

role of traditional advisors

IN OFFERING PHILANTHROPY SERVICES TO HIGH-NET-WORTH CLIENTS

summary

There is a seismic shift underway in the landscape of European philanthropy. Six out of ten of Europe's specialist wealth advisors believe that philanthropy will become increasingly important over the next five years, to the point where it will become a core service they offer to wealthy clients.

Driving this change is a predicted rise in the demand of high-net-worth individuals to engage in philanthropy. Private banks in particular believe that the growth in wealth creation will result in more of their clients' money being channelled into philanthropy. And private banks, along with multi-family offices (MFOs) working exclusively with ultra-high-net-worth clients, are tapping into the growing demand for philanthropic advice by offering the widest range of services across the giving process.

There is also a growing appetite among wealth advisors to tap into the specialist services of third party partners when advising clients on aspects of philanthropy that lie beyond their own core areas of expertise.

Yet in spite of the increasing range of philanthropic services on offer, many potential donors remain lamentably unaware of these due to the lack of proactive marketing by advisors. In addition, the majority of wealth advisors feel that they are not adequately trained to discuss philanthropy with their clients and hence offer philanthropic advice on an ad-hoc reactive basis. As a result, advisors are missing out on the opportunity to meet their clients' growing philanthropic needs.

There are huge potential benefits for advisors who have already identified this gap in the market – and these are not just about increasing revenues. Offering philanthropic advice is seen as deepening client relationships over the

long term and increasing the likelihood of client referrals.

Many wealthy individuals are beginning to take their philanthropy as seriously as their businesses. And the growing profile of philanthropy in Europe presents exciting opportunities for all types of advisors, opportunities that they cannot afford to ignore

philanthropy is raising on the agenda

Increasing wealth across Europe has led to a growing interest in philanthropy. Individuals who have made windfall gains have a strong desire to give back and to donate during their lifetime. Among the new rich, charitable vehicles are becoming a 'must have'. As one UK private banker said:

"Charitable trusts are very fashionable among our clients and there is strong demand from the new wealth community, particularly those in hedge funds."

Six out of ten of the specialists who advise these wealthy individuals – from bankers to lawyers – are convinced that philanthropy will become a core service in the business of European wealth advice over the next five years.

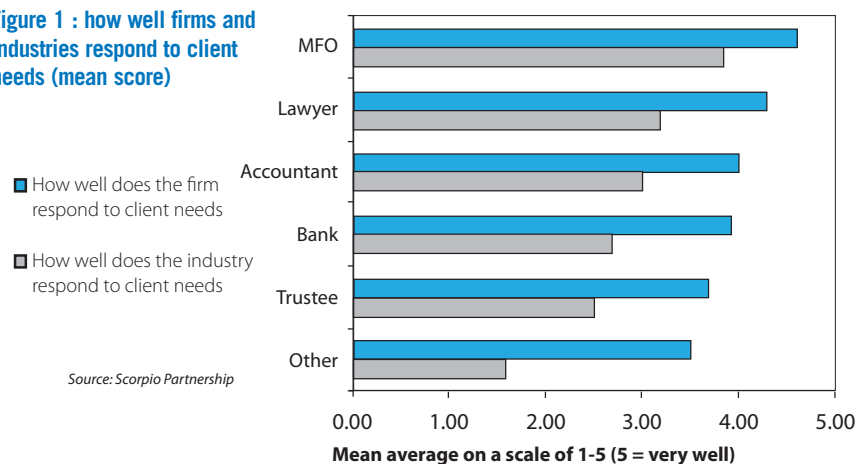
In fact, philanthropy already plays a key role in the services offered by specialist wealth advisors today. The advisors interviewed gave philanthropy an average rating of 3.2 out of 5 in terms of importance to their business. Of all the advisors, philanthropy services are regarded as most important to private banks and multi-family offices (MFOs), reflecting their desire to provide a holistic relationship to their clients. Indeed 100% of MFOs interviewed believe that philanthropy will be core to their business by 2013.

increasing demand

There is significant evidence of growing client demand for philanthropy services in Europe: 63% of respondents receive more requests now than two years ago, with most receiving between one and five requests monthly. Experts believe that this demand will be a driver of growth in philanthropy services: according to 77% of participants, client demand is the principal motivation for implementing a philanthropy service.

Demand is being driven not only by wealth creation, but also by donors' increased requirement that their philanthropic money should be well spent, often requiring as much advice as structuring one's business.

Figure 1 : how well firms and industries respond to client needs (mean score)



“The market is very inefficient.
There is a lot of room for improvement.”

Fiscal changes are also playing their part. In Germany and France, recent tax amendments have enhanced the benefits of giving. For one French MFO this has led to a 50% increase in enquiries in the past year alone.

However, advisors need to receive a fair number of requests because the conversion rate to mandated business is low. For example, Swiss and UK private client lawyers indicated that they only see new business from 10% to 15% of initial leads.

Interestingly, the new business success rate for MFOs is higher. The recently-established UK operation of an international MFO business has enjoyed a 67% success rate – 16 of the 24 philanthropy requests in the past year have converted to mandates. Other MFOs reported similarly high conversion rates, perhaps due to the closer relationships MFOs enjoy with clients and the higher degree of philanthropy training given to relationship managers.

ability of advisors to respond to client needs

Research carried out in 2007 highlighted a number of gaps between the requirements of donors and the ability of wealth advisors to satisfy these needs.

While the participants in this 2008 study are reasonably confident that their firms respond well to client needs (with an average score of 4.1 out of 5), they are less confident that their industries respond well to those needs. The average score here was just 2.9 out of 5.

“The market is very inefficient. There is a lot of room for improvement.”

Among private banks, there was a wide range of responses as to how well they respond to clients. To some extent this reflects different areas of focus and expertise. There is, however, a common feeling that the philanthropy offerings of many private banks are still in their infancy or non-existent.

A common view is:

“It is a new area and private banks in general are struggling to understand it all.”

There are regional variations in the maturity of private banks' services – Swiss and German banks are considered to be particularly advanced, whereas private banks in the UK feel that there is a need for development.

Other private banks cited the problems associated with incentivising frontline staff as a reason that their philanthropy services are not adequately represented to clients. To meet this challenge one German private bank has begun to incentivise philanthropy directly by including the number of new foundation mandates originated in a private banker's bonus review and penalising private bankers who fail to bring in at least one new mandate annually. While this reflects the private bank's specialist approach toward philanthropy, it is surprising that it appears to be alone among the respondents in this regard.

Internal marketing and training can be an Achilles heel for philanthropy services. For private banks, most organisations have some form of training such as seminars. The more sophisticated have dedicated intranet pages, brochures, newsletters and internal roadshow programmes. Some German and French private banks even encourage advisors to obtain specialist qualifications such as a course in foundation management.

Interestingly, while larger private banks tend to have the most structured internal marketing programmes for their philanthropy services, only 40% of respondents feel their front-line private banking teams are well trained in the philanthropy offer and 30% think they are only somewhat trained. This compares with 60%-80% of lawyers, accountants and MFOs who feel their teams are well trained in this area.

MFO respondents have a high regard for training and staff development, believing it is critical to gaining credibility with clients. As one said:

“Relationship managers need to be able to talk about philanthropy with a great deal of confidence to ensure that they can educate the clients and help them in decision making and the process of giving.”

expanding philanthropy services

Most of the advisors taking part in this research orient their services towards the early part of the giving process, with particular strength in the vehicle structuring and tax advice. But just over half the sample group is looking to expand their philanthropy services. However the advisors most likely to stretch their offering into other areas of the giving process are the MFOs and private banks.

The majority of private client lawyers and trustees, by contrast, appear less likely to move away from their core areas of expertise, with less than 40% planning to expand their services. Tax and legal matters are likely to remain at the forefront of their philanthropic services, although an increasing focus on governance may mean firms become more involved in areas such as strategic planning and ongoing monitoring in conjunction with third parties.

Of those planning to expand their services, two options were raised during the research as available to advisors:

1. internal capacity building

Many of the advisors appear to be delivering a wide range of philanthropy services in-house. However, although many advisors have clearly invested significant resources into building their philanthropy service, the majority only offer the service on an informal basis. Most offer services in response to requests from clients or on an ad-hoc basis, rather than highlighting the capability in their marketing literature or including philanthropy in pitches to new clients. This may go some way to explain the gap between clients' expectations and the service delivered by their trusted advisor with regards to their philanthropy needs.

“I don't want to do everything myself. This is a service for clients who want to give, it is not a profit centre in advice.”

2. working with third party experts

All types of advisors work with third parties to varying degrees in order to deliver philanthropy services. In fact, the vast majority of the advisors who took part in this study indicated that their philanthropy service relies on a combination of in-house and external expertise. Third parties are used more for services not considered to be core – such as identifying organisations to support, and monitoring and impact assessment.

When selecting third party providers, reputation and experience play the biggest part in the decision to work with the firm. Only a handful of advisors choose on principle not to work with external parties.

“There is very little reason for a client to go with an untried provider.”

Cost is the primary motivation for a decision to work with third parties rather than provide resources in-house. If it is cheaper to obtain a high-quality resource from a third party than to build in-house, then an advisor is likely to do it. This is particularly the case if the advisor is trying to construct a broad philanthropy capability to service clients throughout the giving process and if the advisor is unwilling or unable to charge clients for the service on a standalone basis. Consequently, private banks are the most likely type of advisor to work with third parties. As one Benelux

private banker observed:

“I don't want to do everything myself. This is a service for clients who want to give, it is not a profit centre in advice.”

benefits of philanthropic advice

The benefits of offering philanthropic advice are great. The main advantage is seen as the opportunity to add value in client relationships. Other benefits cited by participants include client referrals, building deeper relationships and the opportunity to discuss broader issues.

Although revenue potential may not have been an initial motivation for offering philanthropy services, the services do often lead to the firm generating additional revenues. In fact, an additional line of revenue, as Figure 1 shows, is the second-most mentioned benefit. Wider-ranging discussions about clients' motivations often result in the take-up of other products or services.

MFOs feel that discussions around philanthropy link well with the more complex and potentially contentious discussions regarding family governance and charters, leading to deeper relationships too. To some degree, philanthropy helps to soften these kinds of discussions. Moreover, discussions about the family's wealth and giving objectives have helped to improve the quality of the philanthropic giving.

However a number of participants stressed the need for a high quality and genuine offering. As one German MFO observed:

“The families are not interested in being offered a second rate service and will get very annoyed if the offer is sub par. The advisors also need to understand that it will take nearly four years to build a strong team and offering.”

Advisors generally raised very few drawbacks to offering philanthropy services - costs and the difficulty of hiring staff were the two main objections.

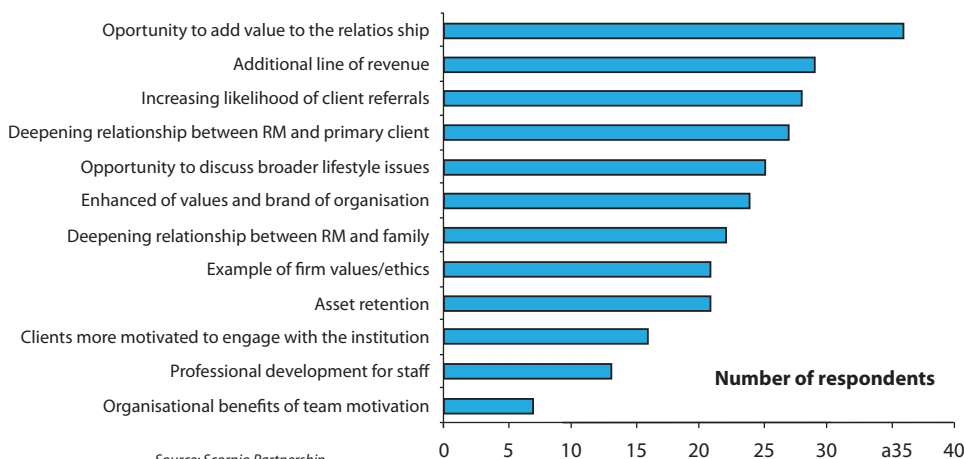
conclusion

Philanthropy is already an important strand in the services offered by European wealth advisors today and will become increasingly important over the next five years, fuelled by a mixture of rising wealth, fiscal change and greater social conscience.

Some private banks and MFOs are already leading the way in this field, offering a broad range of services to wealthy clients interested in philanthropy. But the majority are missing the opportunity to fulfil clients' needs.

This research has pinpointed an important need among wealth advisors for better training, more proactive marketing and greater incentivisation

Figure 2 : benefits of offering a philanthropy service (number of respondents)



Source: Scorpio Partnership

of philanthropy-related activities so that clients feel that they have access to the philanthropic services they need. Related to this is the need for better knowledge sharing at an industry level in order to develop best practice and awareness.

As this research has shown, advisors don't need to provide end-to-end philanthropic solutions themselves. They can also take advantage of third party experts appearing in the market. These include philanthropy advisors that have the resources and expertise to focus on the more strategic matters relating to the selection of and introductions to causes, as well as ongoing monitoring and assessment of philanthropy projects.

The benefits of offering robust philanthropy services, both on a revenue and client relationship level, far outweigh the disadvantages. And given the increasing importance of philanthropy in the wealth advisory process, advisors who ignore these opportunities do so at their peril!

background to the research

This document provides a summary of research that offers a unique insight into the changing face of European philanthropy.

Figure 3. segmentation of sample group by advisor type

Service Offering	Private Bank	Multy-family office	Trustee	Private Client Lawyer	Private Client Accountant	Other
Formal service	27	10	7	21	8	5
No formal service	4	5	8	0	2	3

wise – philanthropy advisors (Switzerland), New Philanthropy Capital (UK), and the Bertelsmann Stiftung (Germany) commissioned Scorpio Partnership to undertake research focused on the role of wealth advisors in offering philanthropy services to high-net-worth (HNW) clients. The study had three main objectives:

- to identify the current levels of philanthropy services offered by advisors,
- to identify the potential benefits perceived in offering these services to their clients,
- to identify the philanthropy tools, products and services that advisors need to enhance their offering to clients.

Scorpio interviewed 100 private client advisors by telephone across Europe between June and September 2008,

segmented into six groups, shown in Figure 3. The 'Other' category includes advisors focusing on philanthropy, foundations and socially-responsible investing (SRI).

The study follows on from research commissioned in June 2007 to solicit the views of ultra-high-net-worth individuals – 90% of whom recognised the need for expert advice on philanthropy, but did not believe that traditional wealth advisors were meeting that need.

The summary has been written by New Philanthropy Capital (Plum Lomax and Tim Fiennes) and wise (Etienne Eichenberger)

wise – philanthropy advisors (wise) accompanies donors and their families in fulfilling their philanthropic aspirations. We advise donors seeking to create new opportunities for social change and connect them with those acting with insight, expertise and leadership in the social field.

- you can visit our website to learn more about our work or download this report at www.wise.net
- please contact us directly for further information on our philanthropy services for individuals, families or advisors at contact@wise.net or at +41(0)22 321 7737

¹ **New Philanthropy Capital (NPC)** helps donors understand how to make the greatest difference to people's lives. NPC provides independent research and tailored advice on the most effective and rewarding ways to support charities.
¹ **The Bertelsmann Stiftung** is dedicated to promoting the public good. It focuses on the fields of education, economic and social affairs, health and international relations. It also promotes the concept of philanthropy and wants to bring fresh momentum to civic engagement.
¹ **Scorpio Partnership** is a strategy consultancy to the wealth management industry and is based in London and specialises in qualitative interviewing of high net worth individuals and wealth management industry professionals to support strategic assessments and future initiatives.

Notice and disclaimer – The content of this report is the copyright of wise - philanthropy advisors (wise):

- you may copy this report for your personal use and or for that of your firm and company and you may also republish, retransmit, redistribute or otherwise make the report available to any other party provided that you acknowledge wise's copyright and authorship of this report.
- to the extent permitted by law, wise shall not be liable for loss of damage arising from or in connection with the use of this report. This limitation applies to all damage of any kind, including (without limitation) compensatory, direct, indirect or consequential damages, loss of data, loss of income or profit, loss of or damage to property and claims of third parties.