Ragged patchwork: The need to overcome the philanthropy knowledge gulf

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PRO BONO ECONOMICS

Pro Bono Economics uses economics to empower the social sector and to increase wellbeing across the UK. We combine project work for individual charities and social enterprises with policy research that can drive systemic change. Working with 900 volunteer economists, we have supported over 500 charities since our inception in 2009.

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Summary

There is a philanthropy knowledge gulf in the UK's financial sector, which is preventing financial advisers from engaging their clients on philanthropy despite a clear and growing demand for philanthropy services. As a result, clients are missing out on key products, services and advice which would allow them to meet their ambitions of having a positive impact with their money. This is doing harm by putting clients off philanthropy, and often leaves them to give in less effective, rewarding and fruitful ways. And as a form of investment, it leaves philanthropy as a bizarre outlier. People rarely invest tens of thousands of pounds in a house, a car, stocks or bonds, without expert advice, support and information. Yet they are left to invest similar sums in organisations tackling cancer, poverty or climate change, often without any equivalent support.

By failing to offer philanthropy services, firms too are missing out on valuable opportunities to build relationships with their clients and their clients' families, and so are failing to grasp the financial benefits which can follow. The UK's financial sector overall is missing out on the chance to get ahead of the competition and cement an innovative, trustworthy offer to the next generation of wealth coming through, while countries like Ireland and Australia break away to do so. Meanwhile, the opportunity to raise potentially vast sums for good causes is being wasted too.

The philanthropy knowledge gulf is so significant – and the difference between philanthropy services on offer from the financial sector and the demand from clients for informed advice so substantial – that bold steps are needed to close it.

Philanthropy services have developed at a torpid pace over the past decade, demonstrating that the financial sector will not move quickly enough to respond to demand on its own. There is a passive resistance among many advisers to the concept of supporting their clients to 'give their money away' – even if that is the client's clear wish – which will not be overcome swiftly by gravity alone. And philanthropy services have, in essence, been rationed to the super wealthy, despite the introduction of the Consumer Duty and the fact that people with all levels of wealth would benefit from support with their giving. This creates a clear impetus for action by the regulator, while the increasing focus on philanthropy services by international competitors requires a sense of urgency from the sector's leadership.

The Financial Conduct Authority (FCA) should act swiftly to overcome this philanthropy knowledge gulf, by taking five steps:

1. Requiring the addition of philanthropy to the curricula of qualifications, such as the Diploma in Financial Planning, the Investment Advice Diploma (IAD), and the Chartered Financial Analyst (CFA) Program.
2. Adding philanthropy and the full spectrum of capital to the continuing professional development (CPD) requirements of retail advisers.
3. Including philanthropy in any changes to training, competence, leadership, culture and incentives made as a part of the FCA's intentions to improve advice on sustainable finance.
4. Working with the accredited bodies and philanthropy sector to develop and drive take up of a philanthropy CPD course.
5. Emphasising that meeting client demand for impact solutions, and philanthropic solutions in particular, is part of the Consumer Duty.

All of these actions require close partnership working between the regulator, the financial sector, philanthropy specialists and the accredited bodies.

By taking these five practical, proportionate steps together, the FCA will be able to bridge the philanthropy knowledge gulf, and so remove the barriers which are preventing the UK financial sector from consistently providing high-quality philanthropy services to all clients who would benefit from them. The UK could build on its success as a world-leader in asset management by becoming a world-leader in philanthropy services; getting ahead of the competition striving to attract the next generation of wealth by offering trusted, genuine, impactful new ways to make a difference; and in the process it could generate hundreds of millions of pounds for good causes much in need of an influx of cash.

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Introduction

When a person approaches a private bank to become a client, when they are referred to an independent financial adviser (IFA), or when they sit down with their asset manager to undertake their annual portfolio review, there is a slim chance that they might be offered support with their philanthropy or charitable giving. Whether that conversation takes place, and the kind of support they might be offered within it, varies dramatically depending on the education and inclination of the individual adviser, the firm that employs the adviser or partner, and whether the client is ultra-wealthy. That is because the philanthropy services offered by the UK's financial sector are a ragged patchwork: more holes than quilt, and too often more ornamental than impactful.

To understand how the UK's financial sector provides philanthropy services, Pro Bono Economics (PBE) has interviewed over two dozen philanthropy experts, financial advisers and philanthropists; collated input from many more; and reviewed the evidence which exists in this understudied field. That research informs this report.

There are many definitions of the word 'philanthropy'. The most common understanding is that it is 'the use of personal assets to serve public need'. This report uses that description.

Large swathes of clients receive no support with their philanthropy at all

Which firm a client uses for their banking and/or investment management plays a decisive role in whether a client is offered philanthropy services, and the form that this takes, because firms approach philanthropy in disparate ways. The vast majority of domestic wealth managers, discretionary investment managers and financial advisers do not offer any kind of philanthropy services. A small number of substantial firms, such as Hargreaves Lansdown and Standard Chartered, have a corporate foundation which allows their employees to engage in charitable activity and so they recognise the benefits of philanthropy, but they do not offer their clients any support with their own giving. Others have limited third partnerships, which may enable them to refer their clients to an external professional philanthropy service provider, such as the Charities Aid Foundation (CAF) or New Philanthropy Capital (NPC). However, this referral-only model usually means that the firm misses out on many of the benefits that arise from providing more comprehensive philanthropy services, and, as such, referral levels are often lacklustre.

When comprehensive philanthropy services are offered by a firm, they are usually provided by very small teams who cannot hope to reach a meaningful proportion of the clients who could benefit from them. The wealth management arms of the high street banks, such as Barclays and HSBC for example, have a philanthropy service, but employ just one or two philanthropy specialists, who are substantially outweighed by the number of clients their bank possesses. This inevitably leads to a rationing of philanthropy services to add value only to the banks' wealthiest clients. This is reflected among the services offered by the international wealth management firms which have bases in the UK, such as UBS and JP Morgan, and the most elite private banks like C. Hoare & Co.. In general terms, these businesses tend to offer some of the most intensive – and therefore often the most impactful – philanthropy services to their clients:

- providing their clients with detailed, one-to-one philanthropy services which help them (and their families) plan their approach to giving;
- supporting clients with the establishment of the appropriate structure(s) for their giving;
- guiding, informing and advising on the selection of causes and organisations to give to;
- aiding monitoring and evaluation of the impact of a client's philanthropy strategy on an ongoing basis;
- and providing events, networking and introductions to specialists, charities, foundations, beneficiaries and other philanthropists to further guide and inspire a client's philanthropy.

Yet these services too are typically offered by very small teams focused on the ultra-wealthy alone.

There are firms which offer a middle ground in philanthropy services – between comprehensive and bespoke services, and nothing. An increasing number of larger firms have a responsible investment offering, and, among a fraction of that number, some philanthropy services may feature as a bespoke offering to the very wealthiest clients. A small but growing number of these domestic financial firms may also offer a wider group of their clients access to philanthropic vehicles, such as donor-advised funds (DAFs). C. Hoare & Co. was the first private bank to offer this in 2011 and Cazenove Capital is one of the most recent, launching their DAF in 2021. However, a middle ground approach means that even if some clients receive some philanthropy services, they may only be offered a few of the blocks that they need to build the most successful and rewarding approaches to philanthropy.

Figure 1. The building blocks of philanthropy services

Providing their clients with detailed, one-to-one philanthropy services which help clients (and their families) to plan their approach to giving;

Supporting clients with the establishment of the appropriate structure(s) for their giving;

Guiding, informing and advising on the selection of causes and organisations to give to;

Aiding monitoring and evaluation of the impact of a client's philanthropy strategy on an ongoing basis;

Providing events, networking and introductions to specialists, charities, foundations, beneficiaries and other philanthropists to further guide and inspire a client's philanthropy.

Recognition of this missed opportunity has been slowly growing among firms over the past decade. However, this growth in philanthropy services has been torpid at best. Single digit additions of staff to philanthropy teams are perceived as major leaps forwards. This snail's pace progress has created a mismatch between philanthropy services on offer from the UK's financial sector and the demand for impact-led finance from clients.

Clients receive philanthropy services inconsistently depending on their individual adviser

Even if a financial firm does offer philanthropy services, it does not mean that all their clients who qualify for those services are made aware of them. Among a very small handful of private banks and wealth management firms in the UK, potential clients are asked about their philanthropic intentions from the first conversation they have with an employee, and/or as part of their application to become a client. In this handful of firms, philanthropy services are a core product offering and part of how the businesses differentiate themselves from their competitors. However, among the majority of financial firms that offer philanthropy services, philanthropy services are not consistently advertised to clients, and are frequently only discussed if the client initiates a conversation on the topic themselves.

The interests, availability, preferences and – above all - the education of an adviser combine to dictate whether or not clients are made aware of the philanthropy services available to them. Leading US-based expert Stephen Johnson has identified three types of adviser by their approaches to offering philanthropy services:

- 'Initiators', who almost always raise the topic of philanthropy with their clients and feel sufficiently knowledgeable to do so;
- 'facilitators', who are willing to promote discussions on philanthropy and would be more proactive if they felt more skilled in this area;
- and 'followers' who do not initiate discussions on the topic of philanthropy, instead waiting for the client to mention it.[1]

At present, 'initiators' are in the minority within the UK financial sector – so much so that one firm which has several thousand advisers under its umbrella reported to PBE that fewer than 30 clients had taken up its philanthropy services in the past year. This is not for lack of demand. As one financial expert at a multinational bank explained:

"I've yet to meet a high-net-worth individual (HNWI) or an ultra-high-net-worth individual (UHNWI)[2] who doesn't practice philanthropy in some form or another. Some give casually, some have very well-established charity relationships – they sit on a board or give to an alma mater or a hospital they're close with, or a religious organisation. I can't imagine that no one's giving anything at all if they're in that income bracket. So what I want to ask the leaders of every financial firm is: 'If every one of your clients practises philanthropy, how come you don't have someone who can help them?'"

Ultimately, clients who would benefit from receiving philanthropy services in the UK find themselves in a very thin, fragmented and immature market, in which the services they receive are often a matter of luck of the draw when it comes to their adviser and their bank or wealth management firm, or simply down to whether they possess elite enough levels of wealth. This stands in stark contrast to the US, where philanthropy is baked into financial advice as a rule, rather than as an exception. Some surveys of financial advisers in the US report that as many as 80% of them discuss philanthropy with their clients as part of regular practice.[3]

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[1] S Johnson, Advancing Philanthropy: Tapping the potential of legal and financial advisers, The Philanthropic Initiative, 2000.
[2] High net worth individuals (HNWIs) are those with investable assets of $1 million or more. Ultra high net worth individuals (UHNWIs) are those with investable assets of $30 million or more.
[3] The US Trust Study of the Philanthropic Conversation: Understanding adviser approaches and client expectations, The Philanthropic Initiative, 2018.

Often, clients do not know how they would benefit from support with their philanthropy until it is offered

Many individuals who might be inclined to undertake philanthropy know little about how to get started. Though they may have had successful careers and spent decades working in business, the charity sector is an unfamiliar world; one which requires a new language to understand and expert knowledge to navigate. Indeed, not having enough knowledge or experience with charities is one of the leading reasons HNWIs give for not donating to good causes.[4]

The help that wealthy people need to support their giving is necessarily complex, nuanced and personalised because giving is a complex, nuanced and intensely personal act. Research has typified three broad types of wealthy donor and shown that around half (52%) of wealthy people can be categorised as 'prospectors'. This large segment of the wealthy are focused on making money and giving it away, and in need of high-engagement, people-orientated support from their advisers. Around a third (33%) of the wealthy population can be categorised as 'pioneers', thinking big and therefore in need of support to think about the big picture. The final 15% of the wealthy population can be thought of as 'settlers'. These people are more cautious, worry more about financial security and have a preference for support with building giving structures and long-term relationship-building.[5]

Overall, Philanthropy Impact believes that there are 23 distinct services which philanthropists require on that journey, though the needs of individuals differ depending on their approach to giving. No one firm could possibly be expected to understand or provide all of these. But they should be able to understand their clients' philanthropic intentions and, at the very least, to start their clients on their philanthropy journey, referring on to the experts and intermediaries who exists - from Community Foundations to impact advisers.

By restricting philanthropy services to the ultra-wealthy, deliberately or otherwise, firms are failing to provide these opportunities to those who perhaps could benefit the most. Compared with other wealthy people, those who are in the early stages of building their wealth are those who have the greatest fears about giving money away and the impact it could have on their long-term financial security. Yet 41% of people who are building their wealth (those with wealth between £500,000 and £1 million) report that they intend to make a major gift within a five-year time frame,

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[4] C Dovey, The Giving Experience: Overcoming the barriers to giving among the wealthy in the UK, Beacon Collaborative, March 2020.
[5] Ibid.

and they are highly likely to want professional advice to support their giving.[6]

The financial sector must be able to guide clients of all levels of wealth through their philanthropy journey, to provide them with the products, advice and services that they need to ensure their money fulfils their goals – just as it must be able to guide them through a traditional investment journey.

[6] Ibid.

The benefits of action on philanthropy and the risks of inaction

Were the financial sector to make philanthropy services much more widely available, the benefits that would result would be substantial – for clients, for firms, for the competitiveness of the sector, and for society at large. Conversely, the risks, disadvantages and downsides which arise from a lack of high-quality, widespread philanthropy services would be reduced.

Clients' needs would be better met by an increase in high-quality philanthropy services on offer from the financial sector

By providing clients with philanthropy services and the means to undertake effective philanthropy, financial firms will be better enabling clients to achieve their goals and creating the opportunity for often unforeseen knock-on benefits.[7] As one financial adviser interviewed by PBE stated:

"Some clients know that they want to be philanthropic. Some don't and not everyone has to be. But quite a few people don't know what they don't know. They've never done philanthropy before, so they don't see the value in doing it. The moment they do, you've opened their eyes to something they'll find incredibly rewarding, something they might spend the rest of their life doing. And they'll thank you for it. As financial advisers, we can open people's eyes to philanthropy in a way no one else can, with a group of people no one else is talking to about this stuff."

Client demand for advice on philanthropy is significant. Four in ten (42%) millionaires want an adviser to suggest ways of helping them make the most of their charitable giving, and a similar proportion (41%) of millionaires state that it is important to discuss their charitable giving with their advisers.[8]

This demand is also accelerating. As money passes rapidly into the hands of more socially-conscious younger generations and women, this demand is set to grow.[9] Millennial investors are, for example, more likely than any other age group to believe that returns have to be sacrificed to generate social good, and yet are the most interested in sustainable investing.[10] Millennial and Gen Z investors, who are currently not working with a financial adviser, are twice as likely as Boomers to say that they would

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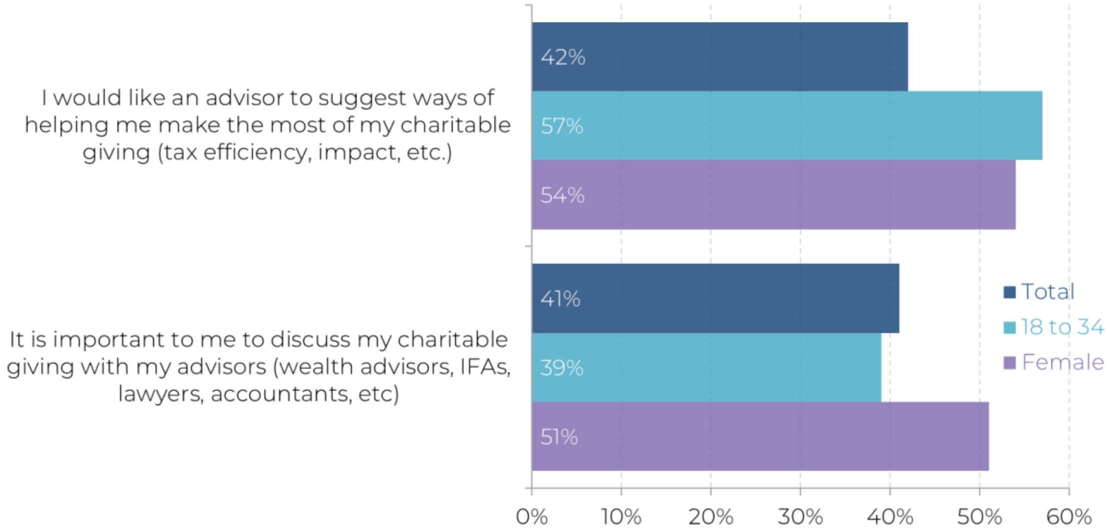
[7] https://thedecisionlab.com/reference-guide/psychology/warm-glow-giving, accessed 1 September 2023.
[8] MillionaireVue Q1 2023, Savanta on behalf of the Charities Aid Foundation, March 2023.
[9] Tomorrow's Philanthropist, Barclays Wealth, April 2013.
[10] Sustainable Signals: Individual Investors and the COVID-19 Pandemic, Morgan Stanley, October 2021.

prefer to start working with a financial adviser who helps them with their charitable giving goals.[11] And well over half of young millionaires (57%) and over half of women (54%) want their advisers to suggest ways of helping them make the most of their charitable giving.[12]

Figure 2: More millionaires want to discuss charitable giving with their advisers

Agree which of the following applies to you?, UK, with select age and gender



Note: Total n = 506, people with assets of more than £1 million, 18 to 34 n = 779, female n = 204.
Source: MillionaireVue Q1 2023, Savanta on behalf of the Charities Aid Foundation, March 2023.

However, the financial sector is not providing clients with sufficient support on philanthropy, and, as a result, clients are missing out on the opportunities presented by the full spectrum of capital. Only a quarter (26%) of millionaires in the UK have advisers who have raised the topic of charitable giving with them at any point.[13] And when the topic is raised, client satisfaction is very low, with only 7% of UHNWIs very satisfied with their wealth managers' impact investing services, and only 4% very satisfied with their philanthropy services.[14] Numerous individuals who have sought financial advice or guidance on philanthropy have reported poor experiences with financial advisers in a range of roles and within a range of firms in the UK. These poor experiences have actively harmed their intentions to distribute their assets to good causes.

In contravention of the intentions of the new Consumer Duty, these may be examples of parts of the financial sector not delivering appropriate

[11] Young investor priorities: Why charitable planning matters, Fidelity Charitable, September 2023.
[12] MillionaireVue Q1 2023, Savanta, March 2023.
[13] Ibid.
[14] Investing for Global Impact: A power for good, Campden Wealth Limited, 2022.

services, and of consumers not receiving the information they need to make good decisions.

Offering high-quality philanthropy services has been shown to boost the bottom line for financial firms

By offering philanthropy services to their clients, firms receive and report multiple benefits. The overall scale of this benefit is difficult to measure in the UK, where the practice is neither commonplace, nor consistent, but it has been researched in the US. Work by Fidelity, for example, suggests that firms which offer their clients charitable planning services have three times the median organic growth of those that do not, as well as 1.3 times the average new money per investor.[15] Advisers offering charitable planning also have significantly higher net promoter (or customer satisfaction) scores, which is an important factor for those looking to attract new clients.

The most common benefit highlighted by financial firms offering philanthropy services is the extent to and variety of ways in which philanthropy can deepen relationships between the firm and client. Client discussions about philanthropy allow firms to undertake a more comprehensive and holistic approach to managing a client's wealth; they provide insights which help advisers to better serve their clients; they allow firms to demonstrate greater personal interest in their clients – something two-thirds (66%) of HNWIs desire more of;[16] they show clients that the firm is interested in more than just their money; and crucially they demonstrate that responsible and sustainable investment are not simply buzzwords, but part of a firm's values. In the US, 74% of wealth advisers report that they find discussing philanthropy with clients to be an excellent way to deepen relationships. This is a view shared by many HNWIs in receipt of wealth advice, with 43% agreeing that discussing philanthropy with an adviser has, in fact, deepened their relationship.[17] And the testimony on this from UK firms is consistent, with feedback from advisers including statements such as:

"Anyone not talking to customers about philanthropy is missing a trick on relationship-deepening."

"All financial institutions should be talking about charity. However wealthy our clients are, we should understand what they're doing that relates to charity – whether that's volunteering or acting as trustees. We should all

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[15] On the leading edge: Accelerating firm growth with charitable planning, Fidelity Charitable, October 2021.
[16] https://www.pwc.com/us/en/industries/financial-services/asset-wealth-management/high-net-worth-investor.html, accessed 11 September 2023.
[17] The US Trust Study of the Philanthropic Conversation: Understanding adviser approaches and client expectations, The Philanthropic Initiative, 2018.

be talking about it, to build those relationships and offer our clients the services we promise to."

"A discussion about philanthropy is a discussion about motivations and passions. If you aspire to have the best possible human-human relationships with your customers, philanthropy gets to the absolute heart of what matters."

For firms, the benefits of offering philanthropy services are not limited to deepening relationships with wealth holders. Philanthropy also provides the opportunity for firms to create new relationships with prospective clients - with 6 in 10 (60%) US advisers reporting this as a benefit[18] – and with entire families of wealth. This is critical because the point of inheritance is a major risk for firms, with 70% of heirs in America reporting that they are likely to fire or change financial advisers after inheriting their parents' wealth, and EY concurring that firms typically lose 70% to 80% of assets when they change generations.[19] But philanthropy can be an effective tool for engaging multiple generations in financial planning, and so improve the chance of firms maintaining business across family members.[20] Research in the US suggests that 33% of heirs overall and 42% of millennial heirs, in particular, are more likely to stay with their benefactor's adviser if they have helped with family philanthropy.[21]

While deepening and expanding relationships with clients and their families can directly boost firms' bottom lines, there are also broader benefits financial firms can gain through offering philanthropy services. It is now well understood that purpose and profit are entwined, with businesses which prioritise purpose having an edge on revenue generation,[22] innovation, stock performance,[23] recruitment of the best talent,[24] and customer loyalty.[25] Providing support to charities is a clear-cut way for a firm to 'walk the walk' with their own environment, social, and corporate governance (ESG), or purpose agenda – something many financial firms already recognise, as two leaders at private banks stated:

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[18] The US Trust Study of the Philanthropic Conversation: Understanding adviser approaches and client expectations, The Philanthropic Initiative, 2018.
[19] https://www.valuewalk.com/2016/05/the-experience-factor-the-new-growth-engine-in-wealth-management/, accessed 1 October 2022.
[20] https://www.sdfoundation.org/news-events/sdf-news/why-incorporating-philanthropy-is-essential-for-financial-planners-in-2022/, accessed 1 October 2022.
[21] Ibid.
[22] The Business Case for Purpose, Harvard Business Review and EY, April 2016.
[23] Gartenberg, Prat and Serafeim, Corporate Purpose and Financial Performance, Organization Science, January-February 2019.
[24] https://www.mckinsey.com/capabilities/people-and-organizational-performance/our-insights/purpose-shifting-from-why-to-how, accessed 21 June 2022.
[25] Unveiling The 2020 Zeno Strength of Purpose Study, Zeno Group, June 2020.

"We see it internally that, as a profitable business, it's almost our natural duty to give back to communities and where we live, and invest in them. Doing so enhances those communities and creates a better world for everyone. Staff love it, and it's the right thing to do."

"I don't know if you could be purposeful [as a firm] without charitable giving."

Lloyds Bank is a good example of this. It allocates around 0.5% of its pre-tax profits each year to its partner foundations for onward distribution to charities; it undertakes partnerships with major charities like Crisis and the Woodland Trust; and it encourages its employees to volunteer using volunteering hours. Yet despite taking charitable commitments very seriously as part of its dedication to communities, Lloyds currently does not provide philanthropy services. Investment clients may receive philanthropy services through Lloyds' partnership with Cazenove Capital, and a handful of its advisers provide ad hoc events for their clients to engage with charities, but philanthropy services are not provided consistently or at scale by the bank. By providing those consistent, high-quality opportunities for clients across the business to engage in philanthropy, Lloyds and other private banks would be taking a big step forward in achieving their own social impact, utilising all the avenues available to them.

The benefits for firms of providing philanthropy services are set to grow in the years ahead. With the increasing demands from clients for money to have a positive impact, as noted above, philanthropy services provide firms with a means by which to keep up and remain competitive. This is particularly pertinent as firms compete to attract the next generation of clients who are set to be the major beneficiaries of the £5.5 trillion 'great wealth transfer' currently underway.[26] These next generation investors are actively seeking to do business with firms whose values align with their own,[27] and firms which seize on philanthropy as an opportunity to demonstrate their commitment to purposeful business are likely to win in the long-term, while firms which fail to seize the opportunity philanthropy provides miss out on this new business.

The UK's world-leading financial sector stands to gain by beating the rest of the pack to offer high-quality philanthropy services

Continuing to grow the UK's vital and highly productive financial sector is an ambition that government and industry both share, and philanthropy has a role to play in this. The financial sector is already one of the jewels in

[26] Wealth Transfer in the UK, King's Court Trust, 2016.
[27] G. Mascotto, The Growing Appeal of Impact Investing Contrasting US, UK and Germany Attitudes, American Century Investments, October 2020.

the crown of the UK economy, providing an estimated 7.6% of UK employment, £275 billion of gross value added (GVA) and 10.1% of total UK tax receipts when associated professional services are accounted for.[28] The UK's asset management sector, in particular, is substantial – second only to the US's in size[29]. But, as noted above, for the UK's financial firms to maintain their competitive edge as wealth transfers across the generations, it will be essential for them to do more to grow their impact-related offerings, including their philanthropy services.

Other nations have already identified this advantage and are getting ahead of the game. In the last six months, both the Irish[30] and Australian[31] governments have identified financial advisers as key actors in their national strategies to increase charitable giving. As the quotation from the Australian government's strategy below shows, they are looking to maximize both the commercial and the charitable benefits of doing so. It is in the UK financial sector's interests to position itself ahead of other nations attempting to have the advantage on philanthropy.

> *"The call to action here… for financial and legal advisers to engage their clients on the option of philanthropy, both to create a better world and to strengthen the sustainability of their client relationships"*
>
> – Philanthropy Australia, A Strategy to Double Giving by 2030

One of the most concrete ways in which the financial sector can benefit from additional philanthropy services is through the potential growth of DAFs. These are convenient charitable giving vehicles which can be funded with a variety of assets, including cash, shares and third-party entities. These assets can be invested and managed much as other investments can, but the donor/investor in question receives immediate tax benefits from the money, which is irrevocably allocated for charitable purpose. The money can then be granted out to charities over time. Industry focus on the potential of DAFs in the US has led to their meteoric rise over the past half-decade, with US-based DAFs tripling in number between 2015 and 2020, such that they hit the 1 million mark in the middle of the pandemic. From assets of $160 billion under management in these vehicles, $35 billion in charitable grants was paid out in 2020, up from £14.2 billion in 2015.[32] The UK's DAF market is a fraction of that, with assets of £2.2 billion. As such, this is a substantial prize for the UK to pursue, providing a streamlined

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[28] A Bardalai & C Quinaucho, Key facts about UK based financial and related professional services 2023, The City UK, March 2023.
[29] State of the sector: annual review of UK financial services 2023, The City of London, 2023.
[30] National Philanthropy Policy Draft 3, Government of the Republic of Ireland: Department of Rural and Community Development, May 2023.
[31] A Strategy to Double Giving by 2023, Philanthropy Australia, May 2023.
[32] M Brown & C Strawser, The Donor Advised Fund Report, National Philanthropic Trust, 2022.

alternative to a foundation, which is both attractive to many potential donors and more familiar to many previously traditional investors.

With nearly half of all assets under management in the UK managed on behalf of overseas clients,[33] the UK's asset management sector is extremely successful at attracting international clients. This creates a particular opportunity for the UK to develop expertise in dual-registered DAFs, which make dual tax liability much more straightforward. Indeed, deliberate, concerted action to increase giving through DAFs would be moving with the grain of the market: assets in UK DAFs are believed to have increased 20% between 2020 and 2021.[34]

Ultimately, increasing high-quality philanthropy services will benefit society by driving up giving from those with the most to give

By increasing the philanthropy services they provide to clients, financial firms will be able to drive a greater volume of money to be spent more impactfully, to make a difference in society on issues as diverse as child poverty and human trafficking.

In the UK, the effect, potential and importance of the current level of philanthropy are significant and should not be underestimated. Indeed, the UK is a world leader in philanthropy: as a proportion of GDP, the UK public donates far more to charity than that any other European nation.[35] In 2019-20, charities in the UK received £21.8 billion in individual philanthropy. This comprised public donations of £12.3 billion, income generated through fundraising of £5.8 billion, and legacies of £3.7 billion.[36] This sum represented a third of the charity sector's income. In addition, philanthropic endowments, trusts, funds and other forms of financial investments, the gains of which are turned to philanthropic purpose, are also notable: the largest 300 foundations in the UK alone are estimated to hold assets worth £87 billion between them.[37]

The impact that philanthropy generates for the public good is substantial, and unique. Philanthropy encourages and enables community action, supports relationships and associational life, and responds to the unmet needs of some of the most vulnerable members of our population. Philanthropic capital is frequently innovative, taking risks on potential solutions to societal problems that businesses and government cannot or will not. Additionally, philanthropic capital is important to the sustainability

[33] State of the sector: annual review of UK financial services 2023, The City of London, 2023.
[34] UK Donor-Advised Fund Report, National Philanthropic Trust, 2022.
[35] Gross Domestic Philanthropy: An international analysis of GDP, tax and giving, Charities Aid Foundation, January 2016.
[36] UK Civil Society Almanac 2022, NCVO, October 2022.
[37] C Walker, Foundation Giving Trends 2022 , Association of Charitable Foundations, May 2023.

of the charitable sector because it is less sensitive to the fluctuations of political and economic cycles than other funding sources, as well as allowing for a broader range of spending than statutory sources because it is bound by fewer constraints. And it is, of course, voluntary; supporting the public good without compulsion. Ultimately, philanthropy is a powerful and entirely –impact-focused means of achieving sustainability through finance and having a positive impact on society.

There is compelling evidence that, when financial services firms offer better philanthropy services, they can play an outsized role in generating these funds for positive change. Clients who are supported to think strategically about their impact, who are able to measure and see the impact of their gifts, and who are provided with the tools and help to improve their giving and overcome hurdles, are likely to see a greater benefit in the practice and so give more. As one adviser put it:

"The more seriously you take philanthropy, and the more seriously your client takes it, the more they're going to realise how much joy there is to be had in the act of giving. The more involved you are with a charity or a cause, the more you're going to see how your money can make real change happen. And when you see that, when you feel it, you're going to want to give more – maybe even get your friends giving too. It's not so much a virtuous cycle as a virtuous cascade."

This is borne out in the evidence. HNWIs who have already taken advice on philanthropy are believed to give almost twice as much to charitable causes annually than those who have not taken advice on philanthropy.[38]

Even the act of financial advisers simply 'prompting' or asking clients whether they have philanthropic intentions more regularly would inevitably generate an increased volume of donations to charity. Few donations are spontaneous: they follow an ask, appeal, or other nudge. A study on legacy giving examined how giving is affected by the way messages are framed and showed that when advisers tell people that leaving money to a charity is something other people do, it results in people who are writing their will for the first time donating 40% more than people who are not given this message.[39] A similar effect would be likely to take place if financial advisers regularly and consistently prompted their clients to think about their philanthropic activity.

In addition to increasing the volume of giving, an increased offering of philanthropy services from the financial sector would also improve the

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[38] The Art of Adaptation, Charities Aid Foundation, 2015.
[39] M Sanders et al., Legacy Giving and Behavioural Insights, The Behavioural Insights Team, 2016.

quality of giving and so benefit society. As with other investments, when exchanges of substantial amounts of money are in question, it is important that clients receive high-quality information on how to do philanthropy well – for example, how to turn their objectives into reality; how to manage risk; how to have more impact by collaborating with others; and what best practice looks like. Advisers can make philanthropy better by helping clients to adopt good practices and avoid problematic involvement that might otherwise distort charities' strategies, add costs, alienate other donors and lead to under-performance. For society, this 'better giving' has many benefits, as it can deliver greater sustainability for charities and therefore their staff and services, and it can generate greater equity, and reduce and remove waste.

When major giving is done poorly, it can achieve the opposite of this – indeed, it can cause harm to society. It is not an impactful use of finance if, for example, a wealthy individual decides that they want to buy musical instruments for a charity, because they believe that is what the charity will benefit from, when the charity has no need for them, but feels compelled to take and make use of them for fear of displeasing the donor. Neither is it an impactful use of finance if an individual undertakes a charitable programme in isolation when there are others who are undertaking precisely the same work, meaning opportunities to collaborate to achieve scale, to learn from what has gone before and to use scarce resources effectively are squandered. And it is actively harmful if philanthropy is undertaken at a scale which reinforces inequalities, such as by further disadvantaging already disadvantaged groups.[40] All three of these happen frequently, but their incidence can be reduced by the provision of high-quality philanthropy services, so benefiting society.

[40] H Barnard & M Williams, Making it count: overcoming barriers to better grantmaking, Law Family Commission on Civil Society, December 2022.

Giving all financial advisers in the UK the training they need to accelerate philanthropy

The biggest barrier to consistent, high-quality provision of philanthropy services is the absence of education and training on the topic received by financial advisers. The consensus on this from professionals interviewed for this report was absolute. A lack of education on philanthropy fuels numerous issues: it means there is a poor understanding of products available and therefore an aversion to them; it means that advisers lack knowledge on social impact reporting and so struggle to differentiate the most impactful ways of undertaking philanthropy; it keeps advisors from prioritising philanthropy and initiating conversations; and it means traditional mindsets and cultures are rarely challenged.

Perhaps the most damaging misconception among advisers about philanthropy is that by providing philanthropy services, they will experience financial penalties and loss. Lacking education about the long-term benefits that philanthropy services can generate, a substantial number of advisers and wealth managers appear to perceive philanthropy services as supporting their clients to 'give their money away' – leading to fewer assets under management for those advisers to levy charges against.[41] They are therefore directly incentivised against providing philanthropy services.

"Across the industry, a lot of financial advisers see philanthropy and think, '[My clients] are going to disinvest with me and I'll miss out on funds under management'."

"Assets under management are probably a bigger problem than we all realise. Advisers can listen to all the great benefits of philanthropy, but if they're not forced to do things from a regulatory side, it's very easy to ignore them. They think, 'That sounds great, but it's not core commercial activity. I'm a busy person and my core activity is this.'"

"When I'm creating events for clients to learn about philanthropy and meet charities, there's passive resistance from bankers that don't want their clients giving money away."

"People don't understand how to integrate philanthropy into the services that they provide. There's a fear about cannibalising assets. I've only seen that change when it's replaced by a realisation that they were seeing assets walking out the door if they weren't able to provide a solution to the

[41] The role of wealth advisers in offering philanthropy services to high-net-worth clients, Scorpio Partnership, October 2008.

assets people wanted to devote to philanthropy – which firms will see more and more of."

"There are some bankers that don't see the value add to the relationships with their clients. They might not really be in support of charitable giving, or they're very KPI-driven – they just want to focus on where money is made, rather than 'wasting time in meetings' - as they might view philanthropy activity - or encouraging clients to spend their money, which they see as counterproductive."

This disincentive prevents clients from being offered services and information that they would benefit from. As noted above, this is in direct contravention of the requirements set out in the Consumer Duty. Worse, among individuals who have asked their financial advisers for help with certain philanthropic products, or expressed their interest in philanthropy and have been actively dissuaded by their adviser from pursuing such a route, there is a belief that their advisers were motivated by a fear that they would lose assets under management if they supported their clients in pursuing their philanthropy.

Without good education and training on philanthropy, even advisers who can perceive the benefits of offering their clients philanthropy services struggle to know how to do so sensitively and effectively, and so hesitate to do so. There are the 'facilitators', who Stephen Johnson defines as "willing to promote discussions on philanthropy and would be more proactive if they felt more skilled in the area".[42]

There appears to be a perception among these 'facilitators' that philanthropy is more personal and therefore more difficult to discuss with clients than other forms of capital, because it requires discussion of values, life experiences, passions, legacy and – from time to time – sources of tragedy and family conflict. That can be challenging or even confronting for advisers more used to discussing asset classes and investment vehicles, who feel that they lack the language to discuss these issues. This can seem counterintuitive, as most financial advisers already have an in-depth understanding of the fine details of an individual's investments and wealth, and therefore understand their clients on a more personal or intimate level than many of their acquaintances. Yet, as philanthropy leads working at several financial firms testified to PBE:

"Bankers don't want to offend clients, and feel there's a higher risk of them accidentally doing that if they 'accuse' their clients of being uncharitable

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[42] S Johnson, Advancing Philanthropy: Tapping the potential of legal and financial advisers, The Philanthropic Initiative, 2000.

or accidentally put pressure on them to be so. The conversation's out of their comfort zone."

"There's an apprehension around advisers giving advice about philanthropy because philanthropy doesn't always have the kind of structures and frameworks that they're used to. Then there's the values piece. Ask a manager to talk about risk and return ratios or four hundred kinds of asset classes and they'll talk your ear off. Ask them to talk to their clients about values and legacy, or causes they're passionate about, and those same managers freeze up. That's not their world."

"Wealth managers are very, very good when they understand what they're referring out to. Anyone can come into a wealth management firm like us with any tax or jurisdictional issue and get help and be matched with an expert. But that's not the case in philanthropy, simply because the managers do not know how to talk about it."

By making three simple changes, the FCA can substantially reduce the financial sector's philanthropy knowledge gulf

The size of the philanthropy knowledge gulf is so significant – and the difference between philanthropy services on offer from the financial sector and the demand from clients for informed advice so substantial – that bold steps are needed to close it. The torpid pace of change over the past decade demonstrates that the financial sector will not move quickly enough to respond to demand on its own. The passive resistance among many advisers to the concept of supporting their clients to 'give their money away' – even if that is the client's clear wish – will not be overcome swiftly enough by gravity alone. The rationing of philanthropy services to the super wealthy despite the introduction of the Consumer Duty creates a clear impetus for regulatory action, while the increasing focus on philanthropy services from international competitors requires the addition of a sense of urgency from the sector's leadership. The calls from experts for the FCA to act are strikingly clear:

"We've been discussing the need to convince our organisations to do philanthropy advice better for a decade. This is exactly the same conversation we were having 10 years ago, and yes there's a few more of us having it now, but we're not the leadership. They're not talking about this. They're not going to change unless something external does."

"In order to advise people about wealth, you need philanthropy and sustainability on the syllabus and it needs to be mandatory. I don't think voluntary will work, because people have to ask their managers to fund it,

it's only going to be taken up by a few people who are passionate about it anyway. That's been my experience."

"Regulators shouldn't underestimate the power they have – because advisers are always looking for the new thing to engage their clients with. Every review that every partner does with clients right now is about pensions because of the changes to lifetime allowance. If there's a change the regulator makes to do with philanthropy, you'll catalyse greater awareness of it almost immediately."

"The industry is adapting to a lot of new regulation. Of course more would feel like a burden. But our sector's very good at complaining about regulation while it's going in. Then when it's in place, we see the value in it. We'd see the value in making conversations about philanthropy mandatory the moment we were done implementing it."

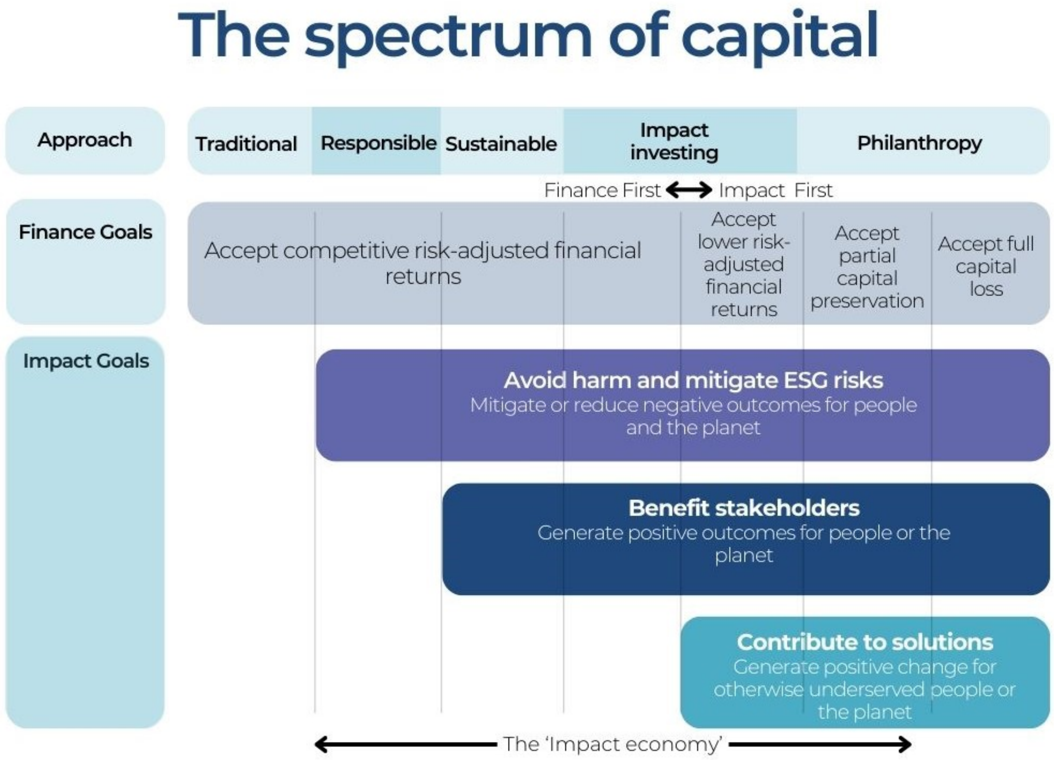
The FCA has the power to dramatically accelerate the necessary education of financial advisers in how to engage their clients in philanthropy services. It could do so by taking five proportionate steps:

1. Requiring the addition of philanthropy to the curricula of relevant qualifications, such as the Diploma in Financial Planning, the Investment Advice Diploma (IAD), and the Chartered Financial Analyst Program. The FCA mandates compulsory qualifications for financial advisers and maintains an approved list of certificates, diplomas and degrees, which cover the various specialisms required by regulated professionals in the sector, including financial advisers. These qualifications and the curricula attached currently fail to provide qualifying financial advisers with an understanding of philanthropy. As part of the FCA's regular reviews of these curricula, it should ensure philanthropy's inclusion in these relevant courses, requiring education on the topic in order to gain qualification or credit.

2. Adding the full spectrum of capital to the continuing professional development (CPD) requirements of retail advisers. By updating the Training and Competence section TC 2.1.15–23 of the FCA handbook, the FCA could add a specific requirement that all retail investment advisers receive CPD on philanthropy. Additionally, the FCA could update TC 2.1.5B and TC 2.1.13 of the FCA handbook to explicitly require firms to ensure that regulated employees have appropriate knowledge of the full spectrum of capital. In doing so, the FCA would be requiring firms to have confidence that their advisers are trained in understanding ESG funds, sustainable funds, impact investment and philanthropy, alongside traditional flows of investment. This requirement would sit reasonably beside the other broad areas that all regulated employees are expected to understand, like

knowledge and understanding of security valuation and knowledge of business ethics standards.

Figure 3. The full spectrum of capital that all retail advisers should have comfort explaining and supporting clients with



Source: Impact Investing Institute.

3. Including philanthropy in any changes to training, competence, leadership, culture and incentives made as a part of the FCA's intentions to improve advice on sustainable finance. In particular, any changes the FCA makes to the education, qualification and curricula of financial advisers on sustainable financing should include an element of education on philanthropy. The FCA's recent consultation regarding 'DP23/1: Finance for positive sustainable change' set out the regulator's intentions to "help with highlighting good, evolving practices if finance is to deliver on its potential to drive positive sustainable change." Philanthropy was not explicitly included in this report, but is nevertheless incredibly relevant to its objective. A strategy for improving and increasing sustainable finance which misses out philanthropy misses out the most impact-focused form of capital, and therefore a critical opportunity to deliver change. By incorporating and integrating philanthropy into the changes it makes to drive up high-quality provision of advice on sustainable finance, the FCA will be able to make a major difference to the recognition of philanthropy as a valid and impactful form of capital, and one of the solutions the financial sector and clients alike require to forge a more sustainable future.

4. Working with the accredited bodies and philanthropy sector to develop and drive take-up of a philanthropy CPD course. The accredited bodies, the Chartered Insurance Institute, the Chartered Institute for Securities and Investment, the Chartered Banking Institute, the CFA Society of the UK, and the London Institute of Banking and Finance, have a major role to play in encouraging learning about philanthropy as part of the structured CPD retail advisers are required to take. These bodies could offer training courses, workshops, conferences, seminars, and workshops on philanthropy which contribute to structured CPD requirements. Experts in the philanthropy sector would be willing and able to support this. But creating philanthropy courses alone will not be enough. The regulator will need to work actively with the accredited bodies and the Personal Investment Management & Financial Advice Association to ensure that philanthropy courses are not seen as an 'added luxury' or 'optional extra' for advisers to take, but essential as part of their development.

5. Emphasising that meeting client demand for impact solutions, and philanthropic solutions in particular, is part of the Consumer Duty. With the financial sector currently adapting at pace to the new Consumer Duty requirements, this is an opportune moment for the FCA to remind the sector of the importance of meeting client needs for impact-led solutions. The regulator must respond to the clear evidence that clients are being disappointed by the current services on offer, or being denied services they are requesting.

Taking these limited, proportionate actions could nevertheless catalyse significant change

By taking these five practical, proportionate actions, the FCA would be able to encourage the financial sector to take the necessary leap forward in the provision of philanthropy services. Doing so would benefit clients, firms, the sector as a whole and indeed society, as explored above.

Through a show of leadership on this issue, the FCA is also likely to generate additional benefits which are harder to measure. But the immaturity of the market for philanthropy services creates an opportunity for the UK to lead the way in innovating. Despite the market's current lack of depth, there are intriguing examples of this already taking place – such as the Together Charitable Foundation creating the means for all IFAs to offer DAFs, the Global Returns Project creating a 'fund management' approach to philanthropy, and new giving vehicles being created by some private equity firms through the Greater Share model. These alone provide opportunities for scaling. If all financial advisers were given the chance to learn about philanthropy, it would undoubtedly inspire new ideas about how to improve and enhance the philanthropy services available today, creating new, exciting offers for clients looking to have a positive impact on the world.

Action by the FCA may also encourage firms' leadership teams to reconsider how they resource their philanthropy services. When financial firms provide their clients with philanthropy services, they typically do so as a free, valued added offering. If charges are levied for in-house philanthropy services, anecdotal evidence suggests that they usually bring in less direct income than other areas of the business. As a result, a philanthropy offering is often viewed as a cost centre within a business, rather than as a source of revenue generation. As noted above, that does not mean that philanthropy services are loss-making – what evidence there is suggests that it can be quite the opposite. However, to countenance making the investment that is needed to provide philanthropy services, senior leadership teams must overcome this erroneous perception of them as loss-making, and/or be sufficiently enthusiastic about philanthropy's benefits. Not all do so.

"It's a big ask to create a philanthropy team. It requires salaries and expenses etc. If you make it a profit centre, the danger is it starts drifting into commercial activity – it's about creating income rather than creating positive change. If it's a cost centre, people feel there's overheads attached to the business."

If senior leadership teams fail to understand the benefits of philanthropy, or have no personal interest in it, philanthropy services are either hampered or not offered at all. This disadvantages the clients of those firms, and also frustrates staff members who can see the value of philanthropy services and wish to meet their clients' demand for them. One described their disinterested senior leadership as a "brick wall" preventing progress. Better understanding of philanthropy's value among senior leadership teams and knowledge-empowered advisers are essential to knocking down these brick walls.

Finally, by taking action on philanthropy, the FCA may be able to inspire changes to how firms encourage their advisers to consistently raise philanthropy services with their clients. Very few firms encourage their employed or partnered advisers to engage their clients in philanthropy services through the use of objectives, incentives or measurement. When firms have done so to encourage advisers to engage their clients in sustainable finance more broadly, it has had success. One firm which had changed their employees' objectives to include sustainable investments in assets under management had experienced a "manifold" increase in such investments in a very short amount of time. It is clear that taking a step further and including philanthropy in objectives or key performance indicators (KPIs) is an "ongoing conversation" in many firms. But this conversation can transform into action with leadership from the regulator, breaking that stalemate, to ensure that clients' needs are put before adviser motivation, and to ensure that firms look beyond the immediate demands of the day job and towards the future: preparing to meet the needs of clients on the other side of the wealth transfer, who – more than any other generation before them – want their money to have a positive impact on the world.[43]

By taking these five practical, proportionate steps together, the FCA will be able to bridge the philanthropy knowledge gulf, and so remove the barriers which are preventing the UK financial sector from consistently providing high-quality philanthropy services to all clients who would benefit from them. The UK could build on its success as a world-leader in asset management by become a world-leader in philanthropy services; getting ahead of the competition striving to attract the next generation of wealth by offering trusted, genuine, impactful new ways to make a difference; and in the process it could generate hundreds of millions of pounds for good causes much in need of an influx of cash.

[43] Investing in a Better World: Understanding the UK public's demand for opportunities to invest in the Sustainable Development Goals, HM government and UK Aid, September 2019.

Conclusion

There are five simple, practical, proportionate changes which the FCA could and should take to educate financial advisers across the UK on how to provide philanthropy services to clients, and the benefits of doing so. By requiring the addition of philanthropy to the curricula of the Diploma in Financial Planning, the IAD, and the Chartered Financial Analyst Program qualifications among others, the FCA would be able to require all newly-qualifying financial advisers to have the basic understanding of philanthropy that they need from day one. By adding the full spectrum of capital to the CPD requirements of retail advisers, the FCA would be able to ensure all current financial advisers learn about philanthropy and its relevance to their clients. By including philanthropy in any changes to training, competence, leadership, culture and incentives made as a part of its intentions to improve advice on sustainable finance, the FCA would be able to integrate philanthropy in the financial sector's understanding of different kinds of sustainable finance, just as interest in the topic reaches new levels.

In addition to these proportionate and minimal regulatory actions, the use of the FCA's softer power to collaborate with accredited bodies to develop philanthropy CPD materials would be a good step forward. However, this would only make a difference if combined with concerted efforts to drive take up of such training within the financial sector. And emphasis from the regulator on the importance of clients' philanthropic needs being met regardless of level of wealth, as part of meeting existing Consumer Duty requirements, would be beneficial in introducing the topic to audiences who have not yet embraced it.

These changes are necessary and urgent because client demand for impact-led finance is far outweighing the financial sector's provision. Philanthropy is the most impact-aligned form of capital, and clients are deeply dissatisfied with the philanthropy services current on offer from the financial sector in the UK. Education and training are essential to dispel the misconceptions about philanthropy which prevent advisers offering, and firms developing, high-quality philanthropy services.

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