The 3 Forces of Family Wealth Management

– *Sherilyn Casiano*

Traditional approach to wealth management revolves around the wealth advisor's strategies and financial products that aim to achieve the objectives of those strategies. Such a traditional approach does not fully consider the concerns of the family with regard to wealth. The author, an expert wealth adviser, suggests in this article that there are three forces at work in family wealth management, the wealth creators, wealth inheritors and wealth advisers, who advise the first two. The author explores their distinct mindsets, needs and problems that arise due to those differences. The article suggests ways to address those issues.

Understanding the three forces at work

Based on research, the author suggests that a large number of wealthy families lose 90% of their wealth by the end of their third generation. Sixty percent of this loss occurs due to lack of communication and trust among family members, while 25% occurs due to unprepared heirs. In order to understand why this happens, one needs to know the different mindsets of the three forces at work - i.e. the wealth creators, inheritors and advisors, their distinct needs and the dynamics of their interaction.

Varying needs of the three groups and Problems that arise:

1. Wealth Creators – They are first generation founders (patriarchs or matriarchs) who created the family wealth through their entrepreneurial efforts and hard work. This wealth forms the basis for the family's legacy. The key concerns of wealth creators are continuous generation and accumulation of wealth, control and privacy. In their late life stage, their needs evolve to wealth preservation and its smooth transfer. Philanthropy may also emerge as a need as they grow old. Matriarchs are known to be more sensitive to investment risks and philanthropy but traditional wealth management strategies often do not account for such gender specific differences.

The problems that arise here are rooted in the creator's fear of losing it all and an aggravated need for control. Many of them keep their family members in dark about the true financial status or assets. This secrecy also deprives family members from learning the basics of managing and investing money. Such ill-equipped heirs often lose wealth due to ill-informed/unwise financial decisions.

2. Wealth Inheritors - These family members are not direct wealth creators like spouse, children or extended family members. They are driven by the need to preserve their lifestyle, fairness of wealth distribution, sense of self-worth, trust of advisors and sustaining wealth. Again, women in this group are also found to be more cautious in taking financial risks and found to be more philanthropic.

The problems that arise for inheritors include securing acceptance of the family and society. After having lived in the shadow of a successful wealth creator, the inheritors crave for their own space and individuality. Maintaining lifestyle, getting a fair share and gaining affection for who they are rather than what they have, are the biggest challenges they face. Yet another problem they face is to find truly trustworthy advisors.

3. Wealth Advisors - These include experts (lawyers/accountants/consultants etc.) who plan and execute wealth management strategies for their client. They devise tax planning, manage trust and estate strategies and in some cases handle day-to-day transactions and cash on behalf of their client. Often every family has its own group of advisors. Over a period, some of them get more closely aligned with some family members compared to others. As a result, several additional agendas are formed, which affect sustainability of family wealth.

The problems that arise for advisors include having to meet the varying needs of different family members. They often face tests of loyalty and compromises. Their biggest fear is loss of revenue and depletion of client's wealth. Striking the right balance between risk and return is a big challenge. Family offices become a casualty of family power play. The advisors have to profitably manage the family's wealth on one hand and orchestrate family relationships on the other.

How to deal with these problems

Some ways to manage these problems are -

- Creating a central family office that acts as a hub to connect all family members and advisors.
- Wealth management education to spouse and children.
- Institutionalizing an annual family meeting with a facilitator that addresses all wealth management issues.

However, the most effective manner that the author suggests is to establish a comprehensive wealth management system with following components -

- The whole exercise must begin with providing an easy to understand, **complete and reliable picture of the family's wealth** to all members.
- This must be followed with a well-crafted **family wealth plan** that caters to the family's comprehensive wealth needs and not just addresses tax related issues.
- There must be a **continuous dialogue** mechanism that brings family members and advisors together for discussing and deciding the ways and means **to preserve and grow family wealth.**

Practical Implications

Wealth creators must ensure smooth transition of wealth to their inheritors. Open communication and building capabilities of their heirs would help in achieving this. A comprehensive family wealth plan and consultative decision-making processes would address many concerns and ensure preservation and growth of family fortune.

Source: *The European Financial Review, April 14, 2015.*