REBELS WITH A CAUSE

‘Next-generation’ clients often have radically different goals to their parents, and may reject wealth management industry norms. So how can advisors remain relevant? **Amer Vohora** takes a look

Baby boomers, the wealthiest generation in history, are ageing and preparing to pass down a record-breaking amount of assets to their heirs. Much has been written about the anticipated USD59 trillion wealth transfer that is likely to occur in the next couple of decades.[1]

What is clear is that many inheritors fire their parents’ financial advisors on receipt of their inheritance.[2] The reasons are complex, but, in many instances, it is because the existing wealth management industry is complacent with regard to the needs and requirements of this new generation of clients, or ‘next-gens’.

UNDERSTANDING NEXT-GEN CLIENTS

The traditional wealth management industry can be daunting and complex to the new wealth owners, who often end up frustrated, confused and ultimately disappointed as they struggle to articulate their goals and values. Similarly, the alphabet soup of financial terms can be backward-looking or even condescending to clients who do not see themselves as mainstream. Short-termism on the part of financial managers often misses the interest these clients have in using their wealth to address the world’s most pressing issues, which are long term in nature.

Many issues leading to clients’ discomfort with the wealth management industry relate to the fact that their investment services and products are often not aligned with the individual values and goals of their clients: the inherent conflict of interest in selling high-margin asset management services is all too obvious to this perceptive new clientele who seek independent advice.

The long-term retention of clients is at risk when this generational change happens. Next-gens who feel that their expectations are not met are not only likely to change providers but are also known to have taken legal redress against existing trustees and advisors.

PURPOSE-DRIVEN WEALTH MANAGEMENT

Financial service providers have a duty to act in the best long-term interest of the beneficiaries. Finding out what this long-term interest really is should take up a major part of the client consultation process. Comprehensive ‘know your customer’ profiles, required by regulatory frameworks, prevent miscommunication and avoid conflict. With everyone on the same page, trustees, advisors and wealth managers are all aware of the clients’ goals and values – the key precondition for sustainable long-term relationships.

A typical trait of next-gens is an urge to invest with purpose, and to align their wealth to their goals and values. This could mean mapping their wealth with the broader objectives of society, such as the UN Sustainable Development Goals,[3] to seize investment opportunities while maintaining the same risk and return profile. The client’s values and goals need to be articulated as clearly as possible to define a suitable investment strategy, steer the implementation towards banks and asset managers, and assure consolidated monitoring. Independent consulting is a key service to offer to these clients, and some essential steps to achieve these goals are:

- **Investor profiling and wealth check:** Run workshops with clients to articulate and prioritise goals and values. Synthesise these into a comprehensive investor profile and evaluate existing assets and investments against it. This helps clients to understand the status quo of their entire wealth and provides guidance on potential improvements.
- **Values-based investment policy (statement):** Create a detailed investor profile to articulate a suitable investment strategy. The outcome is a framework for asset allocation and guidelines for the implementation of the investment strategy for banks and asset managers to follow.
- **Bank and asset manager selection:** Use the investment profile as a framework to run a ‘beauty parade’, to identify competent wealth managers to whom investment decisions can be delegated.
- **Monitoring and consolidation:** Regularly measure, analyse and evaluate these investment managers to ensure informed decision making. Finally, consolidate all relevant information on a client’s entire wealth into an easy-to-understand document, fulfilling regulatory requirements (e.g. the Common Reporting Standard) and ensuring alignment to purpose.

CONCLUSION

To act in the best interest of next-gen clients, advisors need to have an understanding that goes beyond traditional client characteristics. By following the steps above, practitioners can work constructively to adapt to a changing world, and ensure that the wealth management industry remains relevant to younger clients.

1 J. J. Havens, P. G. Schervish, *A Golden Age of Philanthropy Still Beckons: National wealth transfer and potential for philanthropy technical report*, Center on Wealth and Philanthropy: Boston College, 28 May 2014, p.5, bit.ly/2OTX0Ud **2** PwC, *Global Private Banking/Wealth Management Survey* **3** bit.ly/2jHjQmD

AMER VOHORA IS CHIEF CLIENT OFFICER AT VALUEWORKS