# A BANK SEARCHING FOR ITS SOCIAL FIBRE : NATWEST GROUP

By Peter Hughes & Andrew Robinson (Nat West Bank)

Picture a derelict factory in the centre of Birmingham. Which social bank do you think provided the loan finance which helped create workspace for a vibrant community of people working in the arts and creative industries?

Picture a loans scheme to help low-income individuals carry out energy saving improvements to their homes. Which community finance organisation do you think partnered the local authority to establish the scheme?

Picture Working Support, a charity in the East End of London which set up two new community businesses - a café and a gardening company to help unemployed people with learning difficulties into jobs. Which charitable foundation do you think awarded the grant to Working Support?

Picture an independent petrol station in rural Cumbria. Which mainstream commercial bank provided the finance to help the station continue trading?

The answers are that it is NatWest which is behind the social bank, the community finance organisation and the charitable foundation projects. The final example was funded by a social bank.

These anecdotal examples demonstrate that mainstream loan finance providers can be innovative and exciting and operate on a commercial basis. Nevertheless, these are just stories, experience is mixed and there is a challenge for mainstream banks to capture the ideas that work and how to go about systematically replicating them.

**About NatWest Group**

Today NatWest Group is an international portfolio of businesses providing a broad spectrum of financial services to customers ranging from individuals and small businesses to multi-national companies.

It was formed in 1968 when the National Provincial Bank, along with its subsidiary District Bank and the Westminster Bank, agreed to merge. NatWest can trace its roots back to the seventeenth century through the amalgamation of nearly 200 private and joint stock banks.

NatWest Group is one of the largest and best capitalised banking groups in the world. It has total assets of around £185 billion, operates in 33 countries, and employs approximately 70,000 staff. Loans and advances to customers as at 31 December 1998 total just under £79 billion.

The Group's objective is to have a major and profitable presence in each of its chosen markets and many of its businesses are recognised as market leaders with well established corporate brands (including NatWest, Coutts, Lombard, Gartmore and Ulster Bank). Our principal business activities under the NatWest brand are retail and corporate banking, card services, mortgage operations, life and investment services and general insurance. It has over 1725 branches, one of the largest ATM networks and serves around 7.5 million personal and business customers. Lombard provides asset finance to commercial customers and is an established brand in personal loan finance. The Coutts Group is a premier name in private banking, both in the UK and internationally. Ulster Bank, with a strong market position in both Northern Ireland and the Republic, provides a full range of retail, commercial and investment banking.

**Development of Corporate Citizenship**

NatWest along with the other clearing banks was an early leader in Corporate Community Involvement. Its established a distinct community relations function at Group level in the late 1970s and was a strong proponent of the first philanthropic wave of corporate responsibility.

The philanthropic characteristics of the community relations programme remained unchanged until the early 1990s. The programme was centrally managed, diverse (over 300 sponsorship relationships and 1500 donation clients at Head office level alone) with priorities largely set either by the function management or the Group Executive team. Criteria for support were largely reactive, based on the applicants received and a perceived requirement to balance conflicting demands on the resources available. There were pockets of excellence within the programme, including the Mini Enterprise in Schools Project (MESP) which was an early example of collaboration between Government(DTI) and the private sector in an area of crucial interest to both parties and also the Inner City task force, a £3million initiative run with Business in the Community which lay the foundations of its work in economic regeneration today. Success was measured by the size of the spend and the responsiveness of the programme to perceived community funding requirements. Indeed, the exclusion of business interest as a criteria in decision making was encouraged.

This wave, ended in the early 1990s. The twin catalysts were heightened competitive pressures and that profits had reached a cyclical low. At one stage, the declared community relations spend calculated using the Per Cent Club guidelines in the UK accounted for 10% of Pre-tax profits and placed NatWest, first amongst corporate contributors in the UK.

Although, the commitment to the overall scale of spend remained undiminished, economic realities spelled the need to fundamentally review its nature.

The strategy was to be pro-active, to focus spend on areas linked to the business, and ultimately to seek integration of community relations into normal commercial practice. What was also clear was that expectations were a long way from the desired goal. Externally, NatWest was seen as the "biggest giver" and internal expectations did not link community and investment as bedfellows. Given the strategy, you would not start from the position which was the NatWest historical legacy.

The task was tackled in two phases. First, "financial effectiveness and enterprise" was agreed by P&SPC as the theme to be applied across the programme. Although, a genuine attempt was made to link existing commitments to the over-arching theme, in retrospect, the power of the theme was in significantly managing down the number of relationships, without a reputational backlash.

Second, a range of new programmes were put in place which matched the aspirational strategy. Early developments included the financial literacy programme, independent money advice and the establishment of a Charitable Trust to bring focus and accountability into donation giving.

Delivering value, required a commitment to measurement. Change triggered a series of research initiatives. Most notably, a benchmarking study carried out on behalf of NatWest by David Logan. This later evolved into the London Benchmarking Group and has recently further widened its membership.

**Current Corporate Citizenship Policy**

Albeit refined and developed in the light of experience, the corporate community investment strategy has remained largely unchanged from the original aspirations of the early 1990s.

What has emerged is subsidiarity of community budgets to businesses coupled with an interaction between the businesses and the corporate centre over policy.

Current corporate citizenship focus areas of activity are financial literacy, developing communities and helping staff give time and money.

Broadly, external drivers for NatWest are two-fold. First, the competitive climate has intensified with new entrants such as then Supermarkets, the insurers, Marks & Spencer and Virgin establishing in the banking services part of the marketplace.

At the same time, the new Government in the UK does represent changed priorities and ways of thinking which represent both threats and opportunities to traditional banks. Just some of the key policy initiatives of relevance to the Banks (and others) are as follows:

- Social Exclusion. Access to financial services is on the agenda.
- Community regeneration - the role of finance in building wealth
- Shareholder value - Social responsibility and economic efficiency
- Cost savings - Electronic solutions to managing Government

Social exclusion, for example, represents both a threat and direct and indirect business opportunities. For NatWest, experience of Bancorp demonstrated the case for involvement. To the industry, the US Community Reinvestment Act represented a costly and bureaucratic burden, reducing flexibility to act. However, NatWest Bancorp regularly scored at the highest levels for its CRA rating and used this as a reputational tool to gain competitive advantage. As the debate moves to the UK, there is a need to engage to ensure that the outcomes of policy change are beneficial to all parties and are based on firm knowledge of the problem.

**Case Study**
**Community Enterprise as a Business opportunity**

This represents a good example of how the dynamics between a community investment team and a business unit can influence social outcomes and demonstrates how relationships have changed.

Through its community contacts and sponsorship relationships in the UK such as Charities Aid Foundation (Dimensions of the Voluntary Sector) and the National Council of Voluntary Organisations, the Community Relations team were aware that the voluntary sector was large and growing. At 4% of Gross Domestic Product, the Voluntary Sector was already larger than both Agriculture and Automotive, both with established centres of expertise within NatWest, but there was no equivalent for it.

Why? Two factors seemed to be at play. First, management information systems are constructed around nature of business, not legal form. Voluntary sector organisations did not represent a significant sample. Second, the voluntary sector has traditionally been grant-funded which has reinforced a risk averse approach to loan finance. From a business perspective, experience in the last session showed that the voluntary sector was anti-cyclical in income terms.

Links with NatWest Bancorp had already alerted Community Relations both to the different legislative structure in the US and the existence of intermediary loan finance providers, the Community Development Finance Initiative (CDFI). The concept of a CDFI did not yet exist in a sustainable way in the UK, but there was clearly community sector interest from organisations such as Birmingham Settlement and CAF in testing the idea.

Hence, there were two imperatives to action. First, the public policy imperative. Gordon Brown spoke at a Birmingham Conference to community activists back in 1995 and expressed interest in the US Community Reinvestment Act. Our knowledge, through NatWest Bancorp provided an insight into how such programmes worked and the importance of intermediaries as a distribution channel. Second, there seemed to be a prima facie case for developing a strategy in this field, but there was limited capacity to test the propositions using internal data.

How to bridge the impasse? Answer, a series on investments in community projects. Business in the Community approached NatWest as a funder for the Local Investment Fund. Through creating a £3 million loan pool, LIF would test the proposition that there were bankable deals for community organisations which were falling through the mainstream bankers net. Community Relations funded, provided that the business put an Executive on the LIF Council and seconded a member of staff to run the fund.

This is what happened. Knowledge of LIF, engagement with community enterprise and the choice of Andrew Robinson with a skills mix bridging the community and banking, all helped build the business case. Andrew has now returned to Small Business Services and has been given the remit of building a portfolio of projects across the Community Enterprise spectrum. The first of these is an innovative savings product for the mainstream market in the UK. As part of the subsidiarity principle, SBS now has responsibility for the key relationships with CAF and NCVO to integrate the learnings directly into strategy.

**What has happened ?**

Broadly speaking, there are two drivers for a mainstream bank to seek to discover its social fabric. The first is that can be good for business. The second is that there is a growing expectation that all companies will become increasingly open and accountable for their actions.

**The business case**

An indicative, but not fully proven business case for lending to the voluntary sector exists. NatWest is the market leader in lending to the voluntary sector in the UK and knows that this leadership is worth around £50m in income to the retail part of the bank. However, the vast majority of this income is based on the supply of non-lending products. Lending does take place but this is not the norm. The reasons for this are complex. Tradition, caution by boards of Trustees or the Executive, concerns over the capacity of the organisation to sustain borrowing and lack of an asset base all may play a part.

As the case studies at the start demonstrate, there are examples of good practice, but these are patchy. A challenge for NatWest is how to build and learn from local experience. There is a self-fulfilling prophecy that if a deal is done on a commercial basis, by definition it will cease to be perceived as innovative. However, banking is a judgement business and the interpretation of what is commercial does vary depending on the individuals concerned.

The strategy to address this for the social economy is two-fold. First a centre of excellence has been set up within the small business services arm of the retail business.

Paradoxically, the first product to emerge from the team is a savings product for the personal market! This is a Trojan horse to use the market to capture the understanding on the near-commercial deals. The product offers customers capital protection coupled with the opportunity to forego interest. This interest is then used to capitalise 11 charitable loan funds, based on the 9 Regional Development Agencies in England plus Scotland & Wales. The board will comprise community figures and NatWest bankers. Together, they will make decisions on viable projects which would not get commercial loan finance at affordable rates. NatWest is also investing a proportion of its social responsibility budgets into the funds.

**The social responsibility case**

In management terms, there has been a recognition that strategy needs to be more sophisticated to respond to changing demands on corporate responsibility. Divisions between environmental, social and economic performance are blurring. Legitimate demands for reporting and accountability are moving out of the environmental arena and moving into the social impact of business. This phenomenon embraces both core business and traditional corporate responsibility activity.

Management of this phenomenon at Group level is being handled by integrating the previously separate functions of Community Relations and Investment, Environmental Management, Government Relations and Issue Management within a single Public Affairs Unit. This change will become fully effective by the beginning of June. Resources are being re-aligned around the three functions of issue management, stakeholder relationships and reporting/communication.

A driver for the need to integrate is the requirement to be break down silos. Centres of excellence have been established, for example, our leading position within financial services on environmental responsibility. We are building on this legacy by producing a social impact review to combine environmental, community reporting and the wider impact of business on society. Stakeholder reaction to this publication will be used to plan future action.

**Conclusion**

Mainstream commercial finance is part of a spectrum of the ways in which individuals, charities and businesses fund what they do. From grant to commercial loan, from own resources to borrowed, finance is the lifeblood of activity. The responsibility of a bank is to find ways in which it can satisfy commercial and viable business opportunities. At the margins, incentives from Government or other charitable funders may change the economics of provision. However, through the Community Bond and through partnerships with other players in the market, we believe that there is a need to demonstrate a practical rather than a theoretical case before we seek this type of support.