

# Rural community organisations: access to and use of banking services

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### Executive summary

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As the Covid pandemic has lifted, an increasing number of small rural charities have experienced **difficulties with their banking arrangements**. 1,200 charities responded to an online survey in May 2022 that asked about their recent banking experience.

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Of these 67% reported significant delays and difficulties with changing signatories and 41% considered they had become subject to unreasonable charges. **48% of those who responded were from rural areas** and many of these linked their difficulties with the closure of bank branches or difficulties converting to online banking (17% of the population live in rural areas).

Small charities need access to bank accounts in order to be able to provide their services legally, in keeping with their own rules, and those set down by charity law. **Their requirements differ from personal or business accounts due to their need for:**

- ◆ dual authorisation for payments,
- ◆ continued use of cheques and cash over a longer transition period,
- ◆ relatively small turnover compared to recently introduced bank charges,
- ◆ volunteer operation of organisation accounts,
- ◆ charity constitution requirements for mandates and signatories,

Small charities' trustees have to rely on banks' personnel and systems to understand their different requirements. Respondents voiced concerns that this expertise was no longer commonplace in many banks.

Multiple competitive factors in the banking industry are driving banking online and new operational requirements, designed to prevent fraud and implement Open Banking, are adding to the complexity of account operation. Taken together these make the operation of bank accounts for small charities increasingly difficult.

In rural areas these difficulties are multiplied by the disappearance of all but the largest bank branches. **There is a real emerging danger that charity trustees may not be able to securely manage the charitable funds for which they are responsible.**

Working with a wide range of other national charities through the Civil Society Group, **ACRE is calling for urgent discussions between the banking industry, government departments, the various financial service regulators and the Charity Commission** to find both short and long term solutions to a growing and urgent problem.

### Introduction

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Banking is a fundamental requirement for the voluntary sector. Charities and other voluntary organisations must have access to banking services in order to appropriately manage their finances, which in turn allow them to provide vital services to their communities. However, over the past few years an ever-increasing number of charities have had difficulty operating existing accounts or opening new ones that meet their requirements. This is especially true in rural areas where the major banks' business model no longer revolves around an extensive network of local branches.

This briefing arises from the combined initiative of several national, voluntary sector, infrastructure organisations that have been concerned to quantify the problem and find possible solutions.

### Background and context

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During the 2020/21 Covid pandemic many voluntary and community organisations, including those in rural areas, had to find ways of carrying on their activities, where possible, with minimal access to routine banking services. At the same time, other forms of voluntary activity sprang up on a wholly mutual and informal basis that, at least in the first instance, could operate without formal banking. Many organisations simply avoided carrying out some regular banking activities, such as banking cash receipts or making routine changes to their mandate arrangements. Others found themselves unable to do so during periods of lockdown, even if ideally they should have done.

As the sector emerged from the pandemic in late 2021, reports started to reach ACRE from its thirty eight county members of significant difficulties over banking being experienced by local organisations. Similar reports were received by other national voluntary sector infrastructure organisations including NCVO, the Charity Finance Group, the Wales Council for Voluntary Action and the National Association of Voluntary and Community Action (NAVCA). The Civil Society Group, a loose coalition of these and other organisations, started to aggregate together the issues that were emerging. In April and May 2022 NCVO organised an online survey of the sector to quantify the scope and scale of the problem.

Over 1,200 organisations completed the online survey, substantially more than was expected by the organisers. The survey had given voice to a cry of distress from local charities. The messages fell into five broad categories:

- ◆ Services that charities need are increasingly unavailable
- ◆ Services that are available are not suited to the way that charities operate
- ◆ Bureaucracy is a major burden for charities and volunteers
- ◆ Charities often encounter poor customer service
- ◆ Online banking is not designed for, or accessible to, many charities

[Full Report](#)

# ACRE rural research briefing

## Rural community organisations: access to and use of banking services

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Whilst ACRE's concern is focused on the impact of changes in banking services to rural community life, it has become clear through this coalition that many of the problems experienced by rural community organisations are similar to those affecting urban based ones.

This briefing draws on the combined survey and seeks to identify the particular issues where a rural location appears to exacerbate the problems being experienced by many voluntary and community organisations. For ease, we have used the word 'charity' to describe all respondents.

## What impact are banking changes having on rural charities and community organisations?

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### 1. Overall issues affect both urban and rural charities, but charities based in rural areas seem to be experiencing particular difficulties

Those who self-select to respond to an online survey are likely to do so because there is a motivating issue. 17% of the population live in rural areas, but 48% of the respondents to the survey were from rural locations. This seems to demonstrate how important an issue it is in rural areas.

Rurality has a significant part to play in this level of response, but the preponderance of small organisations and those entirely run by volunteers may also be a contributory factor. These people may have less time and scope to access a bank branch for help, especially if more local ones have been closed.

Whatever solutions are found must be applicable to rural areas, as this is where the pain is being most keenly felt.

### 2. Services needed by small rural charities have become increasingly unavailable or inaccessible.

There is little distinction between urban and rural in the overall survey when it comes to the way in which banking services have become unavailable or inaccessible. However, the description of problems raised by respondents make it clear that there is a serious rural dimension that exacerbates the issues and makes it harder to find solutions. This arises from:

- ◆ Long travel times to branches as many, more local, branches have closed exacerbating all other banking difficulties.
- ◆ Charity accounts are usually dealt with as 'business'. Services for these accounts are not always available, or have been consolidated into an even more geographically distant main branch.

- ◆ Cash and cheques can no longer be paid in at more local branches, if at all. Some, but not all, can be operated through more local Post Offices – giving rise to further concerns about the future of this network.
- ◆ Occasional and complex issues (eg. changing bank mandates) are not in the competence of local branches (if available) and do not appear to be 'programmed-in' to the scripts of centralised call centres.
- ◆ Opening new bank accounts without recourse to a local branch has become complex and very time consuming – if it is permitted at all.

### 3. Few Banks operate accounts that are designed for small charities, including online accounts

Again, there is little distinction between the needs of urban and rural small charities when it comes to the most important requirements that small charities have for their banking arrangements.

The overwhelming impression is that many banks force small charities into an account 'mould' that has been designed for businesses that have a much larger turnover. As many rural community organisations have a very small turnover, the resulting charging regime can appear punitive on these accounts.

However, beyond charging regimes the most frequent complaint is that introduction of anti-money laundering and anti-fraud procedures have made it very hard to open bank accounts or change signatories. In many cases rurality adds an additional burden to these requirements, or even a threat to the governance of the organisation. This is because:

- ◆ Most charity constitutions require dual authorisation for payments. Few online accounts offer this, making operation very difficult in rural areas where signatories do not live near each other.
- ◆ Those banks that have tried to retain types of accounts that are suitable for the needs of small charities tend to be the smaller and emerging banks that have fewer branches and these tend to be located mainly in urban areas.
- ◆ The only option can be to try to move to online banking. In some rural areas adequate internet access plus a good mobile phone signal combined with two stage payment authorisations can present almost insuperable barriers.
- ◆ Combining online banking with day-to-day charity operations that involve cash and/or cheque payments are impossible or excessively time consuming.

Taken together, and whilst few respondents wanted to be explicit about this, we are concerned that the lack of bank accounts suitable to the needs of small charities may be leading some groups to operate in ways that might fall foul of their own rules or Charity Commission.

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### 4. Charities encounter unnecessary bureaucracy and poor customer service

It is hard to avoid the overall impression that small charities, both urban and rural, have had an experience with banks that, in any other walk of life, would be evidence of poor customer service to the point of complete indifference.

67% of all respondents to the survey had experienced problems changing signatories, including excessive delays, and these seem to be in proportion across urban and rural. However, those who could only access their bank by phone or post due to a branch being inaccessible, encountered even more problems:

- ◆ Inconsistent responses to the same questions or processes when having to phone back on repeated occasions.
- ◆ Staff in call centres, or the scripts they are provided with, not being prepared for the operation of charity accounts.
- ◆ Case management being wholly absent and mistakes being made that result in major governance problems for charities, some being unable to access or control their charitable funds for long periods.
- ◆ Information about trustees and the requirements of charity constitutions being lost, misunderstood or misused when provided by the charity.

The problem as perceived by respondents was poor customer service. These were the terms used spontaneously in free text comments by many respondents.

Some commented that their bank simply no longer seemed to want their business and they assumed that this was because little profit could be generated from it. Others were more generous and reflected that banks seem to have lost all organisational memory about how to run charity accounts. However, it might be more accurate to see this lack of customer service as a 'presenting symptom' of the problem rather than the problem itself.

Banks may see charity banking requirements as fitting neither the template of a 'personal account' nor of a 'business account', and therefore do not have a 'pathway' that is programmed into their business model for operating these 'unusual' accounts. There may be a connection with the Open Banking initiative that requires all banks to have consistently operated back-office systems to remove friction in the free movement of bank accounts between banking providers.

The reasons for the problems that are being experienced are returned to later, along with some approaches to solutions. When it comes to poor service and bureaucracy, it seems worth reflecting that no business wants to be seen in this way. Therefore the reasons may be structural, and will need to be very well understood before solutions can be found.

### What conclusions can we draw?

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It is often the case that rural areas experience the downside of economic/consumer trends before urban areas due to their smaller populations and reduced incentive for the market to offer choice. They can also be slower to receive the benefits of change for the same reason. Rural areas have recent experience of this in the commercially led roll-out of both broadband and mobile phone networks; in both cases Government has had to intervene. Historically, the same has been true of electricity supply and the gas network.

The pandemic has accelerated a movement away from cash and provided a substantial push to convert more of the population to cashless transactions and online banking. Within the banking industry trading conditions have meant that all banks are seeking to reduce operating costs, increase the profits generated by their operations and streamline both their central and branch functions. These are developments that would have happened anyway, but, because of the pandemic, they are now happening at an accelerated pace. Certainly, at a pace that is daunting for the trustees of small, rural charities.

It is only by chance that this pressure from within the industry has coincided with the Government and the Financial Conduct Authority strengthening regulation designed to tackle fraud and money laundering. At the same time the Competition and Markets Authority has sought to ease the market friction that limits people's willingness to change banks or link them to other financial services. The last of these, of course, adding to the need for efficiency within bank operations.

It would not be an exaggeration to reflect that a perfect storm has been brewing for a year or so, and it is only the ending of the pandemic that has revealed its true extent.

Small organisations that must have secure access to a bank account are the unintended victims of that storm. Their characteristics and requirements do not fit well with the business 'drivers' of today's banking industry, as they:

- ◆ operate accounts that are neither obviously business nor personal,
- ◆ retain relatively small amounts of money in these accounts, and so cannot justify commercial charging rates,
- ◆ have complex requirements over authorisation of transactions and constitutional requirements that are not easily factored into efficient call centre operations,
- ◆ will continue, for a few more years, to operate through cash and cheques,
- ◆ are run by volunteers that share responsibilities between several people,
- ◆ are not 'professionalised' in a way that will enable them easily to convert to online banking, and,



- ◆ many operate in rural areas where the support of a branch network has disappeared and any challenger bank that may be interested in this market will not be present.

An unattractive segment of the market that has a legal and regulatory requirement for banking services, has been created, but with no obvious commercial incentive for any, let alone all, banks to service it.

No single bank will want to take these customers on as part of a 'social responsibility' USP, as this would place them at a competitive disadvantage to other banks who choose not to. Market theory might suggest a 'challenger bank' could take this on, but this would fail to overcome the access problems of a limited branch network for those charities that will still need this for some years yet to come.

The problem is substantial. The solution, however, will need the active engagement of the UK banks, government, voluntary and community sector infrastructure organisations and the Charity Commission.

## What needs to happen now?

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There does not appear to be an obvious or easy solution that will meet the requirements of all small charities. This is especially true for those operating in rural communities that now find themselves a long way from a bank branch, have limited internet access or find it hard to adapt to fully online banking.

However, in order to operate in a legal way, small charities must have access to banking services. We ask that key government and industry organisations come together, working with members of the Civil Society group, to explore ways in which the banking industry can supply small charities with the services they need to operate in a safe and legal way. Together we can also support those charities to adapt to changes in the banking system.

Discussions need to include:

- ◆ UK Finance, on behalf of the banking industry
- ◆ The Charity Commission, as the regulator of the charity sector
- ◆ HM Treasury and Dept. for Digital, Culture, Media and Sport, as the relevant government departments
- ◆ The Financial Conduct Authority, due to the impact of anti-fraud regulation
- ◆ The Competition and Markets Authority, due to the impact of Open Banking on services to charities

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## Action with Communities in Rural England

ACRE is the national voice for the 38 ACRE Network members who make up the country's largest rural network. Together we reach 25,000 grassroots organisations in 11,000 rural communities.

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Briefing No 1 from the full survey is hosted by NAVCA [here](#):