Cultural transition

Over the next decade, a huge amount of wealth is due to transfer between generations of families. A recent STEP Journal roundtable, sponsored by SANNE, asked what this means for the next generation and their advisors.

WORDS: HELEN SWIRE

PARTICIPANTS (L-R)

FRONT ROW

♦ LEWIS WILLIAMS TEP
Director, Private Client, SANNE

♦ EMILIA PISKORZ
Associate, Mishcon de Reya

♦ RUSSELL COHEN TEP (CHAIR)
Private Client Partner, Farrer & Co

♦ SARAH CORMACK
Partner, Mills & Reeve

♦ IAIN YOUNGER TEP
Director, Frank Hirth

BACK ROW

♦ CHRIS MOORCROFT TEP
Partner, Private Capital Group, Harbottle & Lewis

♦ PHIL LE VESCOnte TEP
Senior Director, Private Client, SANNE

♦ PHYLLIS TOWNSEND TEP
Senior Associate, Wealth Management, Baker McKenzie

♦ DANIEL UGUR
Partner, Forsters

♦ MARK FLEMING TEP
Director, Private Client, SANNE

♦ RAKESH DABASIA TEP
Tax Director, Rayner Essex
In February 2019, 11 family wealth experts gathered in London at the Law Society for a roundtable discussion sponsored by SANNE. The panel looked at the role of the advisor in the transfer of family wealth across generations.

Chair of the roundtable Russell Cohen TEP, Private Client Partner at Farrer & Co, opened the discussion with the observation that, according to research, half of the world’s family offices are currently still serving the first generation, with USD2 trillion due to pass out of the wealth creators’ hands in the next 15 years.

‘The wealth transfer is going to be a very significant one,’ he observed. ‘What does this mean for advisors? How will the next generation’s approach to wealth generation and preservation differ to that of this one? And what will that mean for how we deal with our clients and how they deal with us?’

For many around the table, a key trend is the changing values of the next generation, and the changing needs they have in terms of the structures used to house their wealth.

‘There has been a big change in ethics,’ said Rakesh Dabasia TEP, Tax Director at Rayner Essex. ‘The next generation are more involved in the ethical side of investments: not just the investment itself, but actually as part of the process of helping develop the strategy. Their approach is different to that of the first generation, and the way they are thinking has changed. Consequently, the way we approach working with clients has shifted as well.’

Sarah Cormack, Partner at Mills & Reeve, agreed that demands from the second generation to access their inheritance are increasingly rare, while they are ‘very interested in the impact and ethical investment side of wealth preservation, which makes it a bit easier for advisors to have the conversation about the responsibilities that come with wealth’.

‘Younger generations have grown up in a period where the press have been relentlessly negative about trusts and offshore issues’

- Chris Moorcroft

between the first generation’s attitude to tax and the second generation’s, and also a difference in their attitudes towards the structures that are being used to hold the family wealth. Younger generations have grown up in a period where the press have been relentlessly negative about trusts and tax, and offshore issues, and to suddenly gain knowledge of, or even stewardship of, family wealth tied up in offshore trusts can cause problems.’

With the volumes of wealth in consideration, Ugur added that trust structures are, to a degree, essential in the management of funds, even for a second or third generation less keen on their usage.

Participants acknowledged a need for evolution in terms of both the simplicity of the structures available to clients and the way that families and their advisors operate and communicate in a new world of transparency.

‘A lack of transparency only feeds into intergenerational disputes,’ said Emilia Piskorz, Associate at Mishcon de Reya. ‘When the older generation or controlling settlor dies and the new generation have very little knowledge about a trust structure, that new generation want to know why the first generation and their advisors were not previously communicating with them and explaining matters relating to the trusts at an earlier stage. This can lead to extreme reactions, and the earlier these conversations can happen, and the more open they can be, the better.’

Lewis Williams TEP, Director, Private Client, at SANNE, agreed: ‘It is definitely more effective to have the conversations earlier. It means that the next generation have grown up knowing about the structure and come to appreciate why it’s there. It gives them a much better understanding of the trust, and often a much better, less strained relationship with the first generation.’

THE LONGEVITY CONVERSATION

An understanding of the structures being used to house the family wealth is only half the battle when it comes to generational transfer.
Ever-increasing life expectancy is causing twofold challenges for families globally: first, in terms of the capacity conversation, and second, regarding control of the family wealth. ‘We’re seeing situations where the next generation are ready to take over, but the patriarch is still around and holding the reins,’ commented Phyllis Townsend TEP, Senior Associate, Wealth Management, at Baker McKenzie. ‘We have to plan and prepare for incidents of fractional ownership.’

‘When the settlor generation is still alive but starts, for example, to lose capacity, this can create a power vacuum, with the next generation desperate to become involved and have some power at a family company level,’ Piskorz added. ‘You have to be alive to the fact that you have generations coming up that should be allowed to become involved in, and have information about, the family business and the trust structure. Generation one may still be powerful, and may want to make decisions, but they are not going to live forever.’

Ugur pointed out that it is vital for trusted advisors to deal with the issue of control, even if it is a sensitive one, in order to avoid further conflict or potential litigation down the line: ‘Whenever I sit down with a family, the first thing I ask is what they are trying to achieve. The best way to engage is to sit down with the different members of the family from the various generations independently of each other and discuss what their individual concerns are.’

Such conversations can reveal not only a desire from the first generation to retain control, but also a wish from the second generation to take full control to the extent of replacing the advisors and trustees handling the family wealth. ‘There is that issue, for original trustees, where you’re seen as the “settlor’s trustee,”’ commented Phil Le Vesconte TEP, Senior Director, Private Client, at SANNE. ‘There can be a lot of tension between beneficiaries and trustees if there is resentment around the patriarch’s choices. If you’re not the original trustee and didn’t know the settlor, you can often take a more independent role.’

Cohen asked the table how advisors can mitigate this issue as part of succession planning. ‘Often we’re engaged by the matriarch or patriarch, and when the next generation come to the fore they may start to question the structure, so we need to know who we are acting for,’ said Ugur. ‘It’s about getting that brief right at the outset, and it’s very important in our role to manage how we’re dealing with that on an ongoing basis as well: taking that step back and asking if we’re best placed, or if we have a conflict of interest.’

Mark Fleming TEP, Director, Private Client, at SANNE, highlighted the importance of succession planning on the part of the trustee and advisory team: ‘It’s more likely that the original trustee may have retired before the matriarch or patriarch leaves the structure, so that’s something we have to plan for quite carefully to ensure the right team is in place from a client handling perspective.’

‘A private trust company can be a flexible vehicle for handling succession,’ added Williams. ‘For example, if you have a board director who’s the settlor’s right-hand person, then there’s the ability to replace them without having a fundamental change of the advisory team. Sometimes that can help the next generation become more comfortable with how things are going to run going forward, without losing continuity.’

Again, this smooth transition should be facilitated, said Dabasia, by education and communication. ‘It’s about developing the next generation and integrating them into the family office as soon as possible,’ he said. ‘That way they get to know us and our processes, which makes the conversations,
and the relationships with the younger generations, easier.’

‘On the accountancy side, we often see that younger generations have also benefited from having a relationship with someone younger or less senior whom they can ask what they think are silly questions that they wouldn’t worry anyone else with,’ pointed out Iain Younger TEP, Director at Frank Hirth. ‘That ability to start the thought process about tax, and the way it impacts their world, is important, and we’ve seen a benefit of them having a level of independence when they start to generate their own wealth and understand the structures they’re using.’

‘The younger generation are the tech generation, and they want things done really quickly. The means of communication they are using are becoming more and more instantaneous.’

- Phyllis Townsend

In this sense, said Younger, the evolution of technology is enabling advisors to work in a way that suits their lifestyles, as well as meeting the needs of clients. But, he added, technology and artificial intelligence are not in a position to replicate the advisory role: ‘As advisors we can’t be yes-men. And technology, as yet, can’t challenge the way our clients are thinking and give them nuanced responses.’

‘There is a place for technology in process and managing volume,’ commented Ugur. ‘But where the difference comes in is where we’re adding value through conversations with clients. If you’ve got complex or delicate cross-border issues, for example, is technology going to deal with that?’

Le Vesconte felt that, while technology will increasingly have an impact on the administration of trusts, it is unlikely to replace complex trustee decision making.

Cohen pointed out that the same issues re-emerge consistently: the need for a solution that fosters common understanding and interaction between client and advisor.

‘It comes down to communication and collaboration,’ agreed Fleming. ‘Generation one wants to continue its legacy and, in my experience, it is keen to involve generations two and three so that they can bring their ideas to the table. As advisors, we can help foster those lines of communication within the families we work with, which can also assist in their businesses.’

Moorcroft added: ‘The interaction between generations is what we should encourage within the families we advise. And we also need that long-term thinking in our industry. Firms should be thinking about how our practices are going to change, and as an industry we need to be equipped to deal with that.’

As the generational shift engenders an industry-wide cultural change, there is an opportunity, the participants felt, for advisors to engage with the next generations, listen to their needs and smooth the transition of wealth.

‘It’s an exciting time with technology, fresh ideas and opportunity if we’re willing to adapt,’ said Piskorz. ‘We just have to be creative and innovative.’

**A NEW WAY OF WORKING**

Younger added that advances in technology have given rise to an increasing amount of misinformation for the second and third generations, making it vitally important that advisors tackle any myths and help educate families.

Several around the table agreed that technology, especially in the communication space, can be both a blessing and a curse.

Townsend commented: ‘The younger generation are the tech generation, and they want things done really quickly. The means of communication they are using are becoming more and more instantaneous. Being good at your job is a given. Clients want responses 24 hours a day, seven days a week: and that’s how we can differentiate ourselves as advisors.’

For advisors, this also means adjusting to the needs of the younger, tech-driven generations within the workplace, and understanding that in order to provide a round-the-clock service to clients, the workforce needs to be agile and given flexibility.