

What's in a name?



PATRICIA M ANGUS

Head of Wealth Advisory Services

Shelterwood Financial Services

New York, USA

Email: p.angus@shelterwoodfinancial.com

Over the past decade, the private wealth management industry has undergone such fundamental changes that it is difficult to identify commonly accepted definitions of the terms 'private', 'wealth', 'management' and 'industry'

Recent advances in areas such as technology, psychology, finance and law have led to a fundamental transformation in the way that family wealth is understood and managed by families around the world. In turn, the industry has been responding to the changing needs and demands of their client families by rearranging and revamping its approach and delivery of products and services. Some of these changes are cyclical or part of a slow evolutionary process, but as a whole they indicate that we may now be at a watershed moment marking a shift to a whole new way of managing family wealth.

PRIVATE

With the advent of the internet and media obsession with the financial affairs of wealthy families, it is hard to see what is meant by the word 'private' any more. Although families would like to feel a sense of confidentiality about the status of their financial affairs, it is hard to remain private in a world that is so obviously focusing on their family's wealth. It takes no more than a quick spin on the internet to tally up the holdings of any significant family business or large block of individual public stock holdings. The charitable and financial sectors are using this information to target families more aggressively than ever. For families in turbulent political economies, their personal information and security is at risk on a daily basis.

From the industry's standpoint, the wake of the Patriot Act and the overall trend toward transparency is making it harder to keep client information confidential. The industry is also increasingly acknowledging that approaching financial and estate planning

from the perspective of a single individual can no longer be the norm because family wealth is increasingly structured and held jointly. The benefits of working together as a family group are increasingly understood. Estate planning processes and functions are steadily moving from law firms to financial institutions, resulting in the loss of attorney-client privilege. Some individual protections may be lost in the process.

WEALTH

Not long ago, financial services institutions could easily use the traditional definition of wealth as referring to one's financial condition. This helped clients and industry alike determine the services to apply, and how to rate success quantifiably. However, families have long known that this definition was limited. The outpouring of interest in and support for the ideas articulated in *Family Wealth: Keeping it in the Family*, by James E Hughes Jr, first published nine years ago, made it clear that there was pent up but previously unarticulated understanding among families that human, intellectual and social capital define a family's long-term success more than its financial capital. The world's wealthiest families, aided by a small group of thought leaders, began to develop their own ways to handle their overall affairs.

Today, more families understand that their wealth management must begin with the family's values and vision, and then through plans that are implemented and carried out by families themselves across generations. We have reached the 'tipping point' of awareness that family governance is critical

State of the PWM industry

to family success. The industry is beginning to recognise this reality and has begun to expand its response beyond the initial cottage industry of consultants and disparate professionals. A multidisciplinary approach with input from finance, law, psychology, accounting, and more will be needed.

Success as it relates to this new definition of wealth is not so easy to quantify, nor is it clear that the traditional private wealth providers have the skill sets or resources to deliver as needed. Also, it is not clear yet whether there is an appropriate business model that provides the best platform to do so. Increased education for client and industry alike is a must.

MANAGEMENT

One of the greatest challenges for a family is to 'manage' its wealth, which entails everything from using proper legal structures to recording information in a way that is efficient and useful for decision making purposes. Leading families created their own family offices to meet these needs. Today, the needs of all families have expanded dramatically so that most have a complicated set of investment accounts and trusts. All seek consolidated reporting that takes into account legal structures such as trusts and limited partnerships, as well as an expanding array of investment vehicles. With all this complexity, families need the equivalent of a CIO, CFO and CEO.

Institutions across the range of the industry are increasingly heeding the call and working to coordinate reporting and administration for clients. Technology has not yet caught up with the demand and so far has dealt primarily with investment reporting. Even once technology catches up, the most important part will be the nonquantifiable use and deployment of the family's wealth, across all its capitals. The increase in data used and produced in analysing and planning for family wealth can become overwhelming for even the most sophisticated clients. While industry professionals often focus their energy and time on sophisticated 'strategies' for enhancing wealth, many miss the point that clients really need a coherent strategy, education and confidence to take care of their wealth affairs, ultimately, themselves.

INDUSTRY

Of the four terms, 'industry' might be the hardest to define. In reality, the 'industry' is an amalgamation of different disciplines, motivations, business models, professional approaches and fee structures. Under the 'industry', one might include such far ranging groups as full-service multinational financial services institutions, law firms, independent consultants, and private professional practices. Some of these entities charge primarily for products, others are fee-based professional services, with an increasing number somewhere in the middle with mixed fee structures.

There is no single professional path to ensure that qualifications are uniform, nor a single organisation to ensure professional development along the way. Often, professionals start in one discipline but stray across lines when their clients' needs dictate. Trained lawyers now run investment platforms, while investment professionals are increasingly veering into personal counseling and estate planning.

Large institutions are working hard to appear small to their clients – segmenting and dividing into 'family office' or similar groups to give a sense of personal relationships. At the same time, smaller players are responding to demands to appear larger to improve access and efficiency. Competition has grown fierce, especially in businesses aimed at the wealthiest clients. There is also a convergence between products and advice, making them more complicated to deliver and harder to understand by clients. Despite the increased marketing emphasis on 'advisory' relationships that focuses on the human side of the business, there are disturbing signs that clients are being subjected to product push more than ever.

In the end, clients need the same three things they always have needed: guidance, coordination and continuity. How they obtain these, and who delivers what, will continue to change all around them for the foreseeable future. Families who are well informed of their own needs and the alternatives provided by service providers, as well as fees, will be in the best position to drive the process. Industry organisations that are aligned with client interests will prevail and be less likely to need major changes in the future. ■