FAMILY WEALTH REPORT

Should Advisors Worry About Inheritors' Loyalty?

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North American wealth management has a big task on its hands persuading inheritors to stick with the same arrangements as their parents had, at least if a study that was reported here yesterday is an indication. But there's no solid consensus whether this is a serious challenge or an overblown worry.

Cerulli Associates, the Boston-based research firm, has issued a report on mass affluent investors, which, if its findings also applied to ultra-high net worth individuals, would be alarming news for managers. Only 13 per cent of affluent investors polled by Cerulli Associates said that they would choose to work with the same advisor that their parents used. Among the remaining 87 per cent of investors who report not using their parents' advisor, 88 per cent indicated that they had never even considered doing so.

Family Wealth Report canvassed members of its editorial advisory board – senior figures not just in the North American sector but practitioners from around the world – over whether Cerulli's data should be causing managers sleepless nights. The overall conclusion can be summarized thus: "Don't panic, but take it seriously".

One member said he wasn't surprised at the 87 per cent figure but was taken aback by the finding that 88 per cent said they hadn't even considered the option of using the same firm as their parents'.

"Over the last decade I have purposely implemented new client service models and advisory services, utilized different methods of communication and designed numerous NextGen events and educational programs. Based on these experiences and interactions with NextGen clients , I believe that the NextGen often start with their parents when they are seeking financial advice and are open to suggestions and their advisors," the board member told *FWR*.

"However, the bottom line is that these NextGeners are self-directed, communicate differently and we are in a relationship business. So who they interact with at a firm and how they interact, will be a critical part of their decision to stay or not to stay with their parents' advisory firm. The firm's offering may also impact the decision, for example if the NextGen is focused on social impact/impact solutions and the firm does not offer anything in this regard," he said.

Another board member, based in the UK, said that there was "no question" that there are very different generational value drivers and buying behaviors at work. It is also important to differentiate between NextGen inheritors of wealth and NextGen wealth creators.

Charles Lowenhaupt, chairman and CEO of Lowenhaupt Global Advisors, and another board member, told this publication that often the parents' wealth advisor sees part of its role as enforcing the parents' values and expectations. "Serving the parents then leaves the inheritor without an advocate unless the inheritor finds an independent advisor," he said.

"We find it very important to put the tension on the table. Are we expected to serve as the parent's representative or are we supposed to look at individuals and help each figure out what the wealth is for and how to use it to self-actualize. We actually will drill into that tension with a parent to explore whether he is trying to create a `family wealth steward' or is willing to let the heir chase his or her own dream. My own bias is to let the parent find another advisor if our role is expected to be as a control on the child; but I would certainly understand why many advisors will take the benefit of a loyal client, even if it means the likelihood of losing the next generation," Lowenhaupt said.

One senior industry figures questioned the Cerulli report's applicability to family offices and the higher end of the wealth spectrum space, given certain family and inheritance dynamics. He said the Cerulli percentage figures proved the obvious truth that people want to invest with those they know and trust and that such trust cannot be transferred.

"If an advisor is not attentive to the next generation, they'll select another advisor. It certainly begs the question, what are firms doing to mitigate this effect?" he said.