Bankers lose their appetite

Several charities have had their bank accounts closed recently. Tom Keatinge questions why this might be.

PERIODICALLY, BANKS exercise their right to close accounts with little notice and no explanation.

Over the summer, HSBC withdrew services from a number of charities, including Ummah Welfare Trust (UMT), the Cordoba Foundation, and Finsbury Park Mosque.

Furthermore, it is reported that the Charities Aid Foundation has withdrawn CAF bank accounts and online donation services from several Muslim charities. This follows the case of advocacy organisation Cage losing its accounts with Barclays and the Co-operative Bank earlier in the year.

Outside our 'risk appetite'

In a letter informing UMT of its decision, HSBC said it had recently conducted a review of its customers and had "concluded that provision of banking services to Ummah Welfare Trust now falls outside of our risk appetite".

While charities routinely assess the risks inherent in undertaking their activities, the idea of being 'outside the risk appetite of a bank' is, unsurprisingly, somewhat perplexing.

After all, most NGOs use banks for the most basic of services: accepting and safeguarding deposits and donations, and transferring funds globally to meet their mission. On the face of it, this would not seem to be 'risky' business.

Exploring definitions of risk appetite draws one into the corporate and regulatory world, with HM Treasury suggesting this to be: "The amount of risk that an organisation is prepared to accept, tolerate, or be exposed to at any point in time." It also provides some general risk groupings – in particular those risks associated with reputation, credibility, and public perception.

Herein may lie the key to what a bank means when it refers to a review having determined the provision of a particular service as outside its risk appetite.

> "After receiving heavy fines, the risk appetite of banks is declining"

Following the global financial crisis, the G20 founded the Financial Stability Board (FSB). According to its *Principles for an effective risk appetite framework*, a financial institution should give regard not only to material risks to the institution, but also to its reputation "vis-à-vis policyholders, depositors, investors, and customers".

Discussing HSBC's half-year results in August, chairman Douglas Flint noted a "growing danger of disproportionate risk aversion creeping into decision-making, as individuals seek to protect themselves and the firm from future censure". Put simply, following the imposition of significant fines, risk appetite in the banking sector is declining.

Inevitably, clients operating in jurisdictions deemed high-risk, or particularly vulnerable to terrorist abuse, by regulators and standard-setters – such as the UK's Financial Conduct Authority or the Financial Action Task Force – run the risk of falling foul of this conservative operating model.

While banks are private-sector, shareholder-owned entities and are thus arguably within their rights to pick and choose risks as they wish, they cannot escape the fact that they are also social utilities.

Breaking a vicious circle

As noted by the *Banking Standards Review* published in May this year, banks must win back 'public trust'. At a minimum that means they should ensure that, as recommended by HM Treasury, risk judgements are more "transparent and consistent".

Although providing services to clients such as those whose facilities have recently been terminated presents no financial risk to the banks concerned – ie no risk of losing money through market movements or credit losses – their judgement is apparently that the returns earned from these relationships do not justify the perceived reputational and regulatory risks involved.

Government defers such decisions to the banks, despite the FSB advising regulatory discussion on what constitutes a good risk appetite framework, and NGOs expect banks to willingly provide them with banking services.

Knowledge is crucial in determining risk appetite, and this is sharply diminished for banks by the fear of 'unknown unknowns'.

A vicious circle exists that will not be broken unless all sides are prepared to engage in transparent dialogue on a basis of compromise. Only then will banks' risk appetite increase. ■

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