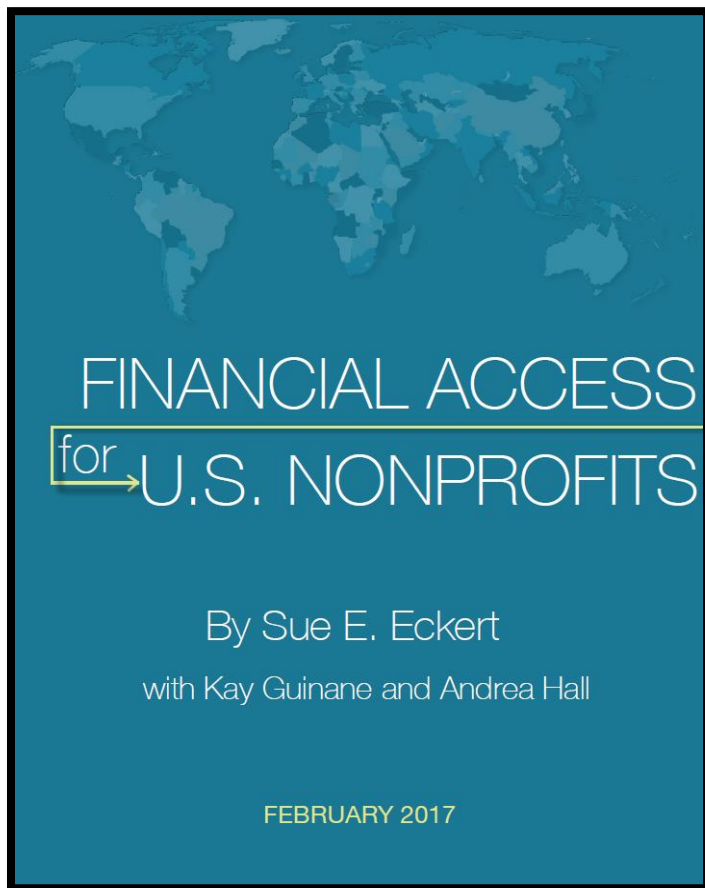


# Together Project Roundtable on Financial Access for U.S. Nonprofits

October 4, 2017



Andrea Hall,  
*Charity & Security Network*



# Derisking

**Derisking** (DR): financial institutions (FIs) terminating or restricting business relationships to avoid rather than manage risk

Established trend/complex drivers - banks' concern for running afoul of regulatory requirements/expectations

NPOs especially affected since FATF (intl AML/CFT standard-setter for banks to know-their-customers and exercise due diligence) identified NPOs in 2001 as “particularly vulnerable” to terrorist abuse

## Derisking (cont.)

FATF recognition of shift away from terrorists' abuse of NPOs and revised Rec 8, but pervasive perception of charities as higher risk and costly

FIs concerns about record penalties/settlements, compliance uncertainty, and excessive regulatory scrutiny has shifted risk-reward calculus away from banking NPOs

DR/reduction in financial access for NPOs coincides with unprecedented need in regions of conflict, humanitarian crises, and natural disasters

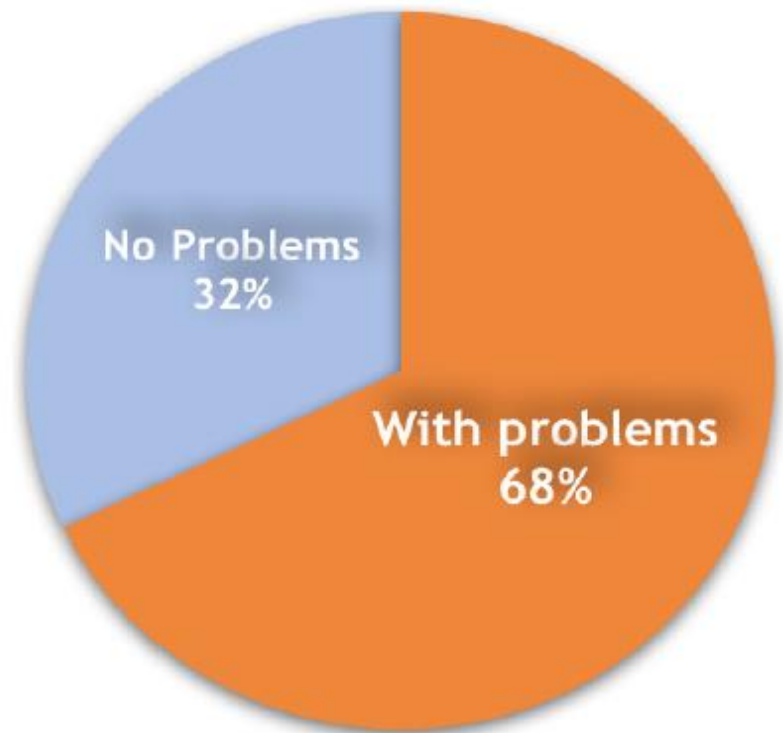
# Methodology

**Quantitative:** Random sample survey drawn from universe of 8,665 US-based NPOs (IRS filings). Telephone interviews with financial officers/executives of 305 NPOs (response rate of 38%; findings valid within 5.4% margin of error)

**Qualitative:** Data derived through focus groups, roundtables, and interviews with various stakeholders in government, the financial sector, former regulators and nonprofit leaders

# Scope of NPO Financial Access Problems

A significant proportion (2/3) of NPOs that conduct international work are experiencing obstacles in accessing financial services.



# Frequency of Financial Access Problems

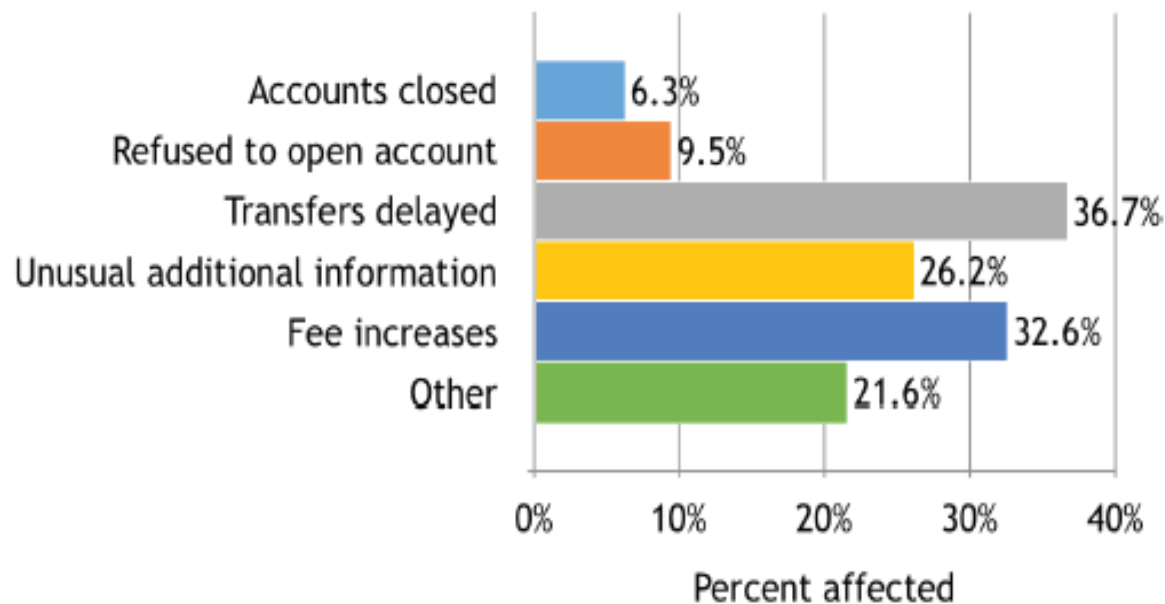
| Frequency of financial access problems | Total organizations (percent) | Total organizations likely impacted |
|--|-------------------------------|-------------------------------------|
| Constant                               | 5.4                           | 468                                 |
| Regular                                | 9.7                           | 841                                 |
| Occasional                             | 31.2                          | 2,703                               |
| Rare                                   | 21.5                          | 1,863                               |
| Never                                  | 32.2                          | 2,790                               |
| TOTAL                                  | 100.0                         | 8,665                               |

Over 15% of NPOs encounter these financial problems constantly or regularly, with another 31% reporting occasional problems.

# Types of Financial Access Problems

The two most common problems encountered by NPOs are delayed wire transfers and increased fees. Although account closures are less common than transfer delays, they can have an extraordinary impact.

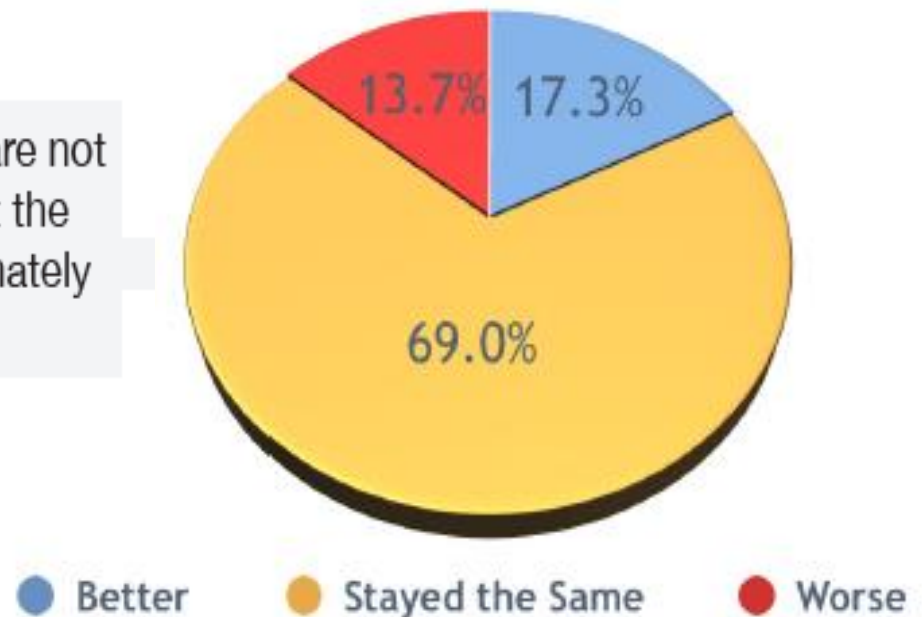
***Prevalence of Financial Access Problems\****



\*Percentages do not total 100% because survey respondents were allowed to give more than one response.

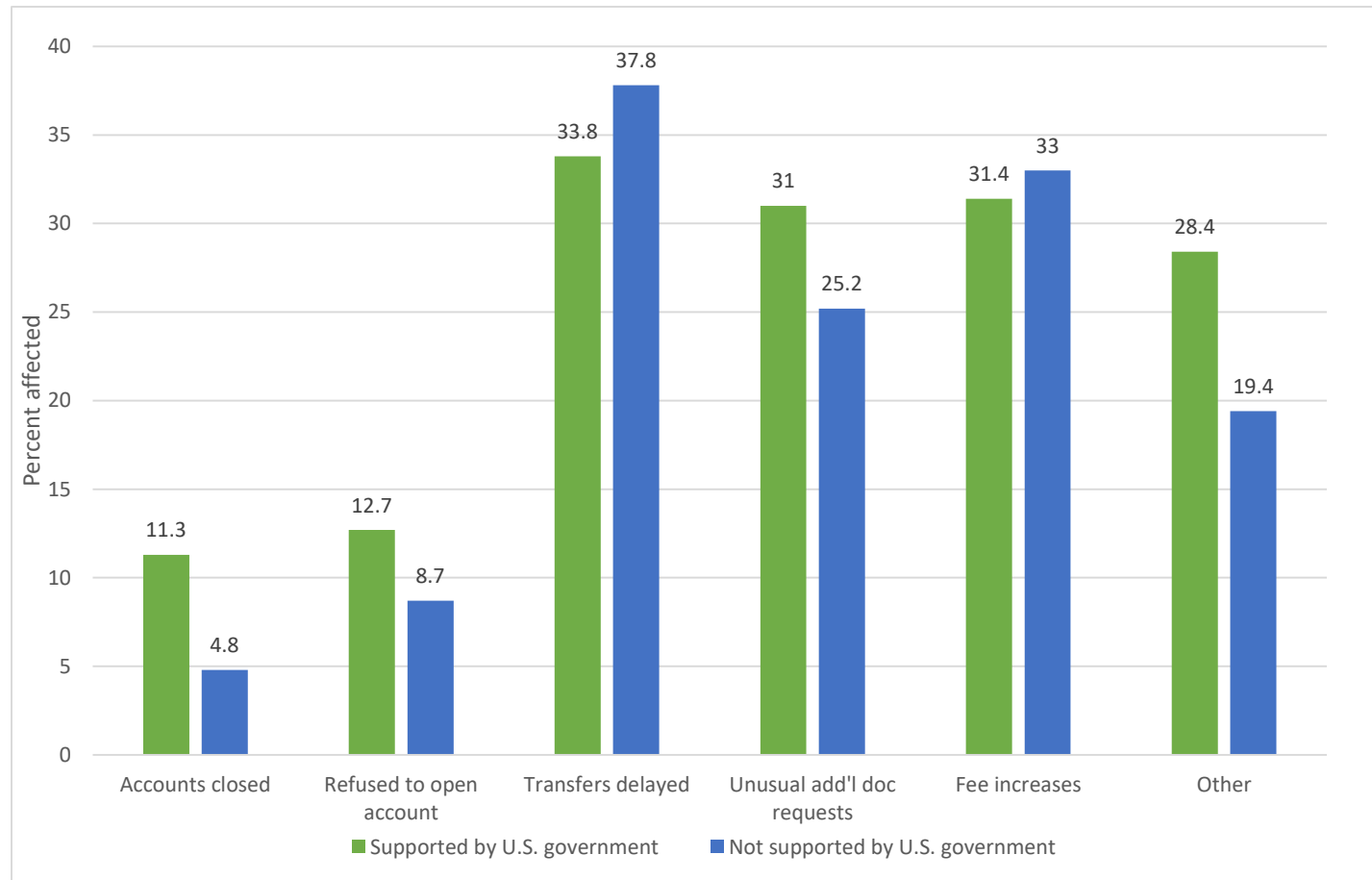
# Frequency Perception of Change in Severity

Overall, financial access problems for NPOs are not improving. 69% of NPOs surveyed report that the problem has stayed the same, while approximately 13.7% say it is getting worse.



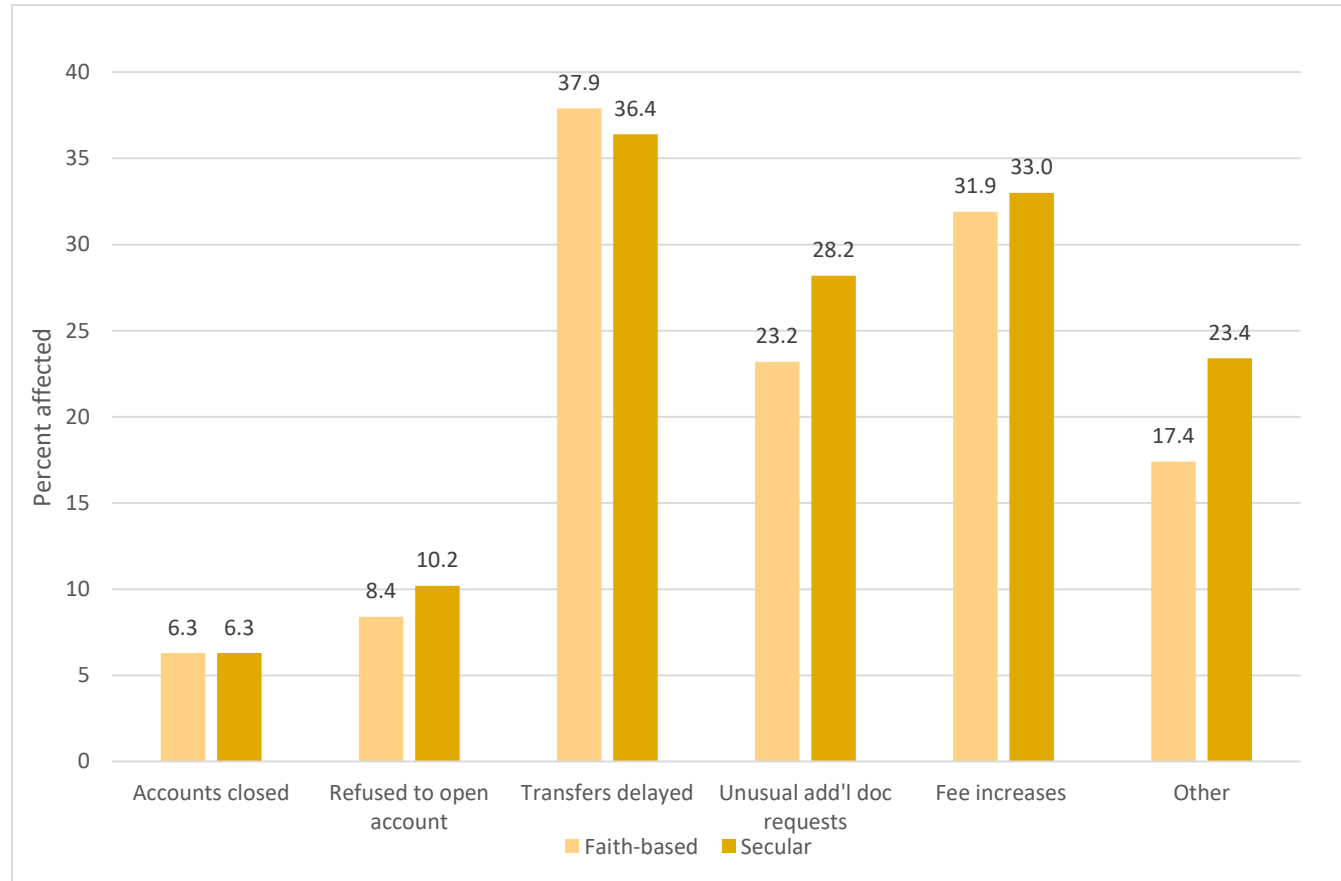


# U.S. Government Funding by Problem Type\*



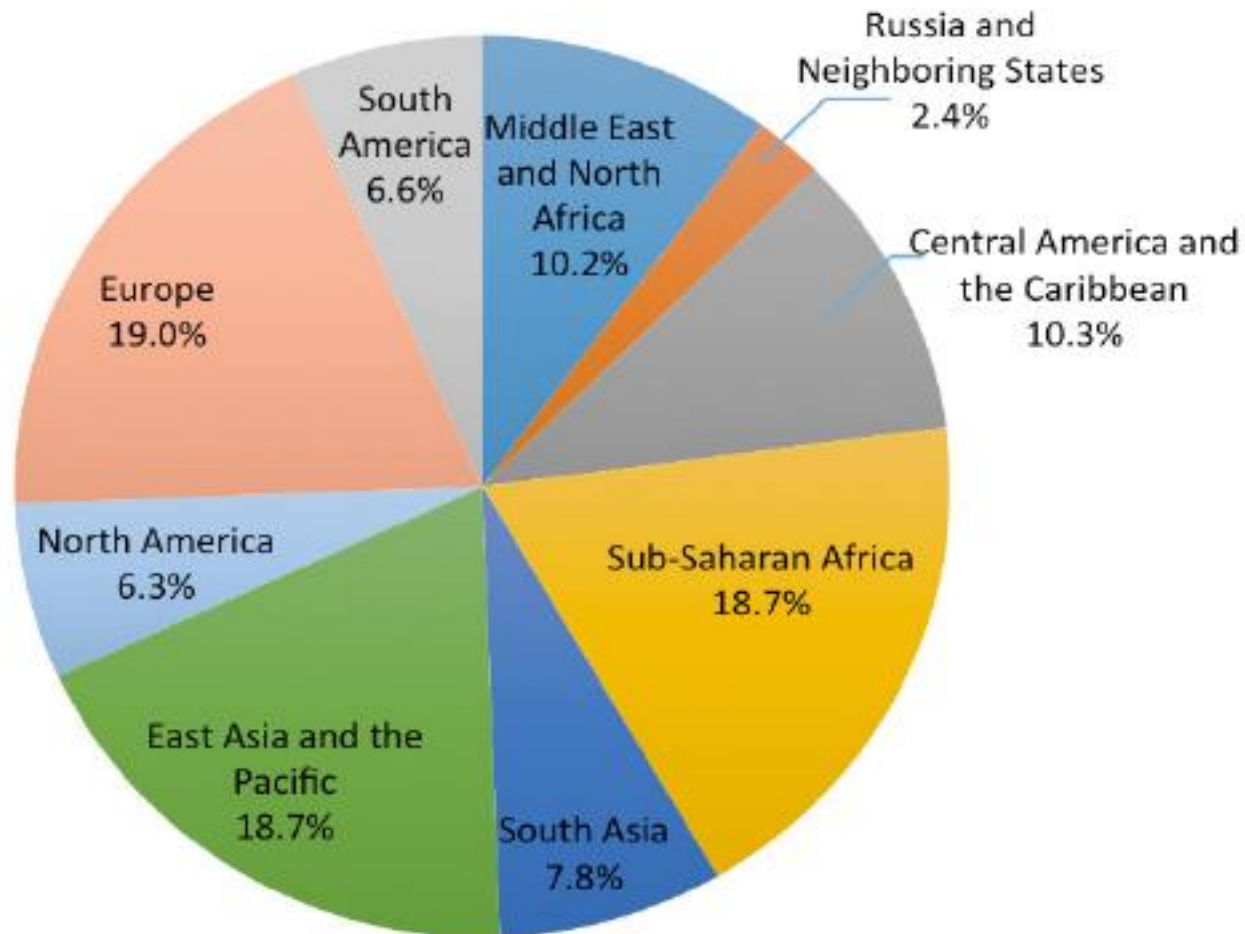
\*Percentages do not total 100% because survey respondents were allowed to give more than one response.

# Faith-based or Secular by Problem Type\*



\*Percentages do not total 100% because survey respondents were allowed to give more than one response.

# Destinations of Delayed Wire Transfers



# Strategies NPOs Use to Address Problems

NPOs utilize a variety of strategies to cope with financial access problems, some of which put the safety of their staff and the integrity of the financial system at risk. Of significant concern is the data indicating that 42% of NPOs resort to carrying or sending cash when traditional banking channels become unavailable.

## *Strategies Used to Address Problems\**

| Strategies                                    | Percent of NPOs Utilizing |
|---|---------------------------|
| Carry cash                                    | 41.7                      |
| Cancel the program                            | 3.4                       |
| Find another financial institution            | 36.5                      |
| Use money remitter (Western Union or similar) | 29.4                      |
| Performed a transaction successfully later    | 67.2                      |
| Other   | 24.9                      |

\*Percentages do not total 100% because survey respondents were allowed to give more than one response.

# Solutions must meet some basic criteria:

- Address the drivers of narrowing financial access for NPOs
- Adapt to all sizes of NPOs and FIs
- Improve the implementation of the risk-based approach to AML/CFT programs
- Avoid anything that would make compliance unduly complex and burdensome

# Launch a Solutions-Oriented Multi-Stakeholder Dialogue

World Bank and Association of Certified Anti-Money Laundering Specialists convening discussions and workstreams.



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# Update the Bank Examination Manual and Bank Examiner Training

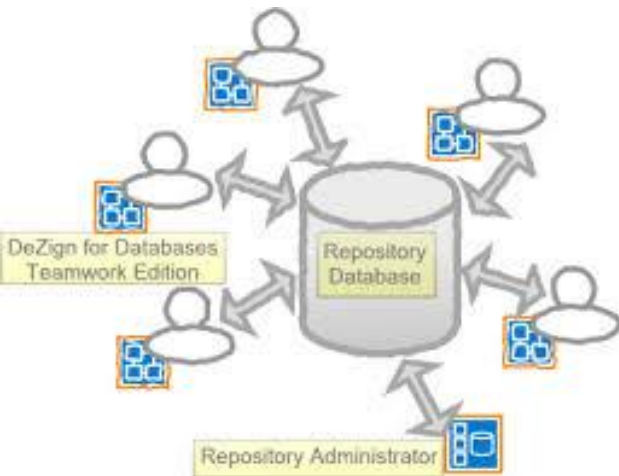
Current manual based on old FATF Recommendation 8 presumption that nonprofits are by definition high-risk customers.

FATF standard changed in June 2016.

Manual should be changed and examiners trained in new, risk-based standard.



# Create an NPO Repository/Utility to Streamline FI Customer Due Diligence



Centralize basic information for each bank involved in an international transfer

Precedent in the U.S. nonprofit sector-  
Grantmakers' due diligence on foreign charity grantees





# Create a Special Banking Channel for Humanitarian Crises

When the international finance system is unable to meet the needs of NPO customers responding to humanitarian crises:

A public entity such as government agency, regional development bank or the UN to move emergency funds



# More Recommendations

- Institute Safe Harbor Protections
- Improve Implementation of the Risk-based Approach:
  - Counter perception of NPOs as “particularly vulnerable”
  - Develop clear guidance and standards/reduce uncertainty
  - Promote transparency, information sharing and proportionality
  - Create incentives for appropriate risk management
- Explore Alternatives to the Formal Banking System
- Additional Research



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# Stakeholder Dialogue on De-risking

Supporting Financial Access for  
Humanitarian Organizations  
and Charities

# World Bank/ACAMS Workstreams

## 1) Facilitate Information Exchange

- Develop more and better information to assist FIs in on-boarding and managing NPO accounts, and to assist NPOs in understanding FIs expectations
- Standardize lists of information banks require when establishing a business relationship with NPOs or transmitting funds abroad; develop information on categories of NPOs, their SOPs and risk management practices;

# World Bank/ACAMS Workstreams

## 2) Create an NPO Utility

Develop a repository/utility of relevant information on NPOs (similar to KYC utilities & modeled on NGO Source, a database for grant-making organizations). An NPO repository would provide banks with comprehensive information on registered NPOs (with fee-based access) to reduce redundancy of information requests.

# World Bank/ACAMS Workstreams

## 3) Clarify Regulatory Requirements & Risk Guidance

- Promote risk-based approach to regulation and on-site supervision by regulatory authorities;
- Amend regulatory guidance (FFIEC AML Examiners Manual) to reflect FATF Rec 8 revisions; re-train bank examiners
- Educate/raise awareness among regulatory/supervisory authorities regarding NPOs' operations, transfers, and use of funds;
- Develop proposals for approved financial channels to areas affected by terrorist activities, humanitarian crises, or subject to sanctions

# World Bank/ACAMS Workstreams

## 4) Enhance Communications and Outreach

Develop online resources and other communication vehicles to provide more information on NPOs to facilitate greater financial access by banks, and help to inform regulatory and policy officials

# Nonprofits can participate in these efforts

Participate in the World Bank workstreams and our Financial Access Working Group –

- Send a message to [ahall@charityandsecurity.org](mailto:ahall@charityandsecurity.org)

Join the Charity & Security Network

- Sign up online at [www.charityandsecurity.org](http://www.charityandsecurity.org)

Spread the word about this research and the recommendations

Visit [www.charityandsecurity.org](http://www.charityandsecurity.org) for info and updates