# Submission to the Financial Conduct Authority on DP23/1 – Finance for positive sustainable change: governance, incentives and competence in regulated firms

## About Pro Bono Economics

Pro Bono Economics (PBE) is a charity think tank which uses economics to empower the social sector and to increase wellbeing across the UK. Experts and economists at PBE work on a wide range of issues including mental health, education, employment, poverty, volunteering and civil society. The charity was founded in 2009 by Andy Haldane, former Chief Economist of the Bank of England, and economist Martin Brookes. PBE is chaired by former Cabinet Secretary Lord Gus O'Donnell.

In 2020, PBE created the Law Family Commission on Civil Society. Steered by leaders from business, academia, public life and civil society, the Commission was an ambitious programme of groundbreaking research into how the potential of civil society can be unleashed, including how increased and more effective philanthropy can be unlocked.

More than 800 individuals and organisations provided input into the Commission's work, which informs this submission. In addition, PBE undertook over a dozen interviews with experts in philanthropy, philanthropy advice and within financial services to inform this submission. The quotes throughout this submission are from these interviewees.

This submission sets out PBE's view that:

- 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.
- Consumers are being let down by a failure in the UK financial sector to offer comprehensive philanthropy services, but the FCA's sustainable finance agenda could be a powerful means by which to start solving this.

### On leadership and culture:

- The attitude of leadership makes the difference between provision of any philanthropy services and no philanthropy services at regulated firms, and as such the FCA should incorporate philanthropy into the guidance provided to firms about embedding sustainability considerations into their business objectives and strategies. Leadership teams should also be encouraged to

include their approaches to client philanthropy in their business objectives and strategies.
- The FCA should provide guidance on how a firm's culture and behaviours can support positive sustainable change. This guidance should refer explicitly to how a firm's culture and behaviours towards philanthropy can make a substantial difference to both the quality of philanthropy service provision, and to society itself – and include advice on how firms can use philanthropy services in the most impactful way.

### On incentives:

- Financial advisors in most firms are currently disincentivised from providing philanthropy services, and this is leading to a failure in the provision of information and services to consumers. There is therefore a strong case for linking pay to sustainability-related objectives, and for those objectives to be broken down into different factors - including philanthropy.
- The explicit inclusion of philanthropy in advisors' sustainability objectives is important to ensure that the more 'impact aligned' forms of capital such as philanthropy are addressed, and do not get lost in what is more familiar.
- As a minimum, the KPIs that advisors' renumeration levels are assessed against should include the proportion of clients that they have had a conversation about philanthropy with.

### On education and training:

- There is a serious and substantial lack of knowledge in the financial sector as to how philanthropy can support consumers' and firms' sustainability objectives. This results in harm to consumers who are not offered information, services and products relevant to their decision making. It also has the potential to reduce the amount of public good that philanthropy can achieve. Information about philanthropy should therefore be included alongside other sustainability-related options for capital investment in the training and CPD that relevant advisors, asset managers and relationship managers receive.
- Improving training and education about philanthropy is also important to ensure that changes to incentives, objectives and strategies don't become tick box exercise.
- Information about philanthropy should be included alongside other sustainability-related options for capital investment in the compulsory training and CPD that relevant advisors, asset managers and relationship managers receive – so that all relevant individuals in the sector receive this training over the next 5 years.

- There is no need for specific qualifications to be developed on philanthropy – merely an alteration or extension of the curricula to incorporate relatively basic information on philanthropy, its benefits for both firms and clients, the various means by which philanthropy services can be provided, and how to open up a conversation with a client about charitable giving, as part of a discussion about values-based investing, sustainable finance options, or the objectives they have with their wealth.

## 1. Philanthropy's role in finance for positive sustainable change

Philanthropic capital plays a vital role in the UK's economy and society. Philanthropic capital – or, simply, 'philanthropy' – consists of the monetary donations given by individuals for the public good. As this paper refers mostly to consumers with sufficient investable capital to require financial advice, philanthropy in this case ranges from moderate mass-market giving to the large gifts made by those with significant wealth.

In the UK, the effect, potential and importance 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.[1] 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.[2] 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 noteable: the largest 300 foundations in the UK alone are estimated to hold investments worth more than £70 billion between them.[3]

The impact that philanthropy has 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, 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.

Ultimately, philanthropy is a powerful and entirely-impact focused means of achieving sustainability through finance.

Like all forms of capital, philanthropic capital is expected to generate a benefit. But unlike traditional forms of finance, philanthropic 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

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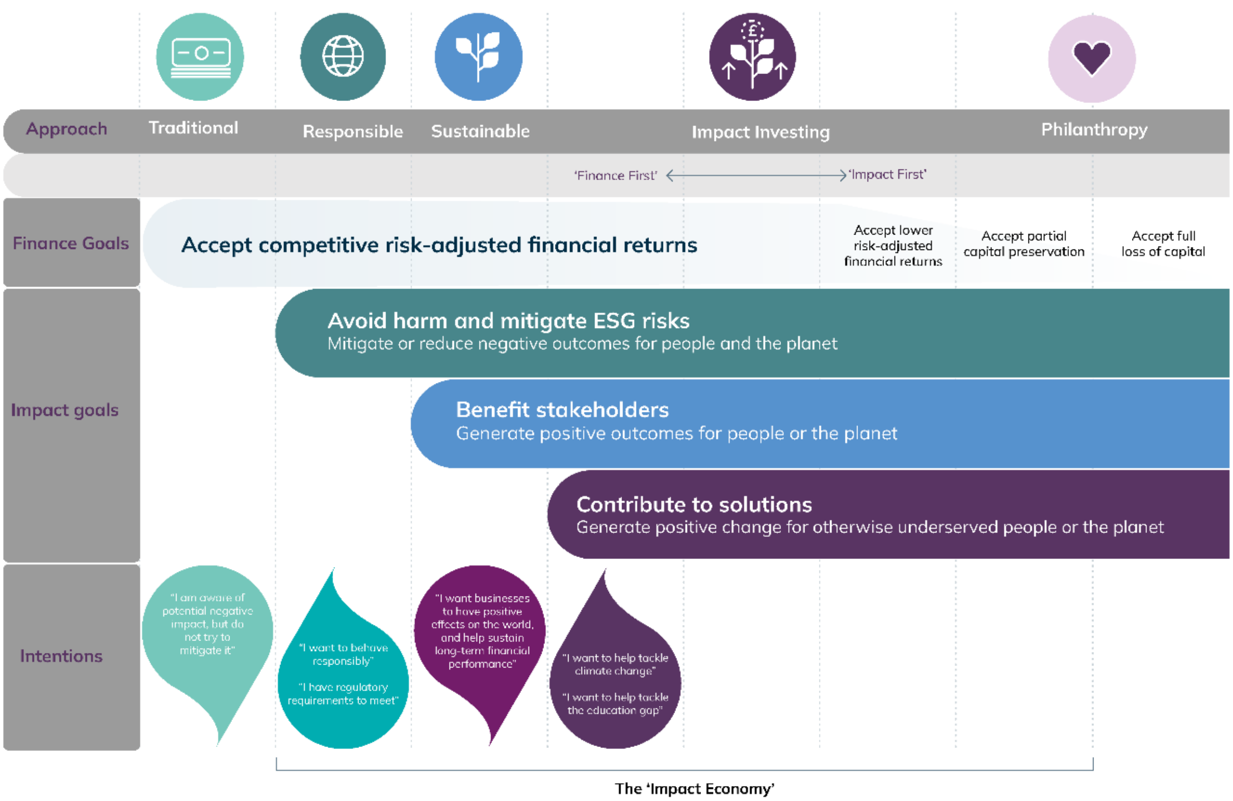
[1] Gross Domestic Philanthropy: An international analysis of GDP, tax and giving, Charities Aid Foundation, January 2016
[2] UK Civil Society Almanac 2021, NCVO
[3] C Walker & C Pharoah, Foundation Giving Trends Update 2020, Association of Charitable Foundations, 2021

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. The discussion paper DP21/4 that this submission is a response to does not include discussion on the role of philanthropy, which is a significant limiting factor. At present, the paper stops short of considering this important element on the spectrum of capital – indeed, the element on the spectrum of capital which offers the greatest potential to pursue impact. Including philanthropy and its potential in the future direction of the FCA's sustainability agenda is essential if the regulator is to act in a comprehensive manner.

Figure 1. The spectrum of capital




**Source:** Bridges Fund Management and Impact Management Project

**Philanthropy presents an opportunity the UK has yet to seize**

Philanthropy is an under-utilised tool in the financial services sector's toolbox for achieving positive change, and is well suited to meeting the challenges that other forms of capital face. Giving to charity is a more reliable method of making a meaningful positive difference in the world than investing in what risks being 'green-washed' or 'social-washed'. And charities work on a wide range social issues, well beyond climate change, and therefore allow people to make a difference on topics that are most important to them – providing consumers with a much larger array of options than, for example, investments focused strictly on climate. Philanthropy is not 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 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 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."

There is compelling evidence that, when financial services firms offer better philanthropy services, they can play an outsized role in generating funds for positive change. HNWIs who have already taken advice on philanthropy tend to give almost twice as much to charitable causes annually than those who have not taken advice on philanthropy,[4] and even the act of simply 'prompting' or asking clients whether they have philanthropic intentions can generate donations. A study into legacy giving looked at the way that giving was affected by the way messages are framed and showed that when advisors tell people that leaving money to a charity is something other people do, it resulted in people who were writing their will for the first time donating 40% more than people who were not given this message.[5]

Additionally, by better utilising philanthropy to help consumers turn their money into tangible positive benefits for society, the UK would be replicating some of the success that has taken place in America. There, 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

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

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.[6]

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.[7]

The financial 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 – just as it must be able to guide them through a traditional investment journey..

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

Within the financial sector, a gradually increasing number of private banks and wealth management firms offer philanthropy services of some form.

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. However, it has been measured in America where philanthropy is baked into financial advice as a rule rather than as an exception, and some surveys of financial advisors in the US report that as many as 80% of them discuss philanthropy with their clients as part of regular practice.[8] 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.[9] 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 lead to a higher quality service offering as a result. Client discussions about philanthropy allow firms to undertake a more comprehensive and holistic

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[6] M Brown & C Strawser, The Donor Advised Fund Report, National Philanthropic Trust, 2022

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

[8] The US Trust Study of the Philanthropic Conversation: Understanding advisor approaches and client expectations, The Philanthropic Initiative, 2018

[9] On the leading edge: Accelerating firm growth with charitable planning, Fidelity Charitable, October 2021

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 – and crucially that responsible and sustainable investment are not simply buzzwords but part of a firm's values. In America, 74% of wealth advisors report that they find 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.[10] The testimony on this from UK firms consulted by PBE 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.[11] But philanthropy can be an effective tool for engaging multiple generations in financial planning, maintaining business across family members.[12] 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.[13]

[10] The US Trust Study of the Philanthropic Conversation: Understanding advisor approaches and client expectations, The Philanthropic Initiative, 2018

[11] https://www.valuewalk.com/2016/05/the-experience-factor-the-new-growth-engine-in-wealth-management/, accessed 1 October 2022

[12] https://www.sdfoundation.org/news-events/sdf-news/why-incorporating-philanthropy-is-essential-for-financial-planners-in-2022/, accessed 1 October 2022

[13] https://www.sdfoundation.org/news-events/sdf-news/why-incorporating-philanthropy-is-essential-for-financial-planners-in-2022/, accessed 1 October 2022

Offering philanthropy services also offers firms a means by which to keep up with the changing nature of wealth and the increasing demands for money to have a positive impact. As philanthropy advisor Urszula Swierczynska states:

> "Until recently individuals and families active in the philanthropic space used to think of their wealth in terms of two different wallets: the money-making wallet, where the wealth is generated, and the money-spending wallet, which includes philanthropic giving decisions. Those two wallets were kept very much apart in the past. What I have seen increasingly within the last few years… is those two wallets slowly coming together. Slowly but surely (philanthropy is) becoming part of a 'total portfolio approach', with philanthropy starting to be treated as an asset class. What I think (and hope!) will happen in the future, is that wealth management will consider and assess impact on every single level of the wallet, whether it's a commercial investment, impact investing or philanthropy. This way the two wallets will become one."[14]

However, at present it is clear that the financial sector is not providing clients with the philanthropy services that they need. 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. Only 4% of UHWI are satisfied with their wealth managers' philanthropy services.[15] This is where the FCA has both an opportunity and a duty to act.

**PBE has therefore concluded that:**

- 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.
- Consumers are being let down by a failure in the UK financial sector to offer comprehensive philanthropy services, but the FCA's sustainable finance agenda could be a powerful means by which to start solving this.

## 2. Leadership and culture

### The attitude of leadership makes the difference between provision of any philanthropy services and no philanthropy services at regulated firms…

[14] E Beeston & B Breeze, Advising philanthropists: principles and practice, Director of Social Change, 2023
[15] Investing for Global Impact: A power for good, Campden Wealth Limited, 2021

The view of the senior leadership of a wealth management firm, private bank or other regulated financial services firm is universally regarded by those working in the sector as the critical factor in whether philanthropy services are offered by a firm at all.

When financial services 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, anecdote 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 center 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."

A number of factors seem to influence whether senior leadership teams demonstrate an interest in their firm providing philanthropy services.

Senior leadership teams' attitudes towards philanthropy services can be strongly influenced by their exposure to the commercial benefits of philanthropy services in other businesses or geographies. Multiple advisors working in UK branches of US firms believe that the positive experiences their senior leadership teams have had offering profitable philanthropy services to clients in the US – where doing so is far more commonplace – has encouraged them to replicate that success in the UK. As one advisor at such a firm said:

> "The SLT have got proof that it works from the US. They know you can forge a really deep client relationship through building a philanthropy offering, through partnering, and that all the discussions and capital that goes into that builds really strong bonds."

Attitudes of leadership can also be shaped by more personal experiences. In instances where a member of a senior leadership team has had an illness themselves or in the family which has led to close involvement with a charity, or where philanthropy is simply an individual's passion, it can lead to the creation of strong, effective philanthropy services that benefit clients, the business, and society more broadly.

However, 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. And this brick wall is a long-standing one, as another advisor stated:

> "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 outsized significance of the attitudes of senior leadership on whether philanthropy services are offered to clients or not is undoubtedly one of the factors which has led to a very thin patchwork of philanthropy service provision to clients in the UK. If philanthropy is to play its full role as a form of capital with powerful potential to make positive impact on the world, the whims and interests of leadership teams cannot solely be relied upon to deliver them.

### …while organisational culture makes the difference on the quality of philanthropy service provision

The quality and the extent of philanthropy service provision varies dramatically among the wealth managers, private banks and other regulated financial services firms which do have some kind of philanthropy offering. At one end of the spectrum, firms' philanthropy services may be mainly referral-based, with firms offering their clients introductions to known charities, to their own or preferred foundations, to other philanthropists, or to an external professional philanthropy service such as the Charities Aid Foundation or New Philanthropy Capital – but not providing any advice or product themselves. At the other end of the spectrum, firms may offer detailed, intensive, one-to-one philanthropy services which help clients (and their families) to plan their approach to giving; support clients with the establishment of the appropriate structure(s) for their giving; guide and inform the selection of causes and organisations; and provide help with the monitoring and evaluation of the impact of a client's philanthropy strategy on an ongoing basis. Most philanthropy services offered by financial services firms fall somewhere in between these two extremes, and the two approaches have different advantages and disadvantages.

Table 1. Advantages and disadvantages of the different approaches to philanthropy services

| | Advantages | Disadvantages |
|---|---|---|
| Light touch referral approach | • Less expensive to administer;<br>• Can be offered at scale to clients;<br>• Allows firms to meet demand from clients without distraction from 'core' service offerings;<br>• With the right partnerships, clients can access deep expertise that would be difficult to nurture in house. | • Firms don't benefit from the advantageous relationship-building with clients that philanthropy services can provide;<br>• 'Simple solutions' like donating to a foundation or specific fund preferred by the firm can remove the client from the benefits of giving (as they do not build relationships with the charities funded, which is key to repeat giving);<br>• Limited referral options can fail to meet clients' interests (for example, having a solely-environmental focused option when a client's interest might be in education);<br>• Referrals can embed biases;<br>• With only a surface-level understanding of their clients' philanthropic needs, firms may make unsuitable referrals which can reduce clients' willingness to donate. |
| Intensive in-house approach | • Allows for the development of deep relationships with clients and, often, their families;<br>• More likely to allow clients to explore the full range of options available to them;<br>• Helps firms to learn more about their clients' interests | • Resource-intensive to offer, which can make offering services at scale difficult and limit provision to only the wealthiest clients;<br>• Referrals (or provision of alternative options or recommendations) still need to take place even with an |

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|---|---|---|
| | and motivations and apply that learning to their broader service offering;<br>• Helps clients to consider their assets more holistically. | intensive in-house approach, as philanthropy inevitably requires multiple services;<br>• In house provision must take a 'jack of all trades' approach which, while advantageous in some circumstances, can be limiting for clients. |

Whatever the precise form that they take, the impact of the philanthropy services provided by a firm can be judged in part by the level of uptake of those services by clients. It is clear from the stakeholders consulted for this submission that how philanthropy services are advertised to clients is key to the level of uptake that they receive. If clients are introduced to philanthropy services from the moment that they are onboarded, regularly reminded that they are available, and informed of the benefits at appropriate moments, the consensus is that this increases the likelihood that they will take up the offering. However, only a very small handful of firms can say with confidence that this takes place for a majority of the clients these services would be relevant to.

The approach taken by a client's key contact within a firm – be they a relationship manager, banker, asset managers or other financial advisor – is evidently a major determinant of whether a client is made aware of any philanthropy services available. Leading US-based philanthropy expert Stephen Johnson has identified three types of advisor 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.[16]

These different approaches matter because a firm may have a senior leadership which is enthusiastic about encouraging philanthropy, and a well-thought through philanthropy offering, but if their advisors are mostly 'facilitators' or 'followers', those services will not be fully utilized, and the opportunity of philanthropy as a means of putting finance to use for positive sustainable change will not be fully grasped. This is the case even in the US where philanthropy is more embedded into financial

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

advice conversations, but research shows that 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.[17]

The evidence given by stakeholders suggests that incentives, education and training can all make a difference in increasing the numbers of 'initiators' within a firm, and these are covered below. But culture can also make a significant difference.

A positive culture of philanthropy is a relatively simple thing to create within a financial services firm, yet doing so can have an outsized impact – because all staff can be philanthropic. Encouraging personal philanthropy among a workforce is one of the most powerful ways that firms can simultaneously 'walk the walk' on their own ESG agenda, and provide employees with hands on education on the change that can be created when finance is put to positive use. The benefits are manifold, as one private bank employee stated:

"We see it internally that, as a profitable business, it's almost our natural duty to give back to communities and where we live back and invest in them. Doing so enhances those communities and creates a better world for everyone. Staff love it – we get told time and again that the talks they have from charities and their volunteering days are the best things that they do at work. And it's the right thing to do."

There are a range of initiatives that a firm can adopt to help in the creation of a strong philanthropic culture. By bringing staff and charities together through talks and volunteering opportunities, and on national interest or fundraising days, firms can inspire employees' own philanthropy. By allocating a percentage of profits to philanthropic purpose, and engaging staff on the strategy for how that money is spent, firms can empower their employees to think seriously about the impact that philanthropy has. And by encouraging payroll giving or providing some sort of match to donations that employees make, firms can also incentivize philanthropy among their workforce.

When these initiatives are integrated with a firm's broader sustainability strategy, corporate social responsibility strategy or equivalent, when they are financially backed by the firm, and when leaders provide a good example, a philanthropic culture can be created. Many firms find integrating philanthropy within relevant strategies to be a natural and beneficial thing to do.

[17] N Roumani, Helping wealth advisors increase philanthropic impact for high net worth clients, Stanford University Effective Philanthropy Learning Initiative, Summer 2018

“We’ve integrated our philanthropy into our purpose statement. Philanthropy is just one strand, the charitable work is just one strand of our ESG work and sustainability work.”

“I don’t know if you could be purposeful without charitable giving.”

Building philanthropy into the ‘DNA’ of a firm like this is a good in itself, but it can also help to remove some of the barriers to the provision of philanthropy services to clients. When an organisation’s staff is involved in philanthropy personally, there is a strong belief that they are more likely to feel empowered to be ‘initiators’ of philanthropy conversations with their clients, or even champions of it.

However, a strong philanthropic culture within a firm is not sufficient on its own to drive change. When firms encourage all these activities and a strong philanthropic culture but do not invest in providing their own client-facing philanthropy services, they miss out on the biggest possible opportunity to utilize philanthropy’s potential to drive positive change. Both investment by the leadership and a strong philanthropic culture are therefore needed together.

**As a result of the importance of both leadership and culture in encouraging the provision and quality of philanthropy services within regulated firms, in answer to Question 1 of the consultation, PBE has concluded that:**

- All financial services firms should be expected to embed sustainability considerations into their business objectives and strategies.
- Where those business objectives and strategies are appropriately detailed, they should refer to firms’ internal approach to philanthropy. The guidance provided by the FCA to support firms in the new requirements for their business objectives and strategies should make this explicit. Doing so is important to stimulate conversations at senior leadership level about the firm’s philanthropic culture, which can be critical not just for encouraging donations from employees but for increasing the quality and quantity of philanthropy services provided to clients where this is relevant.
- If all financial services firms are expected to embed sustainability-related considerations in their business objectives and strategies, regulated firms which provide financial advice to retail customers - such as wealth managers and private banks – must be encouraged to include their approaches to client philanthropy where those strategies are appropriately detailed. Should the FCA encourage or require that, it would help to remove the ‘brick walls’ that stand in the way of philanthropy service provision within firms.

**In answer to Question 2 of the consultation, PBE has therefore concluded that:**

- The FCA should provide guidance on how a firm's culture and behaviours can support positive sustainable change. This guidance should refer explicitly to how a firm's culture and behaviours towards philanthropy can make a substantial difference to both the quality of philanthropy service provision, and to society itself by driving donations from employees to charities.
- That guidance should include advice on how firms can use philanthropy in the most impactful way, as well as inspirational case studies of firms doing so effectively. The charitable and philanthropy sector are would undoubtedly support the FCA in the compilation of such guidance.

## 3. Renumeration and incentives

### When designed poorly, renumeration and incentives can get in the way of clients accessing philanthropy services

At present, renumeration structures in most financial services firms disincentivise advisors from encouraging their clients to access philanthropy services. Philanthropy, at its core, requires money to be given away. As wealth managers charge fees to the size of the assets they have under management for client, acts which reduce the volume of assets also reduce their income.

To some extent, this is an issue of perception and education, which is covered further below. 'Enlightened' advisors understand that providing philanthropy services can actually help them to grow their assets under management, either directly through the management of a giving vehicle such as a Donor Advised Fund, or indirectly through improved relationships with their clients, increased likelihood of recommendations by clients, or increased chances of managing a portfolio across the generations of a family. However, these benefits may be felt at firm-level rather than at individual level, which reduces the incentive for individual advisors and managers to engage with philanthropy. As one industry expert stated:

> "You get a lot of financial advisors that think 'by the time my client's retirement comes around and they want to 'do charity', I'll be retired so I won't care.' Or if you're about the same age as your clients, because that's how most of us build our client banks, when that wealth transfer happens they'll be retired, so they're not going to be motivated to bother with something as far distant as using philanthropy as a tool to keep the next generation in the business – unless they're incentivised to do so."

Overall, the view that providing philanthropy services will act as a financial penalty to individual advisors and managers is a powerful barrier to the provision of philanthropy advice to clients. Both qualitative feedback and surveys show that this leads to a majority of wealth advisors and asset managers failing to perceive any direct benefit from supporting their clients to 'give their money away'.[18]

"Across the industry, a lot of financial advisors 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. Advisors 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 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."

"There has to be an incentive. These are asset managers. That's what they're incentivised by – that's what their focus is on. You have to show how they can embed philanthropy within what they're motivated by."

This disincentive prevents consumers from being offered services and information that they would benefit from. Worse, multiple individuals who have proactively asked their relevant financial advisor about certain philanthropic products or expressed their interest in philanthropy have reported being actively dissuaded by

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

their advisor from pursuing such a route. Individuals who have spoken to PBE about this have expressed their belief that their advisors were motivated by a fear that they would lose assets under management if they supported their clients in pursuing their philanthropy, and that this fear was combined with a skepticism born of misunderstanding.

Very few firms spoken to for this consultation response had taken any steps to adjust their incentive structures to encourage advisors to engage their clients in philanthropy services, though a small number had done so to encourage advisors to engage their clients in sustainable finance more broadly with significant 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 KPIs is an 'ongoing conversation' in many firms. But it seems distinctly unlikely that conversation will transform into action without action from the regulator, as this conversation has been 'ongoing' for the last decade. Such regulatory action is essential to break that stalemate, to ensure that clients' needs are put before advisor 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.[19]

> "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."

However, action on incentives alone would risk a 'tick box' approach to offering philanthropy services. That is why action must also take place to change the approach of leadership and the culture in the sector, as well as to education and training.

**In answer to Question 8 of the consultation, PBE has therefore concluded that:**

- There is a strong case for linking pay to sustainability-related objectives, given the benefits that it has been shown to have in some firms, the urgent need for change, and the size and nature of the barriers preventing change being

[19] 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

so linked to incentives – which are holding advisors back from providing the information and services that clients are increasingly demanding.

- Firms should break down their sustainability-related commitments into different factors within those objectives – and, specifically, one of those breakdowns should relate to philanthropy where the firm offers philanthropy services of some form. Doing so is key to ensure that the more 'impact aligned' forms of capital such as philanthropy are addressed, and do not get lost in what is more familiar.
- As a minimum, the KPIs that relevant employees' renumeration levels are assessed against should include the proportion of clients that they have had a conversation about philanthropy with. Advisors should also be required to review their client books every year with the purpose of identifying which clients might benefit from philanthropy services. This should apply in all firms which have the potential to offer some form of philanthropy service, and to all employees in relevant client-facing advice, management and relationship roles – regardless of seniority.

## 4. Training and competence

### There is an enormous philanthropy knowledge gap in the financial sector

While there has been a rapid acceleration in the understanding and knowledge of ESG funds and broad sustainability issues within the financial sector, there is still much work to do to ensure that all employees who should have an understanding of these issues do so. For philanthropy, the knowledge gap is even more cavernous than on ESG in general – with the level of knowledge about philanthropy in the sector still at a very nascent stage. In some major firms, there is little to no knowledge of philanthropy at all. Even in some firms which do offer philanthropy services, among relationship managers and those in client-facing roles, the knowledge of those philanthropy services can be low.

Reducing this knowledge gap is essential to solving each of the other challenges which prevent philanthropy services from being delivered at the scale and to the quality that consumers require – meaning also that the opportunity that philanthropy presents to deliver positive change is missed. If senior leadership teams had more knowledge about philanthropy and its benefits, they would be far more likely to make the investments needed to deliver philanthropy services. Increasing knowledge about philanthropy and its benefits is crucial to securing the cultural changes which are needed to ensure more advisors become 'initiators' of philanthropy services with their clients, and so provide more complete advice to them. And increasing knowledge about philanthropy and its benefits is also fundamental to tackling the misconceptions that lead to advisors believing they will miss out financially by encouraging their clients to 'give money away', as well as ensuring any changes to incentives don't become a tick box exercise.

The gap of understanding on philanthropy has real consequences for consumers and for the financial sector's efforts to deliver positive change. Consumers are harmed by this lack of understanding because it means that they are not offered information necessary to their decision making, and they are not offered products and services that they might benefit from or even be actively seeking out and requesting. It has undoubtedly contributed to the extraordinarily low levels of satisfaction in the philanthropy advice on offer to HNWI.[20] As noted above, 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 harmed their intentions to act philanthropically into the future. 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 should act to improve philanthropy services as part of its work to improve sustainable finance.

More broadly, when philanthropy is done poorly, it can both be wasteful and reinforce existing inequalities rather than generate positive change and real social impact. It is important to have some perspective on the scale of this harm. As one advisor stated:

> "If people aren't giving very much and don't want to give very much time to do it, that's kind of fine because at least that's money gone from buying some crisps to doing some good in the world."

But 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. It is not an impactful use of finance if, for example, a wealthy individual decides that they want to buy cameras 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 yet

[20] Investing for Global Impact: A power for good, Campden Wealth Limited, 2021

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 disadvantaging already disadvantaged groups.[21] All three of these happen frequently.

High quality philanthropy services can and do help negate these challenges, and instead help clients to ensure that the social impact they wish to achieve is delivered by their philanthropy. Advisors 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. Advisors can also encourage better philanthropy by helping their clients to gain a deeper understanding of the norms and needs of the sector they are funding.

In addition to increasing the positive impact of philanthropy and reducing potential harms, high quality philanthropy services are theoretically more likely to generate both a greater volume of donations and a greater amount of satisfaction from clients. As one advisor 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."

**In answer to Question 12 of the consultation, PBE has therefore concluded that:**

- In the financial sector, there is a serious and substantial lack of knowledge as to how philanthropy can support consumers' and firms' sustainability objectives.
- The philanthropy knowledge gap results in harm to consumers who are not offered information necessary for them to make good decisions, and who are not offered products and services that they might benefit from or even be actively seeking out and requesting.
- The philanthropy knowledge gap means that the opportunity that philanthropy presents to channel finance to public good is being missed too frequently.

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

## Training and competence are key to improving philanthropy services on offer

The philanthropy knowledge gap stifles conversations between clients and their advisors. Time and again throughout this consultation, experts spoke of a lack of confidence among advisors which is holding them back from talking to clients about philanthropy, and becoming the 'initiators' of conversations about philanthropy services.

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

> "There's an apprehension around advisors 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."

The knowledge gap seems to encompass both the details of how a philanthropy service works – or the 'what' of philanthropy services, but also, crucially, how to talk about philanthropy. There is a perception that, because the charities an individual cares about are so closely related to their life experiences and their passions, philanthropy is more personal and therefore more difficult to discuss with clients than other forms of capital. In some cases, this is a legitimate concern: when philanthropy is used as a tool to engage generations of a family in discussions about wealth and inheritance, it can lead to some confronting moments – as can discussions about legacy. However, financial advisors already have an 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.

Additionally, there is no need for the majority of client-facing advisors or managers to have an in-depth knowledge of philanthropy. As one expert put it:

> "You never go to a GP and expect them to do brain surgery."

All that most individuals in these roles require is the ability to have an early-stage conversation about philanthropy, its benefits, and how the firm approaches it. They should be able to impart to clients a high-level introduction to the topic, and then pass over to a third-party philanthropy service provider or an in-house philanthropy team. Achieving this level of understanding does not require specific qualifications to be developed – merely an alteration or extension of the curricula to incorporate relatively basic information on philanthropy, its benefits for both firms and clients, the various means by which philanthropy services can be provided, and how to open up a conversation with a client about charitable giving, as part of a discussion about values-based investing, sustainable finance options, or the objectives they have with their wealth.

**In answer to Question 13 of the consultation, PBE has therefore concluded that:**

- There is a clear need for additional training and competence expectations regarding sustainable financing options and values-based investment more broadly, so that the financial advice community gains an improved understanding of the options which are available to clients. It is essential that philanthropy is included within this additional training, in order to tackle the current failures of the market to serve consumer demand for philanthropy services, and to ensure that clients have a broad set of information regarding their options for sustainable finance.
- Information about philanthropy should be included alongside other sustainability-related options for capital investment in the compulsory training and CPD that relevant advisors, asset managers and relationship managers receive – so that all relevant individuals in the sector receive this training over the next 5 years.

**In answer to Question 14 of the consultation, PBE has therefore concluded that:**

- Client-facing advisors require the ability to have an early-stage conversation about philanthropy, its benefits, and how the firm approaches it. They should be able to impart to clients a high-level introduction to the topic, and then pass over to a third-party philanthropy service provider or an in-house philanthropy team.
- Achieving this level of understanding does not require specific qualifications to be developed – merely an alteration or extension of the curricula to incorporate relatively basic information on philanthropy, its benefits for both firms and clients, the various means by which philanthropy services can be provided, and how to open up a conversation with a client about charitable giving, as part of a discussion about values-based investing, sustainable finance options, or the objectives they have with their wealth.
- Competency frameworks for detailed philanthropy advice do not exist in the UK, but organisations which deliver the curriculum to regulated advisors

could draw on the information available through the Philanthropy, Grantmaking and Social Investment master’s programme at Bayes Business School; the University of Kent’s Advising Donors module in its Master’s in Philanthropic Studies; Philanthropy Impact’s accredited training courses designed for advisors; STEP’s special interest group for philanthropy advisors; the University of St Andrews’ Centre for the Study of Philanthropy; or the London School of Economics’ Marhsall Institute.