Mutuals take aim as the high-street banks come under fire

Increased competition and regulatory scrutiny are leading to greater choice and improved banking services for charities, finds Diane Sim

THERE HAS been a significant development in the charity banking marketplace over the last year, not in the shape of new entrants but in the change of ownership of two existing mid-sized players.

Last October, Nationwide, the UK's largest building society with over 17 million customers, completed its £2.9bn deal to acquire Virgin Money, the UK's sixth largest bank with around 6.6 million customers.

According to Nationwide's chair Kevin Parry, the deal, which created the UK's second largest mortgage and savings group, marked "the first time in the UK that a full-service business bank will be part of a large mutual".

This was swiftly followed in January when Coventry Building Society, the UK's eighth largest lender with around two million customers, completed its £780m acquisition of the Co-operative Bank with 2.5 million retail customers and 94,000 small business customers including charities.

Co-operative Bank's head of charities James Wall says "the Coventry Building Society acquisition returns the Co-operative Bank to long-term, stable, mutual ownership", and creates a high-street challenger with assets of around £90bn, over 4.5 million customers and almost 120 branches.

All this comes at a time when the main shareholder-owned banks are coming under fire from regulators and industry bodies for their service standards and from campaign groups for their environmental, social and governance (ESG) standards.

Last year, the Charity Commission found that 42% of over 2,500 trustees had, over the previous 12 months, experienced poor service from their banks. Problems encountered by charities included account freezes, loss of customer records, difficulties when updating contact details or signatories and opening new accounts and providing proof of identity.

The highly publicised practice of "de-banking" continues to be a problem, as banks increase the scrutiny and closure of accounts held by individuals or organisations that they perceive to pose a financial, legal, regulatory or reputational risk to them.

The latest figures show that 140,000

FIGURE 1: BANKS USED AS PRIMARY PROVIDER BY CHARITIES[1]

	Charity income				
Number of clients	< £1m	£1m - 5m	£5m - 20m	> £20m	**Total**
Barclays	7	7	15	114	143
NatWest[2]	8	4	7	72	91
Lloyds Bank[3]	6	4	4	54	68
HSBC	4	5	5	35	49
Royal Bank of Scotland[2]	1	3	2	27	33
CAF Bank	12	8	2	1	23
Reliance Bank	17	1	0	1	19
Bank of Scotland[3]	4	4	0	9	17
Coutts[2]	0	3	1	11	15
Unity Trust Bank	7	2	1	1	11
Santander	4	0	1	4	9
Co-operative Bank[4]	5	1	1	0	7
Metro Bank	2	1	0	1	4
Triodos	4	0	0	0	4
Virgin Money UK[5]	1	1	0	2	4
Allied Irish Banks[6]	0	0	0	3	3
C. Hoare & Co.	0	0	0	2	2
Handelsbanken	0	1	1	3	5
Al Rayan Bank	0	0	1	1	2
Bank of America	0	0	0	2	2
UBS	0	0	0	2	2
Western Union	2	0	0	0	2
Other	4	0	1	7	12
Total	**88**	**45**	**42**	**352**	**527**

(1) Based on data provided by 350 members of the Charity Finance 100 and 250 Indexes, plus 188 survey respondents (minus the overlap).
(2) Part of NatWest Group.
(3) Part of Lloyds Banking Group.
(4) Acquired by Coventry Building Society in January 2025.
(5) Acquired by Nationwide Building Society in October 2024. Includes Clydesdale Bank and Yorkshire Bank.
(6) Part of AIB Group.

FIGURE 2: SECONDARY BANKS USED BY CHARITIES

Barclays	9%
Lloyds Bank	6%
CAF Bank	5%
CCLA	5%
HSBC	5%
NatWest	5%
Cambridge & Counties Bank	6%
United Trust Bank	4%
Charity Bank	4%
Co-operative Bank	4%
Nationwide Building Society	4%
Redwood Bank	4%
Triodos	3%
Aldermore Bank	2%
PayPal	2%
Santander	2%
Jnity Trust Bank	2%
Bank of Scotland	1%
Crown Agents Bank	1%
lagstone Savings Platform	1%
lampshire Trust Bank	1%
ingdom Bank	1%
oyal Bank of Scotland	1%
irgin Money UK	1%
ise	1%
ther	20%

usiness accounts were closed by he major banks in 2023, representing .7% of the 5.3 million small and nedium enterprise (SME) accounts vith the eight banks that provided data.

Another bone of contention is branch losures. The high-street banks continue o cut branches, while promoting digital hannels and referring cash-oriented ustomers to the agency banking ervices provided by the Post Office's etwork of 11,500 outlets.

According to data from the British Banking Association and the Office or National Statistics, the number of UK bank branches has fallen from 1,643 in 1986 to 6,870 in 2024.

Since the Charity Commission's eport, the Financial Conduct Authority has published research n the difficulties charities face n meeting the banks' compliance equirements with anti-fraud, anti-noney laundering and anti-terrorism egulations. Meanwhile, the Civil Society Group, representing 90 sector organisations, has published a detailed survey of the banking challenges faced by almost 2,000 charities.

At the same time, individual charities and pressure groups such as Bank Better and Christian Climate Action are actively campaigning for a boycott of banks that fund fossil fuel companies. These include – albeit to varying degrees – Barclays, HSBC, Lloyds, NatWest and Santander.

There are of course long-established alternatives to the high-street banks including CAF Bank, Unity Trust Bank, Triodos and Reliance Bank. These are, however, much smaller start to support SMEs more quickly and efficiently than developing these services ourselves."

And in contrast to the high-street banks, Nationwide has committed to retain its network of 696 branches, including 91 Virgin Money branches, until the start of 2028.

The Co-operative Bank has a long history of servicing the NFP sector due to its ethical policy, introduced in 1992 and incorporated into its constitution in 2013, which requires it to turn away business from organisations whose values are not aligned with its own.

> "The FCA has published research on the difficulties that charities face"

players and while they may be focused on the specific needs of charities or the wider not-for-profit (NFP) sector, they tend not to offer the full range of services that large and mid-sized charities require.

The combination of mutual ownership and business banking expertise is therefore a potentially compelling proposition for charities seeking a viable alternative to the high-street banks.

Moreover, Virgin Money and the Co-operative Bank – and their new owners – look set to capitalise on the opportunities that their new market positioning affords.

Parry says: "Bringing the established business banking services of Virgin Money into the Nationwide Group will give us a broader and more diverse product range. It also means we can

Its position weakened, however, in 2017 when it had to be rescued in 2017 by a consortium of hedge funds following its takeover of Britannia Building Society at the height of the financial crisis, which exposed it to bad loans and a £1.5bn capital shortfall.

Now that it is back in mutual ownership and its credit rating has improved, it is once again reaping the benefit of its ethical policy.

According to head of charities James Wall: "We see a significant volume of charity switchers coming to the Co-operative Bank because their trustees, staff, donors and members have put pressure on their finance teams to really evaluate the activities of their existing bank in regards to fossil fuels and other ethical issues."

FIGURE 3: CHANGING BANKS

■ Almost a quarter of charities will review their main bank shortly and half of these expect to switch ■

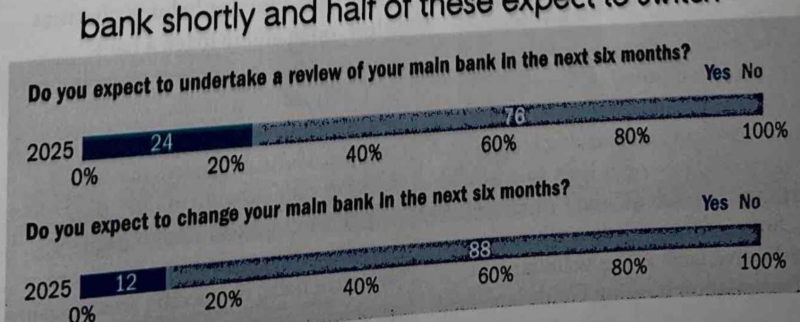
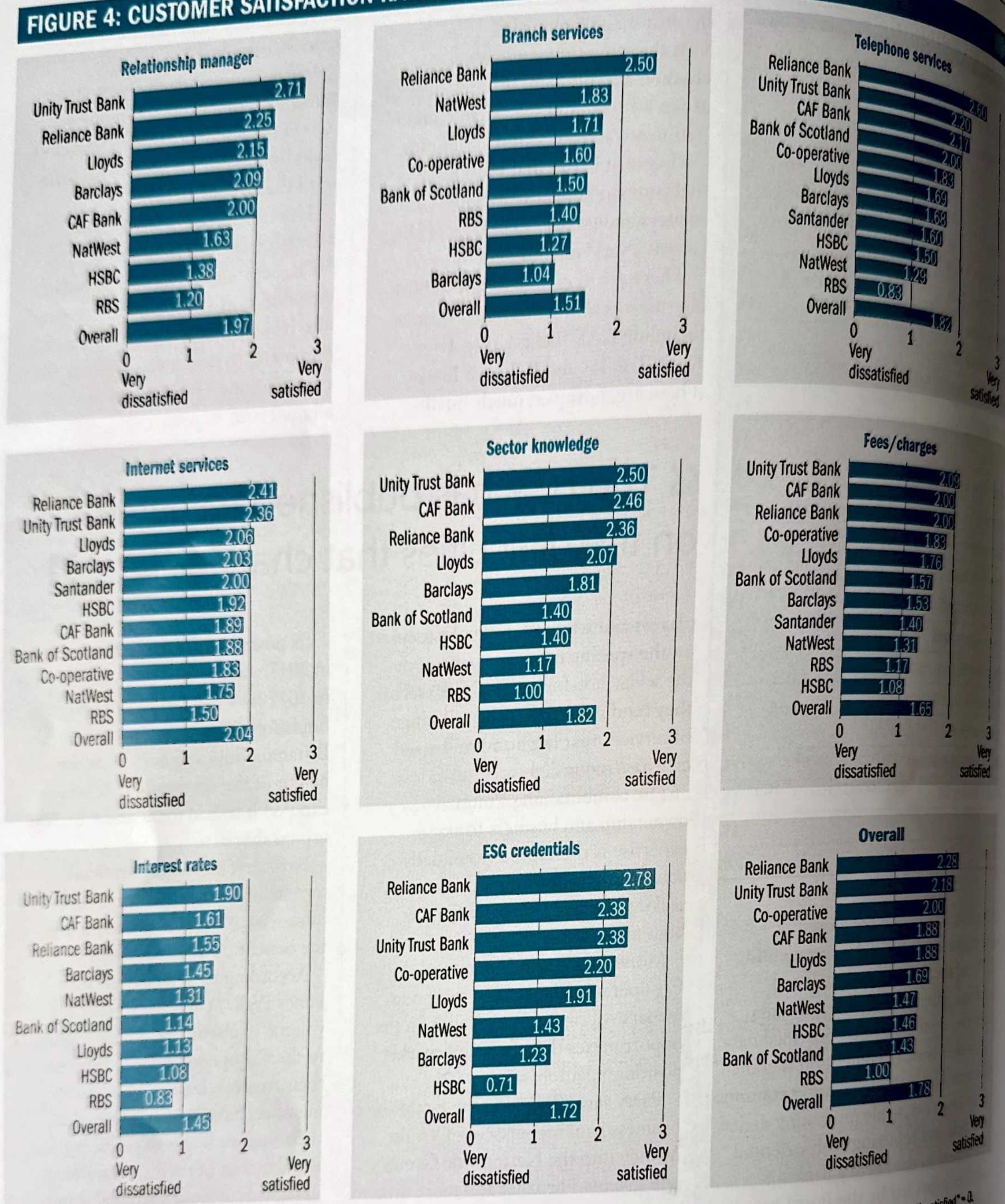


FIGURE 4: CUSTOMER SATISFACTION RATINGS



Note: Banks with fewer than five charities rating their services have been excluded.
Satisfaction ratings have been calculated by assigning responses with values and then calculating an average: "very satisfied" = 3, "fairly satisfied" = 2, "slightly dissatisfied" = 1, "very dissatisfied" = 0.

That all said, there is plenty of evidence in this year's survey to suggest that the high-street banks are not taking all this lying down.

Indeed, all of them have been actively participating in the work undertaken by the regulators and industry bodies and making efforts to find solutions or at least palliate the problems identified.

Some of the initiatives taken are collective, such as the Voluntary Organisation Banking Guide launched last year by trade association UK Finance. This online interactive resource is aimed at helping charities select, open and manage a bank account suitable for their organisation type and banking needs.

The banks have also been working independently on improving the services they provide to charities. Their efforts, which range from extensive reorganisations to a more selective focus on specific areas causing problems, are detailed on page 49.

RESPONSE LEVELS

Almost 200 charities participated in Charity Finance's annual banking survey. Small charities with annual income of under £1m are well represented and make up 47% of the survey sample.

The remainder is split between charities in the £1m-£5m income bracket (23%); charities in the £5m-£20m income bracket (20%); and large charities with income of over £20m (10%).

The survey data has been

supplemented with data sourced from the UK's top 350 charities, which are routinely tracked for the purposes of compiling the Charity Finance 100 and 250 Indexes.

Figure one shows the primary bank used by charities in this sample. While it does not purport to represent the charity banking market as a whole, it provides fairly comprehensive coverage of large charities with annual income of over £20m and more selective coverage of small and medium-sized charities.

The large-charity segment is dominated by the big-four high street banks, namely Barclays, HSBC, Lloyds Banking Group (comprising Lloyds Bank and Bank of Scotland) ınd NatWest Group (comprising NatWest, Royal Bank of Scotland nd Coutts). Together these four act s main bank to 91% of charities with nnual income of over £20m.

Barclays is the main single provider charities in this income bracket ith a 32% share of main banking lationships, though NatWest Group not far behind with a 31% share split tween NatWest (20%), Royal Bank of Scotland (8%) and Coutts (3%).

Lloyds Banking Group has an 18% share of main banking relationships with charities in this segment, split between Lloyds Bank (15%) and Bank of Scotland (3%), while HSBC has a 10% share.

There have been senior personnel changes over the last year at two of the big-four high-street banks, namely Barclays and NatWest.

> "The highly publicised practice of de-banking continues to be a problem"

At Barclays, Roland Pearce has taken over as head of charities in the corporate bank from Nazreen Visram, who is now head of public sector including charities and education, as well as central and local government.

Set up 20 years ago, the charities team in the corporate bank serves large charities with annual income of over £6.5m via dedicated relationship directors specialising in areas such as humanitarian aid and development, museums and galleries, animal charities, children's charities and membership organisations.

Barclays has also made changes to the way in which it services charities with annual income below £6.5m and these are detailed on page 49.

At NatWest, Duncan Todd takes over as director of large charities replacing Hugh Biddell, who retired at the start of this year. Responsible for supporting the largest UK charities "through a combination of mainstream banking services as well as strategic funding and payments innovation", Todd reports into Barrie Davison, NatWest senior director and national sector head.

The big-four high-street banks do not leave much of the large-charities market for other banks to fight over and the remaining 9% share is fairly