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NONPROFITS

What can luxury institutions, nonprofits learn in light of FTX fallout?

January 3, 2023

A looming recession sits atop a list of lingering threats to philanthropic impact, as identified by experts. Image credit: Altrata

By AMIRAH KEATON

This year, the looming global recession and corporate giving scandals are among the factors posing a threat to charitable spending and philanthropic impact while most rarely wish to begin the year with challenging outlooks, one could argue that awareness is key in the fight for funds.

What's more and for a number of reasons, among them, an enhanced level of rigor will be required of those engaged in the age-old practice of raising funds, with added pressure to thoroughly vet donor prospects. In a set of new reports, experts offer trusted tips that could prove useful to nonprofits and higher education institutions benefiting luxury talent, as these organizations prepare to face a new philanthropic reality moving forward.

"We saw a rise in [due diligence] requests related to COVID-19 relief efforts, particularly among nonprofits," said Tom Hill, head of enhanced due diligence at data intelligence firm Altrata, in a statement.

"Nonprofits operating in this space wanted to be sure that they were conducting their donor diligence before accepting major gifts."

Altruistic affairs

Last year's headlines went out with a bit of a bang, as news of cryptocurrency fund founder Sam Bankman-Fried's Bahamian arrest made waves.

Allegations of what could turn out to be one of the largest cases of fraud in American history mare FTX's previous philanthropic pursuits the now-defunct firm faces accusations of using million-dollar donations to strategically position a positive brand image, its CEO frequently espousing the importance of his own altruistic approach.

As unfortunate as the affairs alleged may be, the incident is absolutely undeniable in its far-reaching impact.

Arguably of importance across industries but especially to those in the luxury sector that rely on disparate fundraising rounds, from The Met's Anna Wintour Costume Center to the academically-inclined attending fashion institutes worldwide, what remains in the aftermath of FTX's fallout aside from insights to come as litigation unfolds is an aptly-timed set of ethical demands for charitable giving.

The aforementioned incident, plus a host of other changes should be considered when analyzing the charitable giving landscape of 2023.

An annual luxury event, Met Gala fundraising is crucial as, contrary to popular belief, the Costume Institute does not receive any operational funding from its host museum. It is the Met's sole self-funded curatorial department. Image credit: Jeff Kravitz/FilmMagic via Getty Images

Before delving into implications and solutions, one shift rises to the top. Future economic uncertainty poses a major threat to annual budgets everywhere.

The first half of 2022 saw the net worth of the world's ultrawealthy population decline by 6 percent, reaching its lowest level since 2018. Analysis from data intelligence firm Altrata (see story) accounted for those around the world with more than $30 million in the bank.

In fact, the firm's World Ultra Wealth Report 2022 offers a rundown of many ultra-high-net-worth individuals (UHNWI) preferences, of aid to those pursuing ongoing charitable commitments from the group, though this finding in and of itself means that there are now fewer resources to go around.

Image credit: Altrata/Wealth-X

As interested parties gain an understanding of UHNWIs' values and fiscal concerns, these individuals must understand the degree to which the pressure is on for luxury industry nonprofits and higher education institutions to exercise due diligence when accepting large gifts and major contributions.

Luckily, Altrata's latest report offers a comprehensive guide to responsible donor prospect research.

Next steps

Those heading fundraising across luxury are now charged with the task of capturing critical donor prospect insights. Experts share that tracking down these traditionally out-of-scope details can prove to be quite a tedious process.

"COVID-19 moved the needle to more sophistication, especially in the early stages of the process," Mr. Garcia said, for the report.

His firm argues that efficiency and sophistication need not be mutually exclusive when equipped with the right

resources, per Altrata and subsidiary Wealth-X's latest release. Due Diligence and Risk Mitigation in Donor Prospect Research outlines the purpose of the exercise before offering a data-driven perspective on how to achieve said goal.

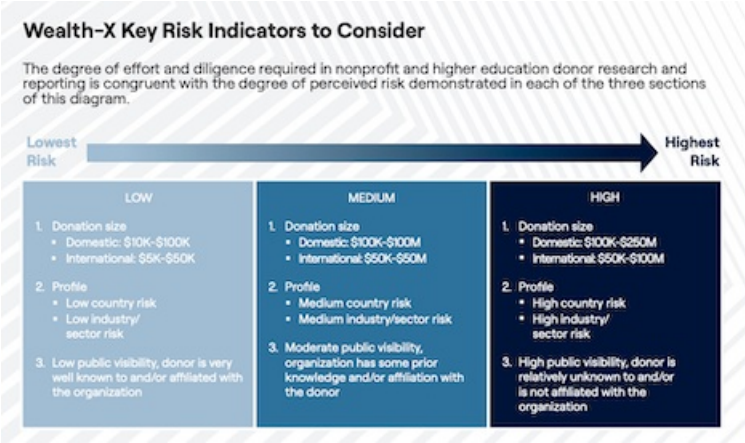

Image credit:Altrata/Wealth-X

Altrata counts the incorporation of anti-money laundering elements and anti-bribery and corruption checks for regulatory readiness, standardized, well-circulated, objective internal communication regarding findings and an extensive evaluation of a donor prospect's sources of wealth among signs of a healthy due diligence process.

The firm explains why this work matters, becoming increasingly crucial for all recipient organizations.

For one, highly-publicized incidents of donor prospects and potential misbehavior are landing on social media feeds at unprecedented rates, drastically elevating the reputational risks of unknowing engagement.

Next up on the list of reasons why firms should be taking donor due diligence seriously, and as we've seen in light of recent events, donor deception is on the rise.

"We've seen a couple of cases where the potential donor has used a fake profile when contacting the organization about making a donation," Mr. Hill said.

"This is not only alarming... it also represents a money laundering risk if the individual is able to make a donation under a false identity and requests that the donation be returned."

Last but not least, the practice is constantly evolving, comprised of a few moving targets.

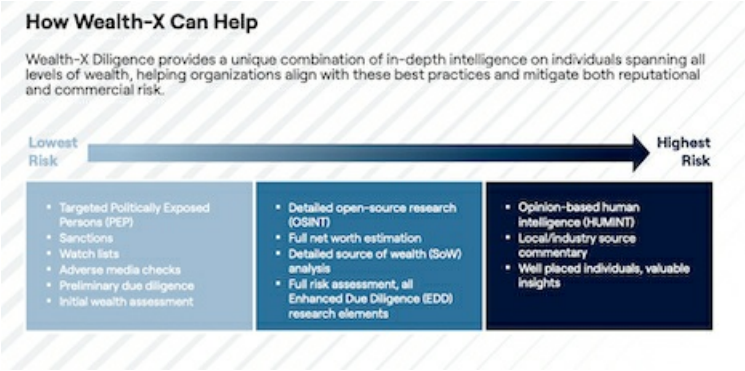

Image credit: Altrata/Wealth-X

Tools such as international sanctions lists and adverse media coverage are updated in real-time, thus requiring rolling checks. Meanwhile, those same organizations must adjust their criteria according to evolving ESG and DEI perspectives and budding social movements.

Enhancing donor vetting stringency begins with a clear definition of these values for each firm. However, experts note that the application of these values, where many firms will see most of the legwork kick in, does not have to be accomplished in a silo. External partnership with a trusted and credentialed third party is put forward by the pair as an effective method of enforcement.

Both contributing staffers' combined 20-plus years of experience working with a diverse roster of nonprofit clients in due diligence and risk mitigation help to inform the document. Readers can access the full report at https://altrata.com/guides.

Altrata's analysis of both charitable trends from UHNWIs in 2022, contextualized with the importance of vetting one's donors in 2023, offers a comprehensive framework from which luxury players can ensure the integrity and long-term security of their organization's resources.

These institutions hold meaningful missions and visions that often require external cash rounds to actualize. The sources of this resourcing will undoubtedly face increased scrutiny in light of the FTX fallout, a case that has indisputably changed the charitable giving game, yielding effects that will undoubtedly be surfacing for years to come.