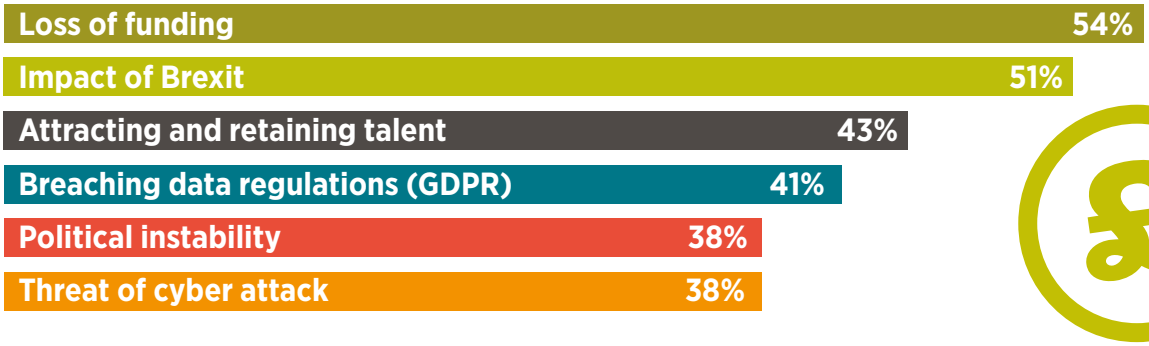
Impact of Brexit and growing political instability

Unsurprisingly, our research found the impact of Brexit was a major concern for the year ahead, with half of charities citing it as a worry. At the time of writing, the UK's exit from the EU has been delayed until October 2019. Growing political instability was also a major concern over the next 12 months **(38%)**. Brexit was more of an issue for larger charities and became less important to all charities over the longer term, although the indirect consequences of further delay are likely to be significant as the Government's attention to societal needs continues to be diverted towards the withdrawal process.

Recruitment and retention

With increasing competition in the charity sector and a trend towards greater commercialisation, attracting and retaining talent – employees, >

Top six short-term concerns



Source: Ecclesiastical Charity Survey February/March 2019 – State of the Sector

volunteers, committee members and trustees – emerged as one of the biggest concerns facing charities over the short, medium and long term. Alongside this, charities are also facing a crisis in the workplace, with many of them citing the risk of employees suffering from burnout, due to the pressures of working in the sector, as a major concern in the medium and long term.

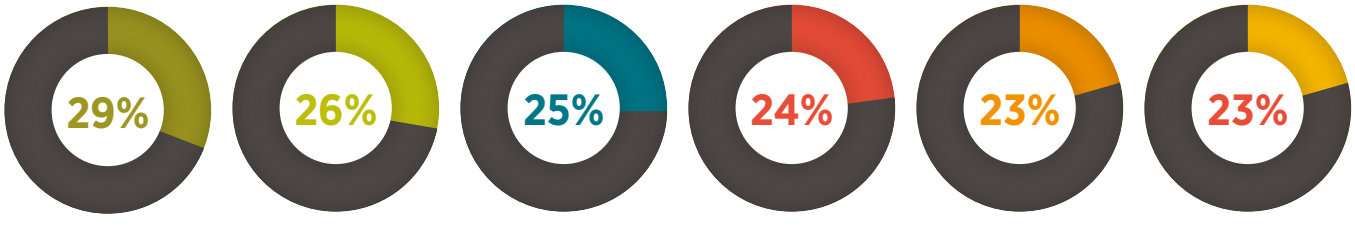
Engaging with young supporters

Many charities were also worried about their inability to engage with young supporters, which emerged as a significant future risk. They were concerned, too, about their proficiency in using digital technology and about diversity – factors that are key to winning over millennials and Generation Z. Charities are increasingly competing for attention in a crowded digital landscape and have to work out how to engage two generations with a very different approach to charitable giving, particularly those who want to see evidence of the impact that their donations are having.

Reputation

With a number of prominent charity scandals brought to light in the past few years – notably over fundraising practices, the collapse of Kids Company and the coverage of sexual misconduct at Oxfam and Save the Children – reputational risks were also high on charities' agendas, emerging as the biggest perceived risk over the long term **(26%)**. These risks are evolving due to social media, where issues and complaints are projected instantly onto global platforms, meaning charities need to think harder about how they conduct themselves.

Top six medium-term concerns



Source: Ecclesiastical Charity Survey February/March 2019 – State of the Sector

< Data protection, cyber attacks and technological capability

The introduction of the General Data Protection Regulation (GDPR) in 2018 has increased charities' focus on this area. Two in five charities see data breaches as a significant short-term issue, though not a medium- to long-term concern.

Recent research by the Department for Digital, Culture, Media & Sport (DCMS) shows that 20% of charities have fallen victim to cyber attacks in the past year, with significant consequences, and our research revealed that cyber attacks are seen as major risks in the short, medium and long term.

A lack of digital skills and outdated technology were also highlighted as problems in the short and medium term. As technology continues to evolve at pace and charities try to leverage the opportunities it creates, this is likely to be an ongoing area of concern.

Top six long-term concerns

Source: Ecclesiastical Charity Survey February/March 2019 – State of the Sector

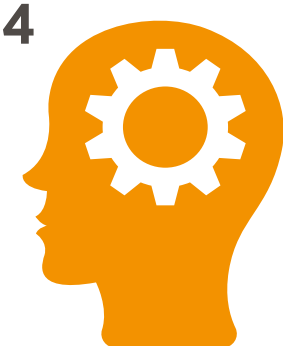
Future risks and solutions

In the next three chapters we look at the key challenges facing charities, both now and in the longer term, as well as potential solutions

p9

Funding in an uncertain world
The immediate challenge

p14



Engaging the next generation
The emerging risk

p20

Reputation
The long-term threat

>

The funding challenge

In our survey, funding was the overwhelming concern for charities in the short and medium term. In the current climate of economic uncertainty, this is no surprise. Income from government and the private sector has stagnated or decreased in recent years, and while funding from individuals, other charities and investments has accounted for recent rises in the sector's earnings, these sources are all at risk from economic headwinds.

Richard Sagar, Policy Manager at Charity Finance Group, agrees: "Funding remains a fundamental concern for the charity sector in the short to medium term. There is increasing uncertainty in the economy, which is in no small part due to Brexit, and the impact of significant cuts to public services since 2010 has led to more beneficiaries in need of support. The charity sector is under more financial pressure than it has been for some time. But there are a number of ways in which charities can mitigate against these concerns."

> **By commercialising activities and providing extra services, charities are not only finding new funding sources, but are fundamentally shifting their roles in society.**
>
> Martha McPherson, Head of Sustainable Growth, UCL

Diversify to thrive

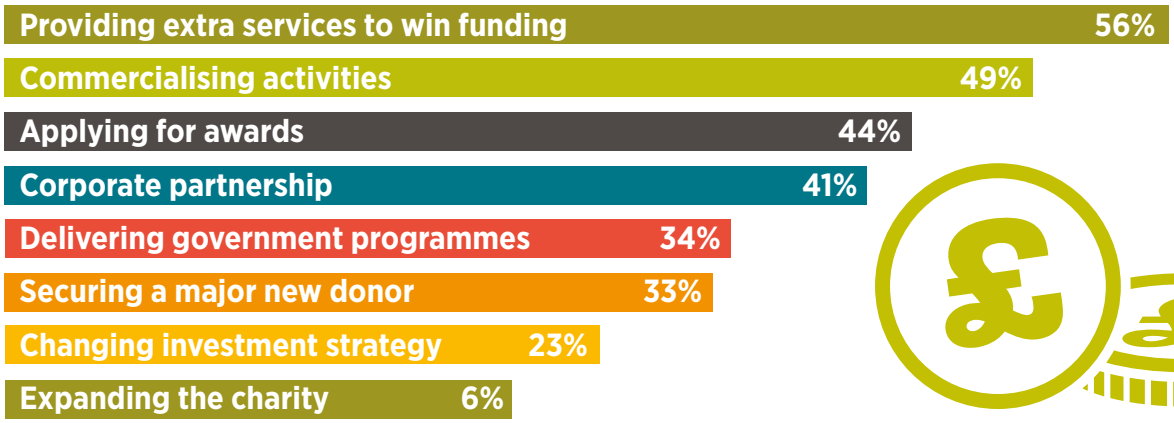
Charities are keenly aware of the need to bring in new and sustainable funding streams. A third of respondents said they were concerned that their charity was reliant on a single source of funding. Failure to diversify can be fatal to a charity – for example, in 2016 the social care charity 4Children collapsed into administration due to its reliance on a small number of large contracts, while more recently Scottish children's charity Gingerbread was forced to reduce staff and services due to what it described as a 'perfect storm' of funding cuts from local and central government.

The good news is that charities are responding to the challenge. **Sixty per cent** of respondents said they had successfully diversified their income in the past three years. This was mainly through providing extra services to win funding **(56%)**, commercialising activities **(49%)**, applying for awards **(44%)** and from corporate partnerships **(41%)**. This diversification is in turn changing the role of charities and how they are perceived, and our research shows this is set to continue, with over half of charities planning to diversify further in the next 12 months.

Martha McPherson, Head of Sustainable Growth at UCL's Institute for Innovation and Public Purpose, says the move towards greater >

< commercialisation is part of a bigger trend: "By commercialising activities and providing extra services, charities are not only finding new funding sources, but are fundamentally shifting their roles in society, and the expectations of them from donors. This might lead, over the long term, to higher or more diverse expectations of what charities can offer."

How charities are diversifying their income



Source: Ecclesiastical Charity Survey February/March 2019 – State of the Sector

> **Charities are becoming increasingly aware of their need to make responsible investment decisions.**
>
> Caroline Gee, Charity Business Development Manager, EdenTree

Investing for success

Our research found that larger charities, in particular, were also diversifying through investments, with a third of medium-sized charities and a quarter of large charities changing their investment strategy over the last three years. While a sound investment strategy can provide regular returns, charities need to consider the ethical implications of their investment decisions. Investing in funds or companies that don't align with a charity's values could present a significant reputational risk.

Caroline Gee, Charity Business Development Manager at EdenTree Investment Management, said: "Charities are increasingly aware of their need to diversify by asset class and geography in order to secure a stable ongoing income and to preserve their capital, but this diversification brings with it concerns for the management of their reputation. As a result, they are becoming increasingly aware of their need to make responsible investment decisions and consider their values and ethics as well as those of their stakeholders."

Demonstrating impact

There is a growing demand from funders and supporters for charities to demonstrate their impact. In a world where funding is increasingly >

Increasingly, funders want to fund impact-focused charities. To meet these expectations, charities should improve their self-evaluation.

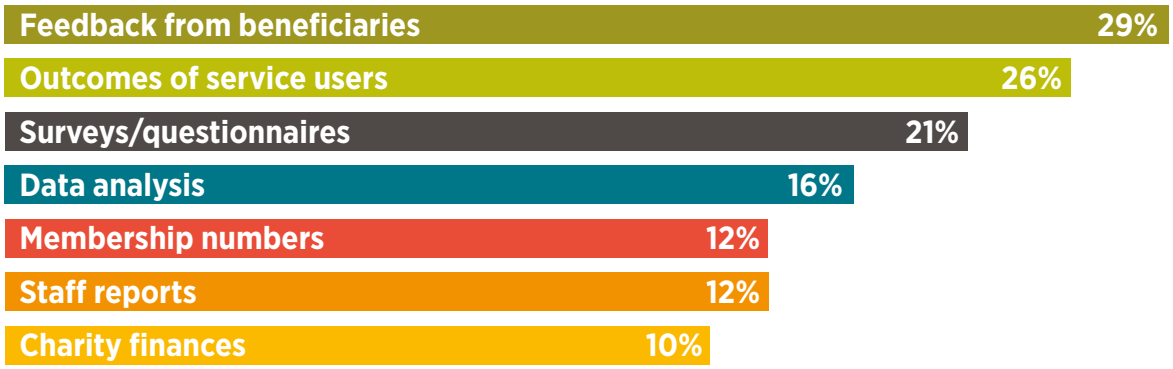
Sally Cupitt, Head of NCVO Charities Evaluation Services

< dependent on public generosity and where charities are increasingly competing with each other and the private sector for government contracts, showing the impact of their work is vital for long-term success. No two charities are the same, which means there is no standard or universal measure of effectiveness. However, most charities understand the need to collect data to demonstrate they are achieving their desired outcomes. Almost nine out of ten charities in our survey are measuring the impact of their activities. These measures include feedback or surveys from beneficiaries **(50%)**, measuring outcomes for service users **(26%)**, analysing membership numbers **(12%)** and staff reports **(12%)**.

Sally Cupitt, Head of NCVO Charities Evaluation Services, said: "Increasingly, funders want to fund impact-focused charities. To meet these expectations, charities should improve their self-evaluation. To help focus data collection, we strongly recommend that charities first spend time with stakeholders agreeing what their intended impact looks like, and how they think this change happens in their organisation.

"Theory of change, log frames and the NCVO Planning Triangle are all good tools for this. Using this planning as a guide, charities should develop an evaluation framework, outlining what data will be collected – and how – to evidence progress towards impact. Finally, it's vital to use evaluation findings: for ongoing service improvement; for reporting >

How charities are measuring impact



Source: Ecclesiastical Charity Survey February/March 2019 – State of the Sector

Where resources permit, self-evaluation is ideally supplemented by rigorous, independent evaluation.

Sally Cupitt, NCVO

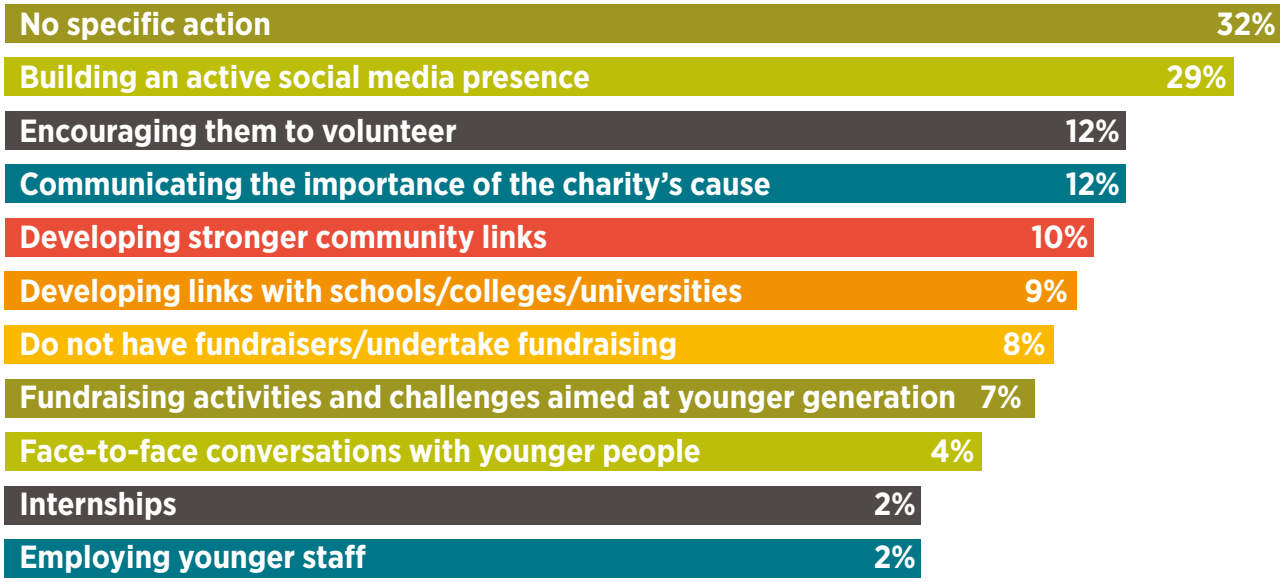
< to funders and attracting new ones; for strategic planning to maximise future impact. Where resources permit, this self-evaluation is ideally periodically supplemented by rigorous, independent evaluation."

Reaching new supporters

In the search for new funding streams, many charities are reaching out to new generations of supporters through digital channels. Our survey found that **47%** of respondents expected a rise in fundraising through digital channels such as websites, apps and contactless payments over the next 12 months, while **52%** expected that reaching donors via social media would become more important. These two channels were considered more important than more traditional ones such as telephone, face-to-face contact and events.

Seventy per cent of respondents said attracting younger fundraisers was important for their charity. These charities are engaging with young people by building an active social media presence **(29%)** and communicating the importance of their cause more effectively **(12%)**. More traditional methods, such as encouraging young people to volunteer **(12%)** and creating stronger links within communities **(10%)**, schools, colleges and universities **(9%)**, were also important factors. Worryingly, a third of charity leaders said they didn't have a specific plan to attract younger fundraisers, creating the risk that these charities will fall behind in the race to attract the next generation of supporters. >

How charities are engaging with younger fundraisers



Source: Ecclesiastical Charity Survey February/March 2019 – State of the Sector

Being attentive to the costs and benefits of alternative finance will equip charities with the ability to thrive.

Richard Sagar, Policy Manager, Charity Finance Group

< Protecting income

With appropriate planning and risk management, charities can mitigate many of the risks facing them. But when the unexpected happens, such as a fire or a flood at a charity's premises, it can have serious consequences for a charity's income. A flooded building can take at least six months to dry out, and in the case of a severe flood may take more than 12 months to be habitable again. Specialist machinery can take just as long to replace. If charities cannot operate in the interim they will suffer a loss of revenue, and probably lose irreplaceable staff as well as valuable customers.

Business interruption insurance provides reassurance to charities that, should the worst happen, they can continue to operate. The right property insurance and business interruption cover will help ensure that repairs are carried out promptly, alternative methods and/or locations are found to enable operations to continue, and that any shortfalls in income will be covered.

Thinking more radically

While the funding environment will continue to be a challenge, charities need to think more radically about how they manage their risks in order to protect income. Identifying new income streams, demonstrating impact, reaching new supporters and having adequate protection in place are all essential to help secure their future.

Richard Sagar at Charity Finance Group concluded: "The research demonstrates that many charities are looking to diversify, but there is still more to be done. The rise of alternative finance, particularly crowdfunding via online platforms, provides more opportunities for charities to raise funds. There are also increasing opportunities from different types of social investment, be it social impact bonds or community shares, but there is no silver bullet that will work for all kinds of charities. Alongside the opportunities presented, charities should carefully consider the corresponding risks which accompany these different forms of finance. Being attentive to the costs and benefits of alternative finance will equip charities with the ability to thrive, even in an age of uncertainty."

Charity Finance Group, a charity itself, provides help and guidance to charity leaders in the complex area of finance. Visit **www.cfg.org.uk** to find out more.

Engaging the next generation

A strong theme that came out of our research was the importance that charities place on engaging with the next generation, whether that be reaching younger supporters and volunteers or attracting new, more diverse trustees and employees to their organisation. Engaging with younger people is crucial to whether the charity model can survive in the years ahead.

Recruiting younger trustees

In any organisation, change has to come from the top. For charities this means attracting a more diverse range of trustees who reflect the communities they serve. In our survey, **83%** of charity leaders agreed that boards need to reflect the diversity of their beneficiaries to best meet their needs. Yet according to the Charity Commission and Cass Business School-backed report 'Taken on Trust', the current trustee pool is anything but diverse. The average age of a trustee in England and Wales is between 55 and 64, two-thirds are men and 92% are white.

In our survey, **57%** of respondents said they wanted to see greater diversity on their boards. Of these charities, half wanted to see greater representation from Black, Asian or ethnic-minority communities, while over a third wanted to see younger people join their boards, followed by more women **(24%)** and people from a broader range of social and professional backgrounds **(23%)**. Respondents to our survey believed that lack of time **(53%)**, a lack of understanding about the role of a trustee **(30%)** and lack of skills **(14%)** were the biggest barriers to becoming a trustee.

A lack of younger and more diverse trustees presents a number of risks for charities. Our research found that charities were concerned about a lack of innovative and new thinking **(61%)**, being out of touch with the charity's beneficiaries **(61%)** and a difficulty in reaching new supporters **(59%)**. A lack of skills in fundraising, marketing, campaigning and digital channels were also cited as key concerns. >

< Penny Wilson, Chief Executive of trustee recruitment charity Getting on Board, said: "Diversity of skills, experience, knowledge and protected characteristics on the board will allow a charity to weather its challenges and seize its opportunities. Research shows that a 'diverse' board analyses the evidence more closely and considers a wider variety of options. In summary, a more diverse board makes better decisions."

Risks of not diversifying trustees

61% Trustees out of touch with beneficiaries' needs

61% Lack of new, innovative thinking

59% Difficulty in reaching new supporters

57% Lack of skills in marketing and campaigning

50% Lack of digital skills

49% Lack of fundraising skills

Source: Ecclesiastical Charity Survey February/March 2019 – State of the Sector

The challenge for charities is how to broaden their appeal in order to attract a more diverse set of trustees. However, many charities' trustee recruitment practices are hindering them from engaging with a younger demographic. Getting on Board's 2017 report 'The Looming Crisis in Charity Trustee Recruitment' found that the vast majority of charities relied on word of mouth to recruit new board members, and almost half did not advertise vacancies even on their own website. These results are supported by our research, which found that one in three charities relied on friends and family to fill trustee vacancies.

It is important for charities to seek out young trustees from a range of backgrounds, making trusteeship appear more modern and less intimidating to them. One of the ways the sector can do this is to proactively promote the benefits of being a trustee. This was an idea backed by half the charities we spoke to, either through a trustee-awareness campaign or through more promotion and advertising. >

Do not expect potential trustees to find you: go out and find them.

Penny Wilson, CEO, Getting on Board

< Penny Wilson said: "Effective trustee recruitment is simple and inexpensive. Think carefully about who you need on your board to support the delivery of your strategy, to mitigate the charity's risks and to create new opportunities. Then proactively promote the opportunity to those people. For example, if you are looking for a finance person, try Reach Volunteering, ICAEW Volunteers, local employers with a finance team and LinkedIn groups. Most importantly, do not expect potential trustees to find you: go out and find them. Once you have your new trustees, induction is key and small practical changes, like moving meeting times, can make the opportunity open to many more people. Getting on Board's new, free guidance, 'How to recruit trustees for your charity: a practical guide', explains how to run an effective trustee recruitment process."

Reaching new audiences through digital channels

Ninety-five per cent of millennials own a smartphone and estimates suggest that as many as 42 million people in the UK are on some form of social media. It comes as little surprise, then, that younger generations expect to do their giving online and want the websites and platforms where they do this to look sleek and be easy to use.

Charities are alive to this trend and around three-quarters of respondents in our survey felt that digital channels had a critical role in reaching new supporters as well as delivering better services and outcomes for beneficiaries.

In the previous chapter, we revealed that **70%** of charities believe that attracting younger supporters is important. These charities are moving away from traditional fundraising methods to focus their efforts on digital channels and reaching younger supporters via social media. The ALS Ice Bucket Challenge was a good example of this, as was the #SmearForSmear campaign.

To support this move, nearly three-quarters of charities surveyed had invested in their digital capabilities over the previous 12 months. When asked about their objectives, **37%** said reaching more supporters was their primary goal. This was followed by improving service delivery **(34%)** and building their brand **(35%)**.

Sixty-two per cent of respondents felt their efforts were successful or very successful. A third said it was too soon to measure. Despite this, a third felt a lack of funding for digital was preventing their charity from achieving its objectives, while one in five medium charities said lack of time was the biggest barrier to creating a better digital experience. >

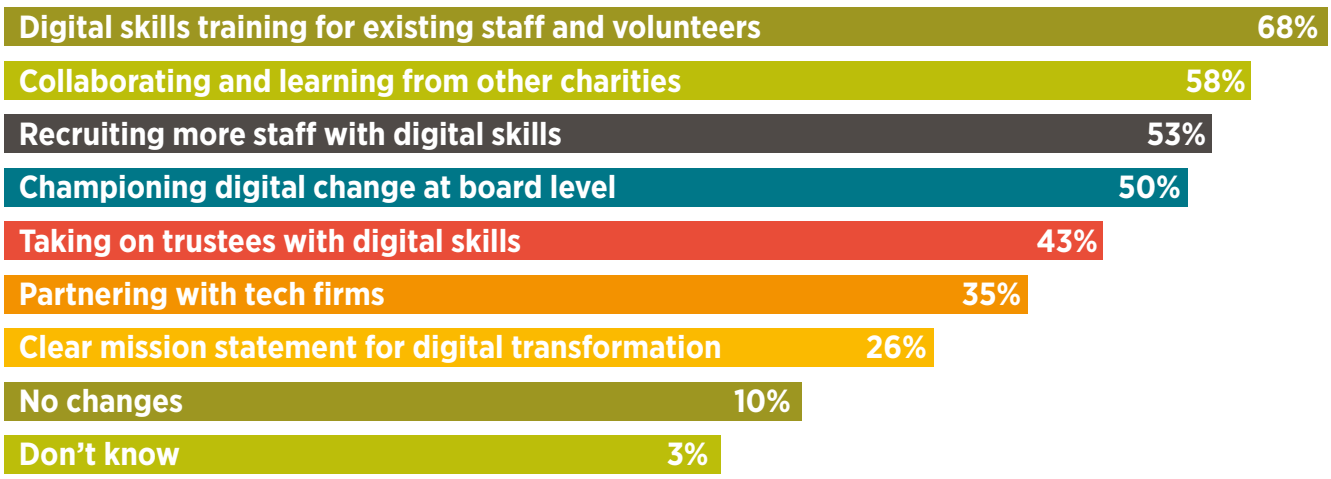
Looking at creative ways of engaging young people is vital.

Zoe Amar, Director, Zoe Amar Digital

To truly embrace the digital opportunity and attract new supporters in a world where smartphones and social media are ubiquitous, charities have to create a culture where digital can thrive, rather than seeing it as a bolt-on to their existing activities. We found that many charities are rising to this challenge by providing digital training **(68%)** or recruiting staff with digital skills **(53%)**. Half of all charities are also championing digital change at board level, while **58%** are collaborating and learning from other charities.

Zoe Amar, founder and director of digital consultancy Zoe Amar Digital, said: "More than two-thirds of charities surveyed are focusing on growing their younger supporter base, indicating that this is a priority. Charities face fierce competition here. Data might be the new oil, but attention is liquid gold. There are so many calls on young people's time, whether it's the game on their phone, that new clothing brand on Instagram, or creating their own content by vlogging on YouTube. This is a generation that is incredibly digitally savvy and isn't brand-loyal. Everyone wants to talk to them but they are not interested in setting up monthly direct debits. Looking at creative ways to engage them, whether that's through innovative campaigns, building communities or the value exchange of volunteering that we see here, is vital."

Changes being made in organisations so digital can flourish



Source: Ecclesiastical Charity Survey February/March 2019 – State of the Sector

< Attracting and retaining talent

With the need to bring in fresh thinking and reach new audiences, attracting and retaining talent has emerged as one of the biggest concerns facing charities over the short, medium and long term. There is a growing demand for talented people in the sector, and charities are working hard to attract a more diverse and younger workforce. The sector has traditionally drawn passionate people, less concerned about pay and who want to make a difference. But this model could be fuelling a major problem. Stress in the workplace emerged as a key issue in our survey.

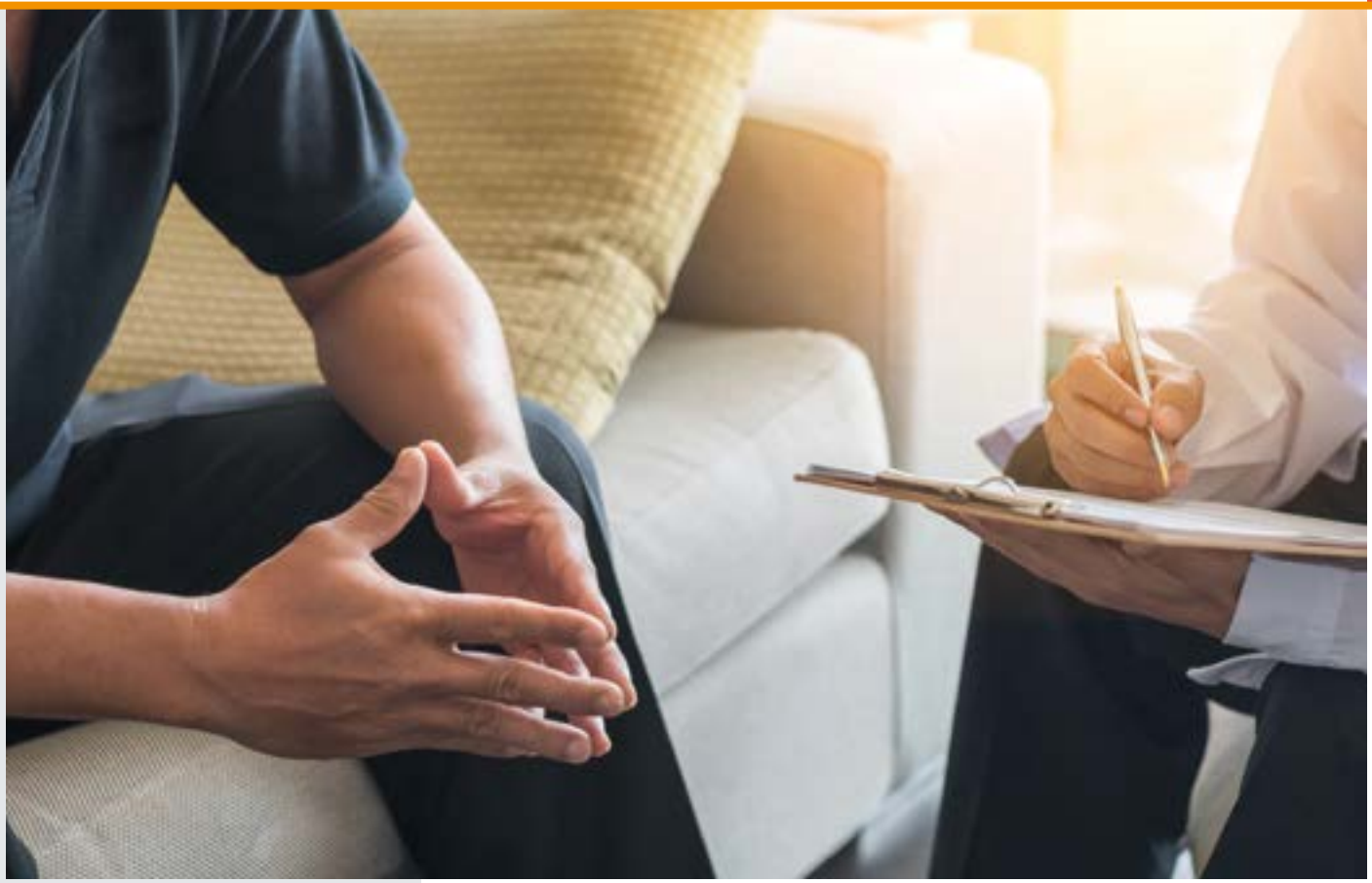
A third of respondents in our survey said stress was an issue in their workplace, and half of those said it was impacting their charity's ability to recruit staff. Insufficient resources, increased demands, low pay, inadequate funding and having to deal with difficult people on a regular basis were the top five reasons why people were stressed at work. Around **73%** of respondents to our survey felt that more was needed to be done in the sector to reduce stress levels for staff.

The good news is that charities are catching up with the private sector by offering more flexible working options and focusing on employee well-being. Four out of five charities that we spoke to offer flexible working for employees, while two-thirds of respondents have a >

Factors contributing to staff stress

- **78%** Increasing demands on staff
- **75%** Lack of resources
- **74%** Reduced funding
- **66%** Regularly dealing with people with difficult behaviour
- **64%** Low pay
- **61%** Charities taking on the work of Government
- **60%** Exposure to highly emotional, stressful or dangerous situations
- **49%** Lack of well-being support for staff

Source: Ecclesiastical Charity Survey February/March 2019 – State of the Sector



We recognise the impact that workplace stress can have on our employees and our ability to attract new people to the charity.

Ciara Lynch,
COO, The Brilliant Club

< well-being policy in place. A number of charities are also providing support services for employees, with **73%** carrying out regular risk assessments and more than half **(57%)** offering counselling.

An example is The Brilliant Club, which helps pupils from under-represented backgrounds to progress to highly selective universities, and which achieved second place in the *Sunday Times'* 100 Best Not-For-Profit Organisations to Work For, 2019.

COO Ciara Lynch said: "At The Brilliant Club, we recognise the impact that workplace stress can have on our employees and our ability to attract new people to the charity. It is one of many reasons why we have implemented employee-focused changes, such as providing flexibility, encouraging employee ownership and a focus on wellness. We introduced monthly pulse surveys last year to capture regular staff feedback, and initiated wellness and mental health awareness programmes in the workplace. We promote a culture of employee ownership and collaboration throughout the charity. We believe that these changes have contributed to our high staff retention levels and a high-calibre pipeline of candidates." >

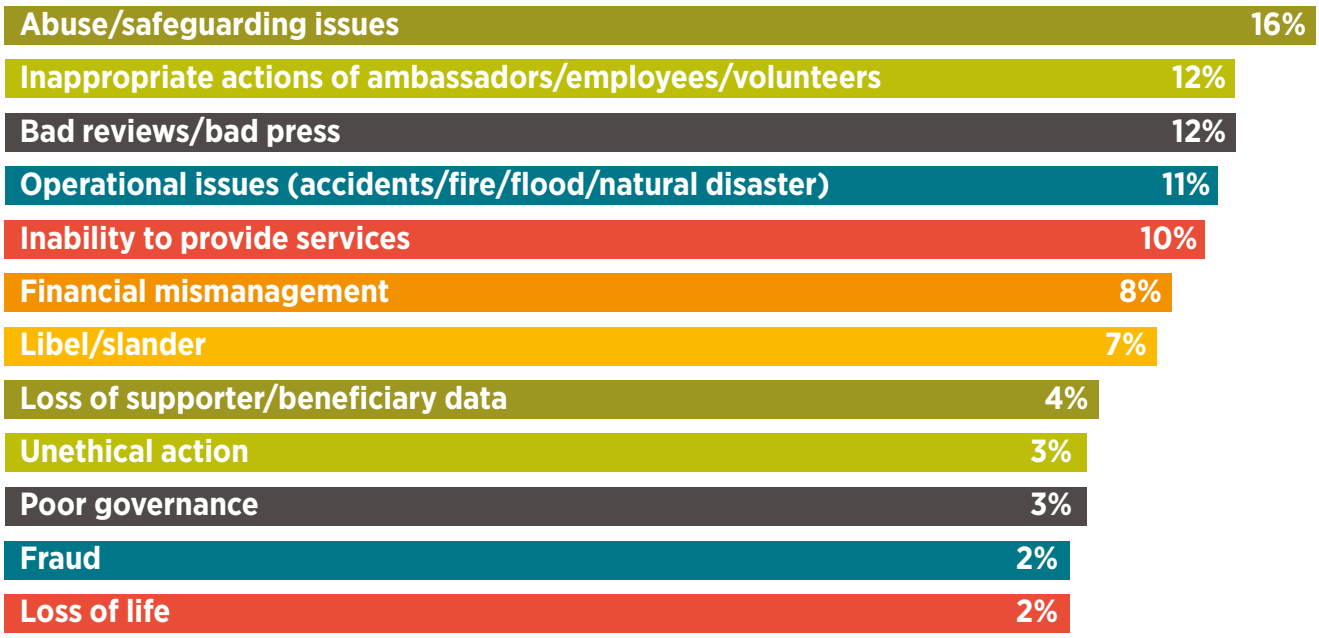
Protecting reputation

Reputation is a charity's greatest asset. A strong reputation will see donors and supporters queuing up to provide funds, while a poor reputation can prove to be an organisation's undoing.

With trust in the sector at its lowest since 2005, and with brands potentially undone by a single tweet, reputation is the big issue of our time. It's perhaps no surprise that reputational risk emerged as the biggest concern for charities over the longer term.

Since 2015 a number of high-profile cases of wrongdoing have seen the sector come under increased scrutiny and this has put added pressure on charities. The media is increasingly prepared to >

Biggest risks to a charity's reputation

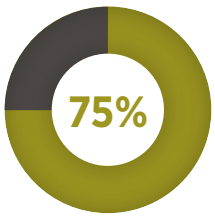


Source: Ecclesiastical Charity Survey February/March 2019 – State of the Sector

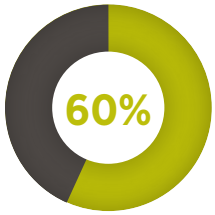
< investigate charities, and the consequences can be devastating. When social media is factored in, allegations of wrongdoing can spread like wildfire. To counter this threat, three-quarters of charities we spoke to said they had a social media policy in place to protect their reputation, though for small charities this was true of fewer than one in three.

We asked charities what they felt was the biggest risk to their reputation. Abuse and safeguarding issues were the top concerns **(16%)**, followed by inappropriate behaviour of people associated with the charity **(12%)**, negative press coverage **(12%)** and operational issues such as fire, flood and accidents **(11%)**. >

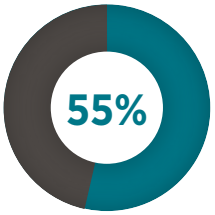
Action charities are taking to protect their reputation from risks



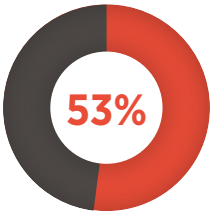
Social media policy for staff/ volunteers



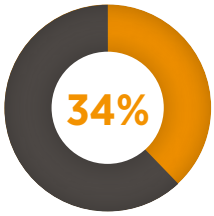
Agreed procedures on how to deal with a reputational issue



Staff and volunteer training to deal with a crisis

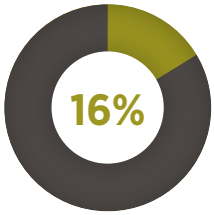


Crisis-management plan

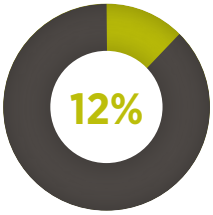


In-house PR/crisis communications experts

Reputational risk insurance cover



PR/crisis communications agency on retainer



None

Source: Ecclesiastical Charity Survey February/March 2019 – State of the Sector

< Data protection

In our study, data breaches were one of the biggest concerns for charities. The introduction of General Data Protection Regulation (GDPR) last year has brought the issue of data protection into sharp focus for charities. Possibly the most substantial change is around data processing and who charities can contact. GDPR also made it compulsory for charities to report a personal data breach within 72 hours if it presents a risk to people's rights and freedoms.

The introduction of GDPR has seen an exponential increase in data security incidents reported to the Information Commissioner's Office (ICO). Charities reported 137 data security incidents to the regulator in the second quarter of 2018/19, compared to 21 in the second quarter of 2017. The consequences of breaking GDPR rules are now significantly more onerous – the maximum penalty for contravening GDPR regulations is either 4% of global income or 20 million euros.

In 2015, the death of poppy-seller Olive Cooke sparked intense media scrutiny of charities' fundraising operations and led to the formation of the Fundraising Regulator. With the public now far more sceptical of charities' fundraising operations, it is paramount that charities ensure their fundraising practices are in keeping with GDPR. This is even more important if a fundraising company is used by the charity, and trustees should enquire as to the practices used by the firm before agreeing to any contract. Bad practices are likely to have a substantial long-term impact on a charity's ability to attract public donations.

Cyber threats

While awareness of GDPR is high among charities, awareness of its implications for cyber-security is much lower, according to latest figures from the Department for Digital, Culture, Media & Sport (DCMS). Cyber-risk has been one of the top concerns for charities over the last few years and featured highly as a long-term risk in our survey. One in five charities has been hit by a cyber-attack in the last year, according to the DCMS report, and this figure is expected to grow as cyber-threats become more sophisticated and prevalent. The DCMS found 75% of charities now rate cyber-security as a high priority (compared with 53% in 2018), yet three in five charities (59%) haven't invested in cyber-security in the past year.

In 2016, the British and Foreign Bible Society had the personal data of 417,000 people stolen when hackers exploited a weakness in its network. The ICO fined the charity £100,000 due to its poor cyber-security measures, which included an easy-to-guess password. >

As well as the financial cost and drain on resources of dealing with a cyber-attack, there can be major impact on an organisation's reputation. The impact of an attack can lead to bad press and a fall in public trust as donors and supporters lose faith in the charity's ability to protect their data.

Charities should ensure they have adequate protections in place in case they are targeted by cyber-criminals; a good starting point is the Government's guide '10 steps to cyber security'. The DCMS report found that only half (53%) of charities have taken action towards five or more of these steps, so more needs to be done by charities in their risk-management approach.

While insurance is not the only solution, cyber-cover can be a vital part of any cyber-security plan. The policy not only covers the costs following a data breach or cyber-attack, but importantly it also gives access to experts who can support charities in dealing with cyber-risk and the aftermath of an attack.

Recommendations

As charities grapple with the risks demonstrated in this report, there are a number of immediate solutions that can help them adapt to a challenging funding environment, political instability and a rapidly evolving technological landscape, plus the reputational risk from failing to live up to the increased demands presented by these issues.

■ Boards should ensure that risks are regularly evaluated and that time is set aside to properly consider the threats to the charity's prosperity and security. To do this effectively, charities need to take a long-term view of risk, looking at a three- to five-year horizon in line with their strategic plans. All charities should have a form of risk register in place as a minimum and strive to embed a culture of strong risk management.

■ Diversification remains crucial to protecting charities from financial headwinds and to maintaining relative stability in an unstable world. The era of continuous growth in funding for charities is coming to an end, and the sector must adapt its practices to survive on less with greater demand on services. This means evaluating how services and programmes are delivered, and ruthlessly prioritising the most important aspects of a charity's mission. Radical solutions and new ways of working will be key to keeping charities on the tightrope between greater demand and less money.

■ Fundraising models must grapple with a cashless society more attuned to the nuances of social media than the old ways of postal and phone contact. And charities must learn from some of the more successful outsider movements of recent years – Extinction Rebellion has put climate change firmly near the top of the public agenda through direct action and peaceful disruption, and charities must ensure they are not left behind by more nimble and digitally-savvy groups. This means re-evaluating business models and recognising that reputations can be damaged in the long term as much through inaction, failure to evolve and complacency as through recklessness.

■ It is important that boards and senior management have a diversity of opinion and talent that enables the charity to move forward as confidently as possible in an increasingly uncertain world. Charities should ensure their work culture is attractive to new talent that can help the organisation to progress, by putting in place appropriate recruitment practices to diversify and rejuvenate their workforces and leadership, and to ensure they remain at the vanguard of societal change.

References/ Useful links

Insight by Ecclesiastical

- Movement for Good awards
www.ecclesiastical.com/movement-for-good

Risk management

- Institute of Risk Management (IRM) Charity Special Interest Group (SIG) guide 'Risk management for charities: Getting started' **www.theirm.org**

- Charity Commission guide 'Charities and risk management' (CC26), including a risk register template and examples of use **www.gov.uk**

Finance

- Charity Finance Group **www.cfg.org.uk**

Trustee recruitment

- Getting on Board's 'How to recruit trustees for your charity: a practical guide' **www.cafonline.org**

- Charity Commission and Cass Business School's report 'Taken on Trust: awareness and effectiveness of charity trustees in England and Wales' **www.gov.uk**

Measuring impact

- Impact information on NCVO's Knowhow website **www.knowhow.ncvo.org.uk**

- Inspiring Impact **www.inspiringimpact.org**

Using digital channels

- The Charity Digital Code of Practice **www.doit.life**

Cyber-security

- National Cyber Security Centre's '10 steps to cyber security' **www.ncsc.gov.uk**

Contributors

Zoe Amar, Director, Zoe Amar Digital

Sally Cupitt, Head of NCVO Charities Evaluation Services

Joseph Durrant-Riley, Head of Risk & Compliance Manager, Alzheimer's Research UK

David Emerson CBE, Emerson-Advisory

Daniel Fluskey, Head of Policy and External Affairs, Institute of Fundraising

Caroline Gee, Charity Business Development Manager, EdenTree Investment Management

Ciara Lynch, COO, The Brilliant Club

Kate Markey, CEO, London Community Foundation

Martha McPherson, Head of Sustainable Growth at UCL's Institute for Innovation and Public Purpose

Alyson Pepperill, Chair of the Institute of Risk Management (IRM) Charity Special Interest Group (SIG)

Mark Potter, External Relations Director, Frontline

Richard Sagar, Policy Manager at Charity Finance Group

Alex Skailes, Director, Cass Centre for Charity Effectiveness

Sharon Spurling, Head of Network Support, Carers Trust

Penny Wilson, CEO, Getting on Board

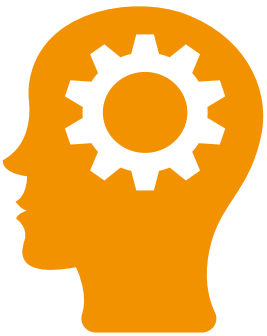
Ecclesiastical

We're building a movement for good

For 130 years, Ecclesiastical Insurance Group has been trusted to protect UK charities and not-for-profit organisations. Today, we're the only financial services group that exists to give its profits to charity.

Our deep understanding of how charities work and the specific challenges they face ensures that we can seek to influence positive change by identifying the big issues and supporting the sector as it tackles them.

We are committed to doing the right thing and charitable giving is at the heart of what we do. We're proud to be doing things differently – to be giving back to the communities we serve and championing the issues that really matter to them, working together to build a movement for good.

Art & private clients | Charity | Education | Faith | Heritage | Real estate

To find out more, talk to your insurance broker or visit our website, www.ecclesiastical.com