Giving advice:

The case for the FCA to act on philanthropy

November 2022

Nicole Sykes

PRO BONO ECONOMICS

Summary

The UK's financial services sector has the potential to help drive positive change on a scale few other industries can. The rapid movement towards ESG funds and products clearly demonstrates that potential. However, this trend has not been without its challenges. There are widespread concerns over greenwashing. Much of the sector's action has been focused narrowly on climate change, with comparably less attention on achieving broader social change. And - because much of this area is relatively novel - there has been less work undertaken on more impact-aligned forms of capital such as impact investing and philanthropy, and the potential held by personal finance.

Philanthropy in particular is an under-utilised tool available to the sector to help it achieve positive change. It is not the right option for everyone, but for people who are passionate about having an impact on the world and are willing to accept a partial loss of capital, or lower returns on investment, philanthropy is a powerful way of achieving social outcomes. Charities don't tend to suffer from the greenwashing concerns that many ESG products do, and charitable giving allows the donor to invest their money in social impact on any conceivable issue – including, but not limited to, climate change.

At present, however, financial advice and guidance on philanthropy is not consistently offered to people who have the capacity to give. And frequently, when advice or guidance is given, it is not of consistently high quality.

This is a missed opportunity to achieve genuine positive change. As the source of around £20 billion – or a third of the charity sector's income – each year, philanthropic capital plays a vital role in the UK's economy and society, by encouraging and enabling community action, by supporting relationships and associational life, and by responding to unmet need, often of the most vulnerable. Philanthropic capital is frequently innovative, taking risks on potential solutions to societal problems that businesses and government cannot or will not. And the global philanthropy market is a significant one.

Offering high quality financial guidance on philanthropy also benefits the firms that provide it. They report that a strong philanthropy offering allows them to deepen relationships with both their clients and their clients' families, which means that they can provide better services to their customers and increase their chances of maintaining custom across the generations. It also puts firms in a more competitive position for attracting new business from millennials and other younger potential investors.

In the US, where financial advice on philanthropy is offered to clients as a matter of course rather than a matter of exception, the benefits of this offering have been quantified. Research suggests that firms which offer their clients charitable planning have three times the median organic growth of those that do not, 1.3 times the median new money per investor, and significantly higher net promoter (or customer satisfaction) scores. This much stronger philanthropy offering has also directly contributed to the dramatic rise in donor-advised funds in the US, which more than tripled between 2015 and 2020, hitting the 1 million mark in the middle of the pandemic. From assets of $159.8 billion under management in these vehicles, $34.7 billion in charitable grants was paid

out in 2020, up from $14.2 billion in 2015 - showing how quickly and at what scale positive social impact can be achieved through good advice.

The Financial Conduct Authority (FCA) has a responsibility to drive up the provision of high-quality financial advice and guidance on philanthropy. Doing so is well-aligned with its own commitment to support the financial services sector to achieve positive change. It is also part of the FCA's duty to consumers to ensure that the sector provides the products and services people are demanding.

To achieve this, the FCA should begin by enhancing its own understanding of philanthropy. With that knowledge, the regulator should use its leadership role to begin a sector-wide conversation on philanthropy's potential and the barriers preventing financial advisors from speaking to their clients about charitable giving, including incentives, culture, approach to risk and lack of understanding and adoption of social impact measurement. As a lack of knowledge of philanthropy in the financial sector is at the root of the vast majority of barriers to the provision of high-quality financial advice and guidance on philanthropy, the FCA should also improve the training of financial advisors on philanthropy by ensuring it is included in the relevant curricula for qualifying advisors and offered by a greater number of accredited bodies as a way to fulfil the requirements for continuous professional development.

In parallel, the FCA should begin to set out a timetable by which it will require relevant financial advisors to discuss philanthropy with their clients as a matter of course. Sustainability intentions, values-based investing and philanthropy all ought to feature in the suitability assessments undertaken with clients, so that advisors have a full understanding of clients' intentions and can thus deliver services to their customers appropriately.

Undertaking these changes would drive up both the quality and the quantity of financial guidance and advice on philanthropy on offer to consumers, and help to generate greater giving to good causes.

Background

The Financial Conduct Authority (FCA) regulates and stewards markets to ensure that consumers get a fair deal. It acts to ensure that financial firms treat their customers fairly, that they deliver appropriate products and services, and that they put consumer protection above their own profits or income. This priority is core to what the FCA does. It is embedded in the outcomes the FCA strives to achieve and the metrics by which it measures itself.[1]

Over the past 18 months, there have been three significant developments at the FCA which have deepened its commitment to consumers and to social impact.

First, in May 2021, the FCA began to develop a new Consumer Duty, with the objective of setting higher expectations for the standard of care that firms provide to consumers.[2] This prospective duty has been the subject of heavy consultation and was published at the end of July 2022. The duty places a greater emphasis on financial services firms enabling their customers to pursue their financial objectives and ensuring that consumers receive the information they need in the right way, so they can make the best decisions themselves. In this context, and therefore in this paper, the term 'consumers' is used as a catch-all term to describe retail customers or clients.

Second, the FCA has been dramatically expanding its work on ESG – or environmental, social and governance – through a programme of work to mobilise financial services to create positive change. In March 2021, the Chancellor broadened the FCA's remit to include having regard to the government's net-zero ambitions;[3] in mid-2021, the FCA appointed its first Director of ESG; and in November 2021, it published an updated ESG strategy.[4]

Importantly, in that strategy, the FCA sets out its initial steps towards achieving sustainability with the financial services sector – with sustainability defined as "how people, planet, prosperity and purpose come together to help enable 'the needs of the present [to be met] without compromising the ability of future generations to meet their own needs'". In doing so, the FCA also stated that its overall objective for its work on ESG was "to support the financial sector to achieve positive change".

This matters because the FCA has deliberately chosen a broad definition of sustainability and a broad approach to ESG. A strict definition of ESG would have focused solely on the information about a company's performance against a set of criteria related to the environment, social and governance categories, which many investors use to make better informed assessments about a company's risk and opportunities. By choosing a broader definition of ESG, focused on a sustainability of people, planet and prosperity overall, and wanting to achieve positive change, the regulator has clearly indicated that its intention is to achieve impact across the sector, and on a range of issues. That broader definition of ESG is one that is therefore used in this report.

[1] https://www.fca.org.uk/data/fca-outcomes-metrics, accessed 30 June 2022
[2] A New Consumer Duty: Feedback to CP21/36 and final rules, Financial Conduct Authority, July 2022
[3] R Sunak, Recommendations for the Financial Conduct Authority, March 2021
[4] A strategy for positive change: our ESG priorities, Financial Conduct Authority, June 2022

Finally, in May 2022, the UK government announced a new Financial Services and Markets Bill which will, among numerous measures: delegate additional powers to the FCA; set new secondary objectives for the regulator related to long-term growth and international competitiveness; strengthen HM Treasury's influence over the FCA; and revoke on-shored EU financial services regulation. The full extent of this legislation has yet to be published, but (if the new government pursues it) it is already expected to be impactful both for the regulator and for the financial services sector.

Against this backdrop of significant change, philanthropy would appear to be low on the regulator's radar. But it should not be. The new Consumer Duty creates a greater imperative to ensure that consumers are getting the information they need, and financial services firms are one of the places that consumers turn for advice and guidance on philanthropy. The intensification of the FCA's work has to date focused mainly on climate, but the regulator recognises the need to undertake more action on social impact – which philanthropy can and should play a big part in. And the Financial Services and Markets Bill presents both opportunities and threats to this agenda.

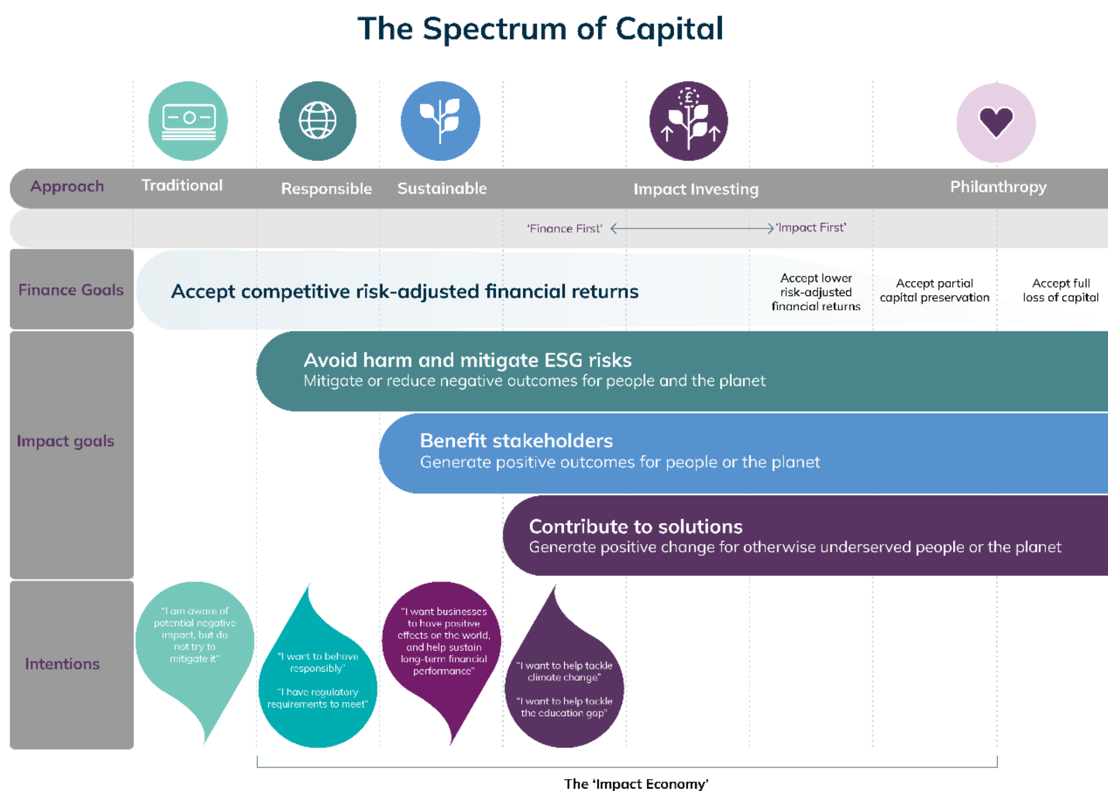
Philanthropy in this context

In this paper, the term 'philanthropy' is used to refer to monetary donations given by individuals for the public good, in this case mostly ranging from moderate mass-market giving to the large gifts made by major philanthropists.

Like all forms of capital, philanthropic capital is expected to generate benefit. But unlike traditional forms of finance, donors do not act with the expectation of monetary returns for themselves. Instead, they make the choice to invest in societal impact. This act may be entirely altruistic, or it may be one of enlightened self-interest in which the donor supports a cause that they themselves may benefit from one day. The donor may also gain other benefits from their philanthropy, such as status, tax relief or the sense of joy giving provides.

The choice to invest in societal, rather than individual benefit, puts philanthropy at the most concentrated 'impact' end of the Spectrum of Capital – the scale by which different forms of finance can be grouped by their ratio of finance to impact intentions.

Figure 1: The spectrum of capital



Source: Bridges Fund Management and Impact Management Project

Philanthropy may be perceived as minor in financial value compared to traditional forms of capital, but investments for philanthropic purpose are significant, and the effect, potential and importance of philanthropy 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 the population of any other European nation.[5] In 2018-19, charities in the UK received £19.6 billion in individual philanthropy. This comprised public donations of £10.3 billion, income generated through fundraising of £5.6 billion, and legacies of £3.7 billion.[6] This sum represented a third of the charity sector's income.

This philanthropic capital plays a vital role in the UK's economy and society, by encouraging and enabling community action, by supporting relationships and associational life, and by responding to unmet need, often of the most vulnerable. Philanthropic capital is frequently innovative, taking risks on potential solutions to societal problems that businesses and government cannot or will not. Additionally, it is important to the sustainability 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, as it is bound by fewer constraints. And it is, of course, voluntary; supporting the public good without compulsion.

---

[5] Gross Domestic Philanthropy: An international analysis of GDP, tax and giving, Charities Aid Foundation, January 2016
[6] UK Civil Society Almanac 2021, NCVO, September 2021

These factors alone should be sufficient to place philanthropy within the FCA's emerging ESG agenda; "mobilising finance to achieve positive change" is not far off the definition of philanthropy. But the FCA also has an array of formal responsibilities related to philanthropy. The endowments, trusts, funds and other forms of financial investments, the gains of which are turned to philanthropic purpose, fall squarely within its purview. The largest 300 foundations in the UK alone are estimated to hold investments worth more than £70 billion between them.

Additionally, as the UK is one of the world's top wealth management centres, a significant proportion of international philanthropy is thought to fall under the FCA's remit, in addition to the domestic philanthropy that is undertaken by more local donors. Some estimates have suggested that there may be around £30 billion of annual philanthropic giving which flows through vehicles outside of the donor's home country, and that the UK is a leading hub for that.[7]

This means that the FCA not only has regulatory and societal imperatives to ensure that the financial services sector supports philanthropy effectively, but that doing so also helps to maintain the UK as an international leader in this space.

Impact investing in this context

While philanthropy has its roots in centuries-old traditions and requires the 'loss' of capital by individuals or organisations, impact investing creates a newer middle ground by which both a positive social impact and a financial return on investment can be generated.

The precise definition of impact investing is a contested space, which makes it difficult to measure and define, but the most widely-supported definition positions impact investing as "investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return." This is a very broad definition, and as such it incorporates a range of approaches. Choosing to invest in a solar power firm meets this definition of impact investing, as does choosing to bank with a community-based financial institution which helps make capital available to people on low incomes. The £6.4 billion 'social impact investing' market, which provides repayable finance to enterprises with a social purpose,[8] also comes under this broad banner of impact investing.

Taking this definition, EY has estimated that the size of the UK impact investment market stands at £58 billion, with a further £53 billion which is 'impact aligned', meaning that investments are generating social or environmental benefit but not doing so intentionally and that benefit is not measured.[9]

Like philanthropy, impact investing has the potential to be a core part of the FCA's developing ESG agenda, and ensuring that consumers are well-served by the financial services sector when it comes to impact investing is important. Much of what is written

[7] The UK as a Centre of Excellence for International Philanthropists & Social Investors, The Beacon Collaborative, February 2021
[8] https://bigsocietycapital.com/faqs/, accessed 30 June 2022
[9] Estimating and describing the UK impact investment market, impact investing institute, March 2022

in this paper is therefore also applicable to impact investing, though the focus is on philanthropy.

Consumer ambitions for their money to have social impact are not always being met

This is a timely moment for the FCA to undertake efforts to better support the financial services sector to drive positive change, and to simultaneously better ensure that consumers' needs are met by the sector. There is currently a major shift underway in the expectations that consumers have in relation to their money and the impact they want it to create. Survey after survey has revealed this trend. Among the retail investment community - who are most likely to have significant wealth available for philanthropy - 85% of investors surveyed by Blackrock now state that they want their investments to make a positive impact,[10] while 74% of the population with investable assets of over £25,000 state that they are interested in making sustainable investments now or in the future.[11]

This socially-aware attitude towards the purpose of money now exists at scale and across generations. However, younger generations express this attitude even more strongly than others, indicating that the trend is here to stay. A third of high-net-worth individuals (HNWIs) under the age of 34 now go as far as to state that they feel they have a growing responsibility to share their wealth, compared to 18% of those who fall into the 55-64 age category.[12] And millennial investors are thought to be nearly twice as likely than non-millennial investors to invest in companies that target specific social or environmental outcomes.[13] Importantly, in the context of philanthropy, these younger generations want their money to have a positive impact on society even if that means lower returns for them. Millennial investors are 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.[14]

This change in attitudes is not limited to passion about the environment or climate change. Consumers care deeply about their money having much broader public benefit and want it to be used to tackle a range of issues affecting society. In total, 58% of individual investors globally now say that they have a responsibility to address social issues with their investments.[15] This is again more intensely felt by younger generations, with 57% of UK investors under 45 saying that their *preference* is now for their investments to have social, rather than environmental, impact.[16]

---

[10] https://www.blackrock.com/corporate/insights/people-and-money, accessed 17 July 2022
[11] 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
[12] Tomorrow's Philanthropist, Barclays Wealth, April 2013
[13] N Nanayakkara, B Fuller, J Santuccio & J Seelan, Sustainable investing: the millennial investor, EY
[14] Sustainable Signals: Individual Investors and the COVID-19 Pandemic, Morgan Stanley, October 2021
[15] 2021 Natixis Global Survey of Individual Investors, Natixis Investment Managers, May 2021
[16] Investors young and old opt for social investments over environmental, Big Society Capital, March 2022

The scale of this ambition has not yet been matched by the scale of action

The financial services sector has taken significant strides in the right direction to deliver on demand for money to do more good. Trillions of dollars have shifted into ESG-linked financial products and services,[17] and growing numbers of firms are signing up to sustainable financing initiatives.[18] There are ballooning fields of measurement, accounting practice, regulation and standards which hope to drive up trust in these new approaches. And there are some exciting examples of real public benefit being delivered through new products and collaborations which have been developed to respond to this demand, from social impact bonds to private equity-based philanthropy.

Case Study 1. Greater Share, private equity-based philanthropy

Greater Share is an organisation taking a novel approach to expanding philanthropy.

The organisation has brought together a number of private equity firms - such as Advent International, Bain Capital, Cinven, Hg Capital, Nautic Partners and Pemira - to create a fund of funds. Wealthy individuals willing to put at least $500,000 into the fund are expected to receive significant returns on their investment, and in doing so commit to donating at least half their capital gains generated to a group of educational charities selected by Greater Share. The private equity firms also donate their fees.

The investors benefit by gaining access to high-performing private equity investments, and from the efforts that Greater Share make to select 'high impact' charities which can put their money to use creating the greatest possible change through education. This new philanthropic investment model has ambitions of generating at least £300 million in long-term grants.

However, ultimately, the scale of this action has not matched the ambition that consumers are so consistently reported to hold. There are also considerable concerns about the proliferation of 'greenwashing' underway in this space, with 71% of individual investors surveyed by Morgan Stanley in 2021 listing this as a significant barrier to sustainable investing.[19] And action by the financial services sector lags behind consumer demand for more social impact: the vast majority of the action it has taken to date has been on climate change alone.

Philanthropy is an under-utilised tool available to the financial services sector and is well suited to meeting these challenges. Giving to charity is a more reliable method of making a meaningful positive difference in the world than investing in what might be a private sector marketing ploy. And charities work on a wide range of social issues, well beyond climate change. This enables people to make a difference in areas that are most

[17] ESG assets may hit $53 trillion by 2025, a third of global AUM, Bloomberg Intelligence, February 2021
[18] https://www.impactinvest.org.uk/leading-global-financial-services-firms-join-the-finance-for-impact-summit-to-back-fair-and-inclusive-net-zero-transition/, accessed 1 October 2022
[19] Sustainable Signals: Individual Investors and the COVID-19 Pandemic, Morgan Stanley, October 2021

important to them. Philanthropy will not be attractive to all consumers, and it is just one part of a broader picture for how any individual spends and invests their money. However, consumers should know that it is one of the options available to them, and they should be provided with the means by which to undertake effective philanthropy if that is a course they decide to pursue. As one financial advisor interviewed for this report 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 advisors, 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."

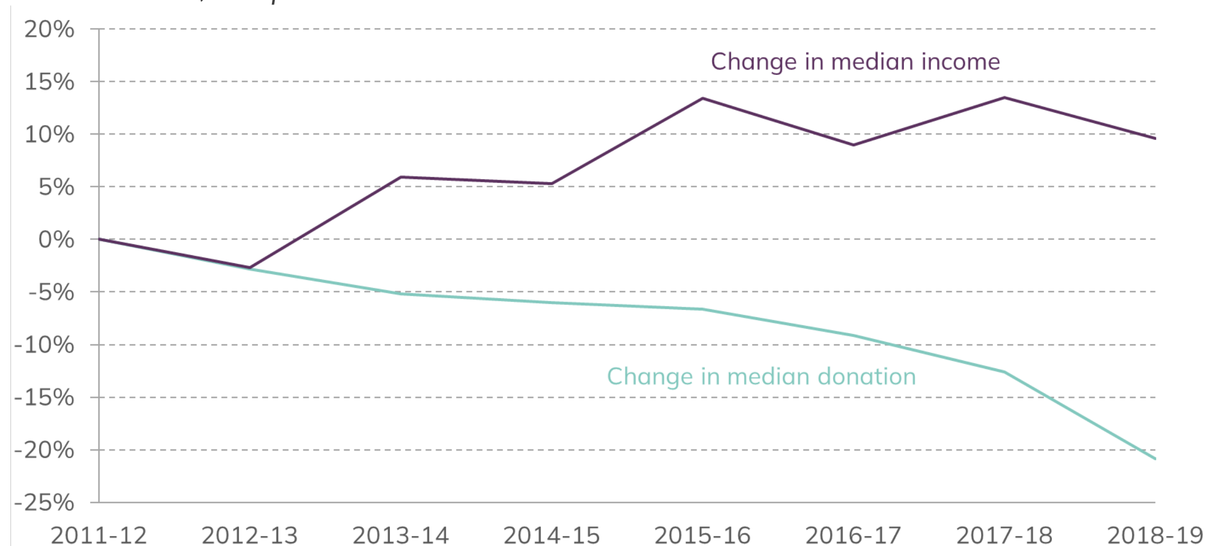
By better utilising philanthropy to help consumers turn their money into tangible positive benefits for society, the UK would be following in America's footsteps. In the US, financial services firms simultaneously use philanthropy to help meet clients' desires to create positive change, and to generate benefits for businesses themselves. The meteoric rise in donor-advised funds over the past half-decade demonstrates how this has fed into genuine social impact. The number of these convenient charitable giving vehicles more than tripled between 2015 and 2020, hitting the 1 million mark in the middle of the pandemic. From assets of $159.8 billion under management in these vehicles, $34.7 billion in charitable grants was paid out in 2020, up from $14.2 billion in 2015.[20]

While the size of the opportunity philanthropy presents is smaller in the UK, it is nevertheless significant. One of the reasons for this is that there is clear room to improve philanthropy in the UK, including giving from the wealthiest – and therefore the highest-value customers. As Figure 2 shows, the typical income of an earner in the top 1% in the UK increased by 10% in real terms between 2011-12 and 2018-19, but the typical charitable donation declared by this group fell by over 20%.[21]

[20] M Brown, The 2021 DAF Report, National Philanthropic Trust, 2022
[21] A Kenley, J O'Halloran & K Wilding, Mind the Giving Gap: Unleashing the potential of UK philanthropy, Law Family Commission on Civil Society, December 2021

Figure 2: While income has risen for the UK's top earners, their donations have been falling

Real terms changes in median income of donors and median donations among the top 1% of earners, compared to 2011



Source: HMRC Survey of Personal Incomes

Yet the value of philanthropic giving has nevertheless grown, with charitable income from the public having almost doubled in real terms over the last two decades.[22] This is because those individuals who are undertaking philanthropy are giving more; the country has a 'civic core' of donors who are much more generous than their peers. Indeed, at least 63% of the total value of money donated by the UK's top 1% of earners comes from less than 0.4% of this group.[23] This suggests that once people are engaged in philanthropy and engaged well, it is perceived as a positive and beneficial activity they want to do more. If everyone in the top 1% of earners who is currently donating below 1% of their income raised their giving to that level, it could raise up to £1.4 billion a year for charities.[24]

Philanthropy services on offer need to be improved

As noted above, many individuals who might be inclined to undertake philanthropy know little about how to get started. For lots of people who 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.[25]

[22] UK Civil Society Almanac 2021, NCVO, September 2021
[23] A Kenley, J O'Halloran & K Wilding, Mind the Giving Gap: Unleashing the potential of UK philanthropy, Law Family Commission on Civil Society, December 2021
[24] A Kenley, J O'Halloran & K Wilding, Mind the Giving Gap: Unleashing the potential of UK philanthropy, Law Family Commission on Civil Society, December 2021
[25] The Giving Experience: Overcoming the barriers to giving among the wealthy in the UK, Beacon Collaborative, October 2020

The financial services sector must be able to guide consumers through their philanthropy journey, to provide them with the products, advice and services that they need to ensure their money fulfils their goals. 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. Those services range from strategy setting to charity due diligence, from establishing a giving vehicle to establishing a legacy and succession plan, from tax and legal advice to support monitoring and assessing impact. This task therefore requires expertise from numerous parts of the financial services sector and wider industry. No individual financial services firm can or should be expected to provide them all independently, though consumers might expect them to be able to explain and signpost to those services they cannot themselves provide.

Given this breadth, there are numerous ways in which the financial services sector could better utilise philanthropy to achieve positive change. Firms could improve how they manage the assets of trusts and foundations, or invest in establishing new products and ways of undertaking philanthropy. Firms could improve how they undertake philanthropy themselves, and how they enable and incentivise their employees to give. However, throughout the consultation the Commission has undertaken with philanthropists, experts and professionals in the sector, improving financial advice and guidance on philanthropy has been highlighted most consistently as the priority for change.

The quality and quantity of financial advice and guidance on philanthropy has clear room for improvement

Improving financial advice and guidance on philanthropy has the potential to drive significant positive change, and there is a need to do so because many consumers are not currently receiving the quality of advice they are seeking – or any advice or guidance at all.

Numerous individuals who have sought financial advice or guidance on philanthropy have reported poor experiences with financial advisors in a range of roles and within a range of firms. These poor experiences have actively harmed their intentions to give to charity.

Additionally, many people who could benefit from advice or guidance on philanthropy are not offered it. This includes HNWIs and investors who are already in receipt of some form of financial advice, many of whom report that few financial advisors hold conversations with them about their objectives beyond financial performance and risk appetite. But it also includes the many individuals who do not access financial advice. The FCA has suggested that people who have £10,000 of investible assets may need some form of professional support to help them manage their finances. Yet research suggests that, on average, customers would need closer to £48,600 before many advice firms would consider taking them on as a client. This creates an advice gap through which fall an estimated 3.5 million adults in the UK who currently have assets between £10,000 and £50,000 and are open to talking to a financial advisor. This substantial proportion of the population are likely to possess the means by which to act philanthropically, but are not receiving any financial advice at all, let alone advice on philanthropy.

These are clear examples of parts of the financial services sector not delivering appropriate services, and of consumers not receiving the information they need to make good decisions – in contravention of the intentions of the new Consumer Duty. That improvements in this area would also support efforts to generate positive change through the financial services sector only adds to the case that the FCA has a responsibility to drive better financial advice and guidance on philanthropy.

Offering high quality financial advice and guidance on philanthropy has benefits both for firms and for society

Within the financial services sector, there are already a handful of philanthropy specialists operating within small businesses or as private consultants. Among the larger firms, a gradually increasing number of banks now have a philanthropy team available to clients who request their services. And there are a handful of firms which have made offering high quality financial advice or guidance on philanthropy a core differentiator between themselves and their competitors.

These market leaders tend towards servicing the wealthiest clients, and they regard first-class philanthropy services as fundamental to both their purpose as organisations and to their bottom line.

Case Study 2. Coutts

Coutts approaches philanthropy in three different ways:

1. The banking services they provide for foundations and for charities;
2. The management of endowments from which donations are made;
3. The philanthropy advice and strategy development they offer to clients.

From very early on in their relationship with clients, Coutts' client directors and relationship managers talk through the different products and services the bank offers, among which philanthropy sits. The bank's belief is that all its client-facing team members should talk about philanthropy with their clients, because they can serve their clients better if they understand the full set of values and intentions their clients hold for their money.

If clients do express an interest in philanthropy, they are then referred to the bank's specialist philanthropy team. That team then provides tailored support, the extent of which depends on the client's needs. For example:

- If a client isn't sure how to start their philanthropy journey, the team can help them to develop a strategy from scratch – starting with the client's motivations for giving, their values, what excites and scares them about the world, whether they want to support small or large charities, and then the cause that's right for their philanthropy. Often, the bank will offer strategy-setting workshops to entire families, so that multiple generations get a chance to input their priorities.
- If a client already knows that they wish to support a certain cause or people in a certain area of the country, the team helps them understand the landscape in

which their donation would be made. This might include researching what charities and the government are already doing on the issue, where the gaps are, and examples of the kinds of organisations which the client could fund. The team then helps the client narrow down the parts of the landscape which are most important to them.

- The bank's team can also accompany clients to meet with charities they might donate to, in order to help clients to ask the right questions and assess if the charity is the right cause for them to support.
- Once the client has decided on their philanthropy strategy, the bank's team can support them to regularly review that strategy and to assess the impact that it is having, to help clients ensure that the money they are giving away is creating the positive change that they hoped it would.

Case Study 3. C. Hoare & Co.

Philanthropy has been core to Hoares bank and the family that runs it since the foundation of the business 350 years ago. In 1719, Henry Hoare – the second son of the bank's founder – made the first contribution to the founding of Westminster Hospital, which is believed to be the first voluntary hospital in the world funded entirely by public subscription. That thread of philanthropic purpose now runs through the bank's offering – through the organisation itself, through its employees, and through the services it provides to its customers.

The bank donates up to 10% of its profits each year to its Golden Bottle Trust (GBT). Set up to further the philanthropic aims of the bank and the Hoare family, the GBT makes grants to trusted charity partners and has a 100% social impact portfolio. (It believes it is essential for charitable foundations to consider their impact across both investments and grants, a concept known as 'total portfolio impact'.) Around half of the bank's 450 employees engage with its Give-as-you-Earn scheme and the GBT 'double-matches' these contributions, effectively tripling the value of employee donations. This supports employees in living out the bank's purpose as "good bankers and good citizens".

Encouraging employees to become philanthropists is just one means by which the bank ensures its customers receive the help they require with charitable giving. Relationship managers are provided with regular training, promoting awareness not only of the bank's philanthropy offering, but also of the wider philanthropy ecosystem. From a customer's initial meeting with one of the bank's seven partners through to

their day-to-day conversations with bank staff, philanthropy is always high on the agenda.

The bank holds a range of events where customers come to learn more about philanthropy and be inspired by the work of the charity sector. These include a series of winter and summer talks on a wide range of topics. For example, the bank held a talk on prison reform, bringing philanthropists together with judges, prison visitors, mentors and former offenders to promote greater understanding and learn from the lived and professional experiences of those involved. The bank also hosts a variety of lunches and dinners where customers with similar philanthropic interests can connect and share insights.

At the heart of C. Hoare & Co.'s philanthropy offering for customers is its donor-advised fund, The Master Charitable Trust (MCT). Now 11 years old, this was the first donor-advised fund launched by a UK bank. Each donor to the MCT is looked after by a dedicated MCT relationship manager and has their own sub-fund, from which they direct charitable gifts to their chosen causes. It's a simple, effective vehicle, allowing donors flexibility in their giving without the burden of administration. The MCT currently sits at 10% of the UK donor-advised fund market and has facilitated over £200 million of customer donations.

By making financial advice on philanthropy a core service offering, 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. However, it has been measured in America where philanthropy is baked into financial advice as a rule rather than as an exception; some surveys of financial advisors in America report that as many as 80% of them discuss philanthropy with their clients as part of regular practice.[26] Research by Fidelity into registered investment advisors and family offices suggests that firms offering their clients charitable planning have three times the median organic growth of those that do not, as well as 1.3 times the median new money per investor.[27] Advisors 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 that firms offering philanthropy services highlight is the extent to which philanthropy can deepen relationships between the firm and the client, and offer a better service as a result. Discussions about philanthropy allow firms to present a more comprehensive and holistic approach to managing a client's wealth; they provide insights that help advisors to better serve their clients; they allow firms to demonstrate greater personal interest in their clients; and they show clients that the firm is interested in more than just their money. In America, 74% of wealth advisors report that they find

[26] The US Trust Study of the Philanthropic Conversation: Understanding advisor approaches and client expectations, The Philanthropic Initiative, 2018
[27] On the leading edge: Accelerating firm growth with charitable planning, Fidelity Charitable, October 2021

discussing philanthropy with clients to be an excellent way to deepen relationships and establish new ones (60%). This is a view shared by many HNWIs in receipt of wealth advice, with 43% agreeing that discussing philanthropy with an advisor has, in fact, deepened their relationship.[28] The testimony on this from UK firms consulted for this paper is consistent, with feedback including:

"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 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."

As well as allowing for deepening the relationship with the holder of wealth, philanthropy provides the opportunity for firms to have positive interactions with entire families. 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 advisors after inheriting their parents' wealth, and EY concurring that firms typically lose 70% to 80% of assets when they change generations.[29] But philanthropy can be an effective tool for engaging multiple generations in financial planning, maintaining business across family members.[30] Research suggests that, in the US, 33% of heirs overall and 42% of millennial heirs, in particular, are more likely to stay with their benefactor's advisor if they have helped with family philanthropy.[31]

At an organisational level, firms offering high-quality financial advice on philanthropy report that it also adds to their attractiveness as potential employers. 'Purpose' is a growing factor in attracting talented employees, with evidence that a company's purpose is increasingly important to potential recruits in a competitive labour market – about two-thirds of millennials take a company's social and environmental commitments into account when deciding where to work.[32] Embedding philanthropy into a firm's activity is a concrete and effective way of demonstrating that firm's purpose.

The benefits of larger financial services firms offering high quality financial advice and guidance on philanthropy are not limited to the individual businesses involved, their employees and the clients that they serve. There are also societal gains to be had.

[28] The US Trust Study of the Philanthropic Conversation: Understanding advisor approaches and client expectations, The Philanthropic Initiative, 2018
[29] https://www.valuewalk.com/2016/05/the-experience-factor-the-new-growth-engine-in-wealth-management/, accessed 1 October 2022
[30] https://www.sdfoundation.org/news-events/sdf-news/why-incorporating-philanthropy-is-essential-for-financial-planners-in-2022/, accessed 1 October 2022
[31] https://www.sdfoundation.org/news-events/sdf-news/why-incorporating-philanthropy-is-essential-for-financial-planners-in-2022/, accessed 1 October 2022
[32] https://www.mckinsey.com/business-functions/people-and-organizational-performance/our-insights/purpose-shifting-from-why-to-how, accessed 1 October 2022

Evidence suggests almost nine out of ten donation acts follow being asked.[33] If this practice was more widespread, the financial services sector would be doing far more to mobilise finance to achieve public benefit, in line with both the sector's ESG objectives and what consumers are demanding.

Multiple factors hold back the adoption of better financial advice and guidance on philanthropy, and so multiple solutions are needed

The Commission has identified eight systemic, intertwined reasons which contribute to a failure to offer high quality financial advice on philanthropy:

- **Lack of incentive.** Put simply, if a client acts philanthropically, they give away a sum of funds which might otherwise have been invested and managed for profit. That reduces the value of the portfolio under management, and the fees that might be charged as a result. Most wealth advisors and asset managers therefore do not perceive any direct benefit from supporting their clients to "give their money away".[34] In some cases, this can be exacerbated by internal incentive systems, which result in the benefits of paid-for philanthropy services awarded to the philanthropy team within a firm rather than the relationship manager who might have been responsible for raising the topic in the first place.
  As noted above, there *are* distinct benefits which accrue from providing high quality financial advice and guidance on philanthropy, but they are less likely to be recognised and are difficult to quantify. Consequently, philanthropy may not be encouraged unless a client insists upon it, or organisational leadership requires it and finds other incentives by which to encourage it amongst employees.
- **Traditional mindsets and culture.** While the mainstream view of the financial services sector is now that ESG investment can deliver both profit and purpose, and indeed that such investment often generates better financial returns than the alternative, there is still some entrenched scepticism of this.[35] This scepticism intensifies in relation to products that exist furthest along the spectrum of capital, like impact investing and philanthropy. Even in the US where philanthropy is more embedded into financial advice conversations,[36] cultural attitudes mean some advisors strongly resist conversations with clients about values-based investment, and these views are particularly difficult to overcome within organisations if they are held by the leadership.
- **Lack of regulatory clarity and leadership.** There is a view in some parts of the financial services sector that a strong focus on risk and return from the regulators is dissuading advisors from embracing new or non-traditional forms of investment. Without a clear view from the FCA on the benefits of impact investing

[33] R Bekkers & P Wiepking, Generosity and Philanthropy: A literature review, Science of Generosity, November 2007
[34] The role of wealth advisors in offering philanthropy services to high-net-worth clients, Scorpio Partnership, October 2008
[35] https://impact.economist.com/sustainability/circular-economies/addressing-esg-scepticism, accessed 15 September 2022
[36] N Roumani, Helping wealth advisors increase philanthropic impact for high net worth clients, Stanford University Effective Philanthropy Learning Initiative, Summer 2018

and philanthropic investments, and how to manage the trade-offs inherent between returns and philanthropy, that reluctance from advisors will remain.

- **Organisational structure.** Where philanthropy is perceived as a niche product, responsibility for it is often hived off to one individual or a very small team which is expected to serve the philanthropic needs of the entire organisation. This situation is an improvement from the start of the century where almost no private banks had a philanthropy team at all,[37] but the rate of change the sector has experienced is sluggish. A small team can easily be isolated, may not be effective or seen as intrinsic to what the organisation achieves, and ultimately may be unable to serve client needs. Market leaders in this space integrate philanthropy throughout their organisation's offering.
- **Poor understanding of products available.** Familiarity with philanthropy and the charity sector is poor. If financial advisors themselves do not understand philanthropy, they will be unable to effectively explain it to their clients or guide them through a philanthropy journey.
- **Limited reporting of impact.** When attempting to suggest ways in which clients can put their money to use for social impact, financial advisors often report that the first hurdle is identifying products to invest in. There are 160,000 charities in the UK, and it is difficult to isolate the most impactful ones from that crowd. There is not a consistent approach to impact measurement among charities, and many charities simply do not report transparently on their impact at all or lack the resources to do so. There are also some examples of 'impact inflation' where consultants exaggerate the impact that charities have, which makes this issue additionally difficult to navigate for those without expertise.
- **Poor understanding of social value.** The impact or value which is generated by philanthropy is harder to quantify than financial return. Many financial advisors do not have a strong understanding of how that impact can be measured, nor the strengths and limitations of different ways of doing so. This makes it difficult for financial advisors to assess competing options and to make decisive recommendations to clients even when impact is reported by charities.
- **Poor understanding of and availability of tax incentives.** There are a range of specialist tax incentives available for philanthropy (although the UK has a more limited number of tax reliefs in this area than the US does). To provide effective services to consumers on these kinds of investment, financial advisors need at least some understanding of the tax benefits involved. Yet understanding of these tax benefits is reported to be very low among those who do not deal frequently with these topics. This is likely to contribute to the chronic under-utilisation of relevant tax reliefs, such as Gift Aid.

[37] E Moore, Philanthropy: Rich seek better guidance on how to give away cash, Financial Times, May 2012

These seven reasons are specific to the financial advice and guidance that is offered on philanthropy. However, the broader barriers to accessing financial advice also inevitably play a role. Those include the cost of financial advice, low levels of trust in financial advisors, lack of awareness among consumers of the benefits of financial advice, hesitance over discussing money with others, and a feeling among some consumers that financial advice "isn't for someone like me".[38]

The quantity and quality of financial advice and guidance on philanthropy can be improved through education and regulatory action

There is no silver bullet which alone would improve the quality and quantity of financial advice on philanthropy offered to consumers. But one commonality at the heart of the eight philanthropy-specific problems identified here is a lack of knowledge held by financial advisors. Difficulty hiring and training specialist staff has long been cited as a barrier to growth of high-quality advice and guidance in the sector.[39] Filling in that knowledge gap through education and training is key to removing this barrier.

Increased uptake of education and training on philanthropy for financial advisors would likely lead to a greater recognition among advisors of the benefits of offering such advice. It would also go a long way towards providing financial advisors with the tools they need to help clients understand impact measurement and social value; to find the right causes and organisations to support or the organisations which can help them do so; and to benefit from the tax incentives that are available to them. In the long-term, it would likely also encourage organisational leadership to better incentivise and embed a strong philanthropy advice offering within their efforts to deliver for both consumers and society, empowering them to tackle both organisational and cultural barriers to doing so.

But increased uptake of education and training can only go so far. Undoubtedly, it would improve the quality of financial advice on philanthropy that consumers receive, and by driving up understanding of the benefits of philanthropy it would improve the quantity of conversations as well. But to truly accelerate the quantity of financial advice and guidance on philanthropy, it must become essential to the way financial services firms do business and to the advice and guidance that clients are offered. Given the enormous difference that proactive conversations about philanthropy can make to actual philanthropic giving, and the slow pace of growth of financial advice and guidance on philanthropy to date, this is too important an issue to ignore. If the financial services sector is truly to change to deliver greater public benefit, encouraging greater philanthropy at scale is not just optional, it is essential – and regulation is needed to secure that.

There will always be resistance towards additional regulation, and proportionality is important when any change in regulation is considered. But the barriers listed here are holding back positive change and contributing to failures for consumers. The Commission has heard conclusive feedback from both organisational leadership and dedicated

[38] Exploring the advice gap: The opportunities, the challenges and the need to work together, Royal London, 2021
[39] The role of wealth advisors in offering philanthropy services to high-net-worth clients, Scorpio Partnership, October 2008

philanthropy advisors within the sector that most financial services firms will only adopt further measures on philanthropy if required to. The feedback has included:

"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."

"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."

"It's a 'nice to have for us' on a good day, and an 'if we must' on a bad one. We're focused on growing our business, not helping people give business away. The only way we'd do something on that is if we were made to."

This feedback from the financial services sector itself demonstrations that regulatory action by the FCA must form part of the solution to this problem.

Recommendations

The FCA has the power to drive up both the quality and quantity of financial advice and guidance on philanthropy. It could and should utilise a number of tools at its disposal to remove the barriers specific to philanthropy.

1. **Review the market for financial advice and guidance on philanthropy.** In order to understand the scale of the difference between consumer demand and the financial services sector's offering on philanthropy, as well as the scale of the opportunity available to achieve social impact through increased charitable giving, the FCA should first undertake a diagnosis exercise. Through desk-based research, data requests from firms, and visits to firms which both do and do not provide high-quality financial advice and guidance on philanthropy, the regulator should build up a comprehensive picture of the area. Both the teams responsible for consumers and for ESG are likely to have interest in the findings and be able to apply them to their work. But the financial sector, philanthropists and charities themselves will also have significant interest in the findings of such a review, which should be published as fully as commercial sensitivities make possible.
2. **Demonstrate to the financial services sector the important role that philanthropy can play in unlocking public benefit.** As the FCA continues to develop its ESG strategy, expanding its expertise and action beyond climate change, related product disclosures and institutional investment, it must and will turn its attention to the more impact-aligned forms of capital and social impact, as well as the potential of personal finance. Given the particular advantages that philanthropy has in terms of creating positive social impact, it must be included in

this expansion. The FCA could begin a sector-wide conversation on this topic by highlighting philanthropy's unique role and potential through 'soft leadership', for example with the FCA's senior team incorporating the topic in their speeches, and others incorporating philanthropy into articles and guidance. In doing so, it should invite feedback from the financial services sector on the barriers to improving philanthropy offerings, to build a full picture of the steps needed to remedy current flaws.

3. **Mandate education and training on philanthropy for relevant financial advisors.** The FCA mandates compulsory qualifications for financial advisors, and maintains an approved list of certificates, diplomas and degrees which cover the various specialisms required by regulated professionals in the sector, including financial advisors. Very few if any of these qualifications and the curricula attached to them provide qualifying financial advisors with an understanding of philanthropy. As part of the FCA's regular reviews of these curricula, it should undertake a vigorous effort to ensure philanthropy's inclusion in relevant courses, requiring education on the topic in order to gain qualification or credit. The FCA should also use its influence over relevant accredited bodies that provide continuous professional development to financial advisors to ensure that they are providing high-quality philanthropy training and encouraging qualified financial advisors to take it up.
4. **Introduce sustainability requirements into suitability assessment, with an emphasis on philanthropy's role in contributing to sustainability efforts.** As is already under consideration, the FCA should pursue regulation to require financial advisors to discuss sustainability intentions with their clients, alongside values-based investing and philanthropy. This would help to address the deficit in these topics in conversations between clients and their advisors. The Financial Services and Markets Bill currently being introduced to parliament creates a potential opportunity to do this. In the process of introducing such new rules, the guidance that the FCA provides to aid in implementation should include encouragement to financial advisors to discuss the full range of the spectrum of capital with their clients, including philanthropy and the specific role it can play in achieving social impact. This would help to create a step-change in the number of proactive conversations about philanthropy that the sector holds with its clients.

In addition to these activities designed to drive up the quantity and quality of financial advice and guidance on philanthropy to those already in receipt of financial advice, the FCA should continue its efforts to ensure that financial advice is affordable and accessible to larger swathes of consumers who would benefit from it.

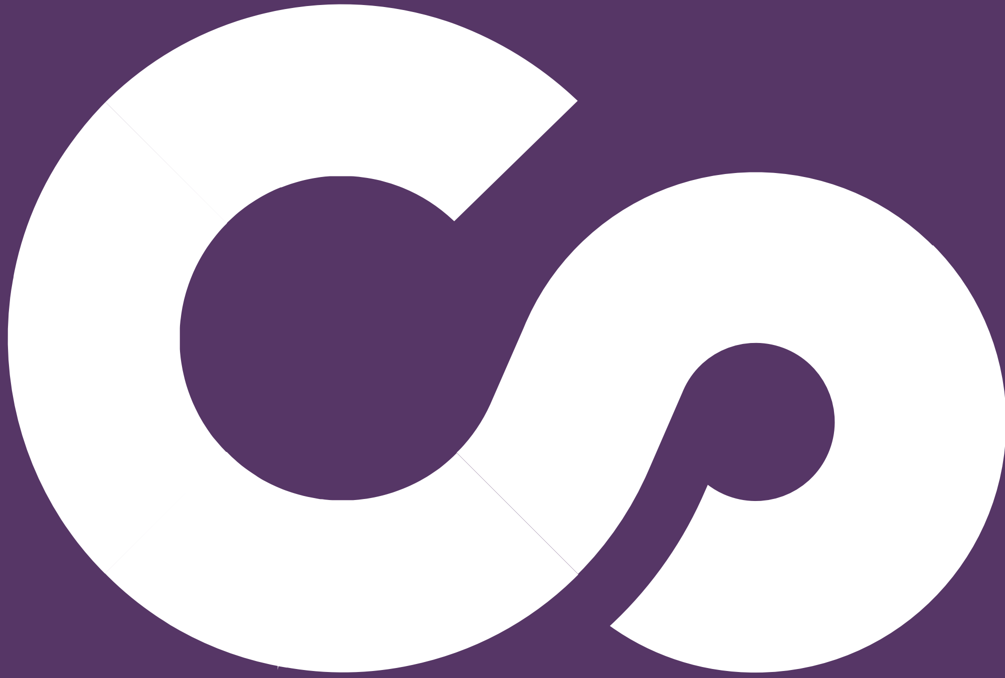
Conclusion

The FCA has an important role to play in improving both the quality and the quantity of financial advice and guidance on philanthropy currently on offer from the financial services sector. In doing so, the FCA would be fulfilling its duty to ensure that consumers receive the products, services and advice that they are requesting from the sector, as well as taking a step forward in its ESG ambitions, supporting the sector to drive positive change in society onward.

The benefits accrued by improving financial advice on philanthropy would be felt by firms, their employees, their clients and society at large. Those benefits also have the potential to be substantial, as lessons from the US show us.

The FCA is not the only organisation with powers to act to achieve this goal, but it is one of the most significant. It could and should consider reviewing the state of the market for financial advice on philanthropy and use its soft power to invite a sector-wide conversation on the important role that philanthropy can play in achieving social impact.

By mandating education on philanthropy for qualifying financial advisors and encouraging training on philanthropy to be more widely available as part of continuous professional development of advisors, the FCA can drive up the quality of advice available. And by introducing sustainability requirements into suitability assessment, with an emphasis on philanthropy's role in contributing to sustainability efforts, the FCA can drive up the quantity of advice available and therefore the level of charitable giving in the UK.



The Law Family

Commission on Civil Society

@ProBonoEcon

civilsocietycommission.org

020 3632 2668