

Juliet Valdinger

The relationship between high-net worth individuals, their wealth advisors and philanthropy.

This dissertation is confidential as agreed with supervisor.

This dissertation is submitted as part of the requirements for the award of the MSc in Grantmaking, Philanthropy and Social Investment

Supervisor: Peter Grant September 2013

Contents	Page
<i>List of graphs</i>	3
1. Abstract	6
2. Executive summary	6
3. Introduction	9
4. Background	
4.1 Definitions in this report	14
4.2 Growth in wealth	16
4.3 Development of wealth management	16
4.4 Clients' needs and expectations	17
4.5 What is 'advice'	19
4.6 Morals, ethics and Aristotle	20
5. Research methodology	
5.1 Aims of the study	23
5.2 Phenomenology approach	23
5.3 Mixed methods	24
5.3.1 Desk-based research	25
5.3.2 Semi-structured interviews	25
5.3.3 Online survey	27
5.4 Limitations	28
6. Findings	
6.1 Survey highlights	29
6.2 Key findings	31
7. Conclusion	47
8. Discussions and recommendations for further research	49
9. References	64
Appendix 1: The development of philanthropic advisory services in the UK	77
Appendix 2: Semi-structured interviews	78
Appendix 3: Survey questions	79

The relationship between high-net worth individuals,
their wealth advisors and philanthropy.

Executive summary

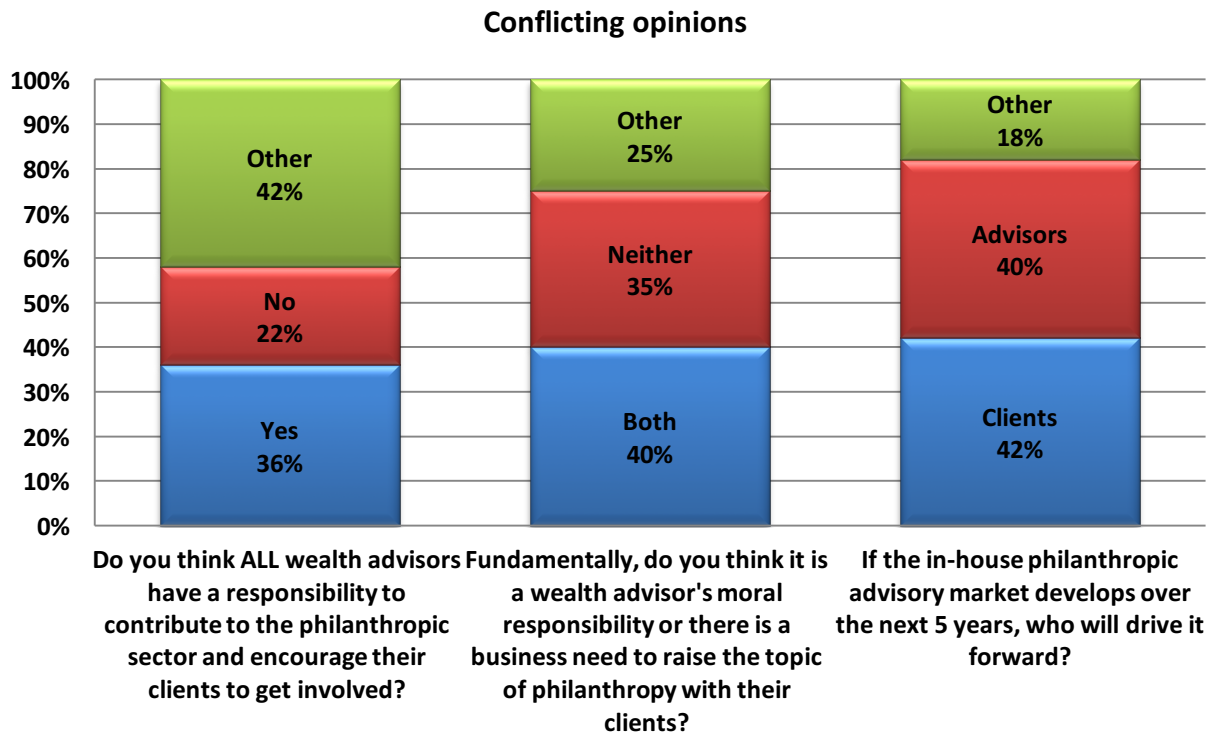
Research published before the financial crash in 2008 showed high-net worth¹ (HNW) clients had developed an interest in discussing their involvement with the philanthropic sector with their in-house wealth advisors. This expectation had been noticed. 'Each day financial advisors, accountants and their lawyers have thousands of interactions with their clients, which makes them potentially significant ambassadors for planned, tax-effective giving' (Giving Campaign 2004). 60% of Europe's trusted advisors believed that philanthropy would be increasingly important over the next five years and would become a core service offered to their clients (Scorpio Partnership et al. 2008) as they were beginning to look for holistic services and not just wealth management.

However, in the past few years, the costs of wealth advisors have grown faster than their income and their need to bolster their client-advisor relationships has become more critical (Capgemini and RBC Wealth Management 2012). This is in addition to dealing with the post-crisis backlash to the financial services industry, rising competition, increasing regulatory scrutiny, heightened market volatility and the emergence of diversity and interests of the HNWIs' population.

A Harvard Business Study suggested that the most important characteristic of America's leading business figures in the last 100 years is '...contextual intelligence. The ability to understand and capitalize on the sweeping trends influencing the marketplace of their time' (Backer 2004). How are the institutions defining 'philanthropy advisory services' and how are their clients to know whose 'advice' is valuable, and who are just playing lip-service to their inquiry? The difference between 'advice' and 'information sharing' is crucial (Couture and Sutherland 2006), yet hard for advisors to identify. An advisor might fill in missing information, help assess the values of alternative options and serve as a sounding board but 'advice' is often linked with more specific proposals. The lack of clients' trust and faith in the competence of their advisors to provide them with effective 'philanthropy' advice has been a noted concern (Backer and Friedland 2008; Johnson 2005; Madden 2009; Wymer et al. 2012). Busy wealth advisors tend to shy away from their clients' need for advice about charitable causes (Sibary 2006) and if the advisors lack the knowledge and self-assurance to 'advise' their clients on philanthropy, they are coming from an ineffective starting point.

¹ High-net worth will refer to individuals with investable assets of at least £1 million (excluding their primary residence) or an annual income of at least £100,000. This calculation has transferred some of the definition from Capgemini and Merrill Lynch 2011 from \$USD to £GBP.

This research was conducted through 18 interviews with advisors, HNWIs and an academic who specialises in philanthropy. A follow-on online survey was distributed to c. 348 international wealth advisors. Advisors in the UK and abroad have mixed views about to what extent it is part of their role to discuss philanthropy with their clients, whether these conversations are their moral responsibility and/or whether it is driven by a business need and also which individuals will drive it forward.



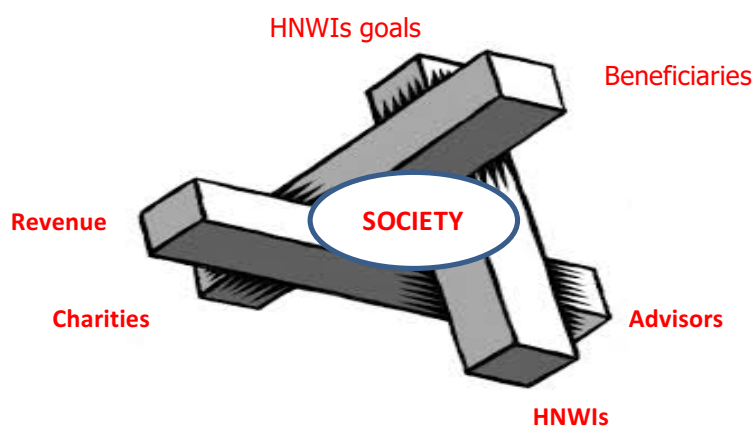
Out of 11 choices, advisors identified the following as their key business incentives for offering this service: it increases client retention (58%), increases the public image of the organisation (52%), helps to compete against those organisations who do not offer it (44%) and it increases client referrals (42%). Out of 10 choices, the main barriers they feel this service is facing: advisors lack knowledge about the different facets in the charitable sector (56%), advisors are not informed of the business need (41%) or clear demand (30%) for this service and there is no clear information about what is 'best practice' in this area (38%).

Of course, advisors identified that if it would attract new clients (43%) and increase client referrals (43%), it would lead them to more of these conversations. However, they also agreed that if they receive more information/training on giving, tax related issues, charitable vehicle options (38%) and training for soft skills i.e. starting personal conversations with their clients about their values and how to nurture that side of their relationship (29%), these skills would play a role in their delivery of this service. 93% of advisors acknowledged that shared learning between advisors would stimulate a demand from clients and develop this market.

The lack of clarity has led to the infrastructure of the UK in-house philanthropy advisory service being fragmented at best. If further research successfully identified there is already a demand and business need for this service, or this service could stimulate the demand, the following three recommendations could make a valuable contribution to the benefits of all three parties: HNWI's, advisors and the charitable sector itself.

- 1) Advisors improve their communication strategy with their clients to understand what they need to provide.
- 2) A well-recognised cross-sector network is established for advisors to learn from each other about the advantages and disadvantages and how best to deliver this service.
- 3) Organisations increase the advisors' direct and personal roles in the philanthropic sector to help stimulate their motivations to offer this service.

Deeper research into the clients' needs and expectations, the advisors' self-perceptions, behaviours and attitudes, and also the impact this is having/could have on charitable causes, would create an infrastructure for the advisory system to work more fluidly and competently than it is currently able. It would enable it to move from rhetoric to reality.



(source: image provided by relativisticobserver.blogspot.com, designed by author)

Over the summer, the Bank of England Governor Mark Carney announced that banks need to have a culture change and reconnect with society before they become 'socially useless' (Singh 2013). It will be interesting to see how the banks, and others in the financial services industry, react to his comment and whether they use the philanthropic sector to reconnect with the public.

Juliet Valdinger
London, United Kingdom
December 2013

*This paper is a summary from a dissertation completed for an MSc Grantmaking, Philanthropy and Social Investment at Cass Business School. Please contact the author if you would like to use this paper to contribute to your own work.
Many thanks, Juliet Valdinger*

juliet.valdinger@gmail.com