



NatWest

ACCOUNTING FOR SUSTAINABILITY

ICAEW

2012 WINNER CASE STUDY

LESSONS IN DRIVING BUSINESS SUSTAINABILITY

TURNING THE BANKING MODEL ON ITS CHARITABLE HEAD

Charity Bank's sustainable business model has shown that providing loans to social enterprise and community organisations can be a low-risk and socially beneficial activity.

THE BUSINESS

Charity Bank is a regulated bank that lends to charities, social enterprises and community organisations, including those that would find it difficult to secure funding from the traditional banking sector. Charity Bank has sustainability embedded throughout its operations – championed from the top, with strong leadership from the CEO. The bank's team come from across the commercial finance world and its first ten years have provided £175m in loans to over 1,000 social ventures. The bank has a low default rate of less than 0.5% despite the risk perceived by traditional lenders. Charity Bank was the first to develop a unique social banking model that creates value, not only for its stakeholders, but also for the



wider community, essentially inventing a new and scalable form of social finance in the UK. It invests its depositors' money in loans, which support charities and enterprises that benefit society. It is the only bank in the UK that is both a registered general charity and regulated by the Financial Services Authority.

THE IDEA

The founders of Charity Bank were trying to address problems with the traditional way the charity sector is funded. Grant funding, for example, was not producing funds on the scale that it had done in the past and, as a result, the sector was struggling. The Charities Aid Foundation (CAF) was worried by this and thought that charities should investigate other

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models of funding. Malcolm Hayday, the man who was to become the founding CEO of Charity Bank, was asked by CAF to research loan finance in the charities sector and look at what could be done. But the difficulty of an independent model was that traditionally banks didn't want to work with charities and charities didn't want to take out loans. 'The logical next step would be to create a bank', said Mark Howland, Head of Communications at Charity Bank. A pilot project was set up. And out of that, Charity Bank was born.

THE INNOVATION

The pilot project had shown there was demand. But there remained many issues to be overcome. The complexity of the regulation was one. The new bank would be a deposit taker and would sit under the standard bank regulation model, but it would also be regulated by the Charity Commission, and HMRC would be part of the mix as well. The complexities were negotiated and the bank was launched in 2002. The real innovation was the business model. The idea was to create a bank that did not aim to maximise its profits, but instead to maximise the impact it could make on society. Its objective would be to deliver long-term value to stakeholders and to society as a whole. It would do this by delivering value to the charities and social enterprises it served, and so to the individuals and communities that they in turn supported.

FINANCE FUNCTION LEADERSHIP

When the bank was launched, it had six staff. It still has only 34. It is a small and modest organisation, and the finance function is at the heart of all it does. It works closely with the credit panel, which is seen as central to the bank. It is involved in all the modelling. 'The finance function is challenging the way in which things are done', said Mark Howland. And, through impact measurement, it calculates the probable impact of every loan the bank provides. So it ensures credit-worthiness on one side and the impact of the loan on the other.



Measuring the social side of things provides added value. Detailed assessments are carried out to ensure that people have a clear idea of what they are trying to achieve – the 'mission focus'. This looks at operational resources, financial resources, the environmental impact, staff impact and community impact. They then track how these things change. One of the results is a loan default rate, currently of 0.5%, which is regarded as an astonishing figure in the banking world. The bank attributes this to strong and regular dialogue between the credit, finance and lending functions.

The deposit side of the business is also carefully managed and interest margins are not positioned to compete in the wider financial marketplace. As a result, there is a large amount of repeat business from clients who are driven by social returns. This, in turn, makes the whole enterprise more sustainable.

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And it ensures that the sustainability model becomes more embedded. An impact report is produced every year listing every organisation that has received help and provides information which enables other potential supporters to show interest.

POSITIVE LONG-TERM IMPACT

The bank has lent over £175m to over 1,000 organisations. Figures suggest that over 70% of the organisations to which money was lent believe that without Charity Bank's loans their projects would not have gone ahead. It is estimated that the projects and programmes funded have benefitted around

3.5m people. In addition, Charity Bank has helped strengthen the organisations it has funded. The bank's business support team helps its borrowers to determine the resources and skills that they will need in the future. This ensures their future financial security and sustainability as a charity or social enterprise. Among the bank's customers, 62% report that their overall finances are now healthier, with 36% reporting that the funding was what kept them afloat and enabled them to survive. 'There is a benefit to the overall economy', said Mark Howland, 'and the environmental impact of our lending is often very positive'. Many of the organisations that have received loans have become more involved in positive environmental change, with 56% of clients reporting that the

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lending led to positive environmental impacts, for example in the fields of energy efficiency, recycling and fairtrade.

Loans to charities and social enterprises have risen just under 20% year-on-year, reaching £55.6m in 2011. Deposits have grown at a similar rate, to £65.6m. And the Bank made a surplus of £372,000 last year. 'It shows there is a demand and that the business model is sustainable', said Mark Howland. It is serving an identifiable need and doing it in a sustainable way.

LESSONS FROM THE CASE STUDY

The fundamental lesson that the Bank would point to in how it has achieved its goals is to never give up when others think something is impossible.



Encourage innovation. 'We've been a pioneer in many ways', said Mark Howland. The message is that organisations should try to thrive on innovation.

'It is important to try to use the tools and disciplines of finance to enable the organisation to address social and environmental issues and to become more sustainable', said Howland.

One important lesson, reflected in the low loan default rate, is in the importance of acknowledging the roles of the different parts of the bank, where they work together, ensuring that they stay aligned, and that they are working in the best interests of the people that the bank is trying to help.