WealthManagement.com

kheng ho toh/Hemera/Thinkstock

WEALTH PLANNING > **HIGH NET WORTH**

Legacy Planning Is Changing

Lessons learned from family offices, private banks and best-of-breed independent advisors.

Philip Cubeta , Thomas Rogerson , Martin M. Shenkman | Oct 30, 2017

Fewer clients need estate tax planning. Automated service platforms and artificial intelligence are making it more difficult for investment firms to justify their services. To differentiate themselves, add value and compete, many wealth management professionals are evolving toward integrated, multigenerational wealth management.

Such planning not only includes the quantitative planning elements, such as tax, investment, life insurance and fiduciary planning, but also considers the qualitative elements, such as philanthropy, family dynamics and family governance.

Let’s examine three primary business models for integrated, multigenerational wealth management for successful families: (1) the family office, (2) private bank, and (3) best-of-breed independent advisors, or “independents.” Each model has advantages and challenges, but all three require coordination across disciplines.

Family Office Model

A single family office serves, as the name implies, one family. Multifamily offices serve several families. A family with $100 million might consider forming its own SFO. Families with as little as $20 million might pool their resources to create an MFO. A family office is owned by the families served. Family offices are staffed primarily with experts hired from outside, but family members may fill several key positions. A typical staff-to-client ratio might be three staff members for each two family members.

Each family office must focus on its in-house core competencies and outsource the rest. When complex projects across the disciplines need to be coordinated beyond the capacity of in-house staff, the family office team seeks independent outside players. Ideally, the family office will then coordinate and integrate the work and maintain continuity over time.

In theory, a family office can work with multiple generations and maintain continuity across time. In reality, not all family members may want to avail themselves of family office services. Maintaining the quality and continuity of the family office itself over time may be difficult. Without constant interaction with independents, the talents of in-house staff's effectiveness may decline and clients may not be offered the best possible solutions.

Private Banking Services

Private banks may serve families with investment assets as low as $1 million to $3 million. A client with $10 million, even if illiquid, may be in the “sweet spot.” Clients with $20 million and up may have a choice of going with a private bank, MFO or independents. As far as continuity of service across generations goes, private banks are expressly built to last for generations, with clear plans for executive development, career ladders and succession.

To provide integrated solutions across disciplines, the bank may have client-facing professionals backed by in-house teams of resources. Expertise may be available in-house or through a roster of independent outside professionals. Certain services, such as family governance and family meetings, may be cross-subsidized and offered as a free “value add” for clients of a certain level of wealth. The internal teams may coordinate with internal and external resources to provide the client with updates across the client’s entire range of concerns as frequently as quarterly.

But, there are challenges. To the client, particularly trust beneficiaries, the bank may seem impersonal, more concerned with managing the money and following the documents than with the well-being of the beneficiaries. Banks may be bought out or merged. Trust officers come and go. As public companies, banks have a responsibility to shareholders, a responsibility that may be in conflict with client service.

Banks may have excellent internal staff, across many disciplines, but the internal team may work in tension with local advisors. In creating and implementing a plan, a local attorney, certified public accountant and/or insurance agent may be involved but relegated by the bank to the role of scrivener or vendor. When these internal teams over-represent themselves to clients as the total “one-stop shop,” with all other professionals subordinate to them, they can damage their relationships with the client's other advisors. This situation can lead independents to steer clients away from these firms for fear of losing their clients or diminishing their role.

Independents

Independents form teams across the relevant disciplines to serve their common clients. Generally, the team will include a wealth professional and/or a life insurance professional, a tax attorney and a CPA. Additional members may be added for particular projects. Each individual on the team has his ways of being compensated. There are no cross-subsidies. Independents must bill out all services, rather than providing some as "value adds" as a private bank would do. Some members of the team may accept a fiduciary standard and may or may not be able to serve a client as a trustee.

Certain members of the team may represent a national or regional firm offering varying degrees of support to their top advisors. The frontline advisor accesses specialized staff at a local, regional or national center. The units may, as with private banks, have a fairly diverse range of professionals on staff. The firms may or may not operate as registered investment advisory firms. They may have a range of product offerings in insurance and investments, but some of these products may be pushed as they're central to the firm's business model.

As with a family office or private bank, the in-house team backing an advisor on a local team may do a preliminary plan, for consideration and implementation by the local team, or the local experts may do it on their own. Either way, the frontline advisor must coordinate with other members of the local planning team not only to create the plan, but also to maintain and modify it over time, perhaps over generations.

Often, there's no one on the local team or among the staff at any supporting unit at the financial services company who takes responsibility for project management of the overall integrated plan over time, much less over generations. In practice, it's often the client who's the "telephone operator," calling individual meetings and transferring information among the advisors. Some members of the independent team may have succession plans to provide continuity of service. The team may struggle to remain intact as members die or retire or when the original patriarch or matriarch dies.

Six Questions About Your Practice

As you position your services in the firm to compete and succeed in this changing market place, here are some questions to consider:

- If you're employed by a family office or private bank, are you teaming effectively with independents? Are you treating them as peers and collaborators? What may be lost for the client and your organization if you subordinate outside advisors as vendors and scriveners?
- If you're an independent, do you attempt to retain client control by simply brushing aside issues in which you're not competent, but which may be essential to the family's long-term well-being? If your best client families will hold together for 100 years, how will your firm stay with them? Do you have a succession plan for your practice and for the independent planning teams on which you play a key role?
- Whatever your business model, if you work as part of a collaborative team, when you leave the planning table and return to your office, who'll keep track of the moving parts, particularly when they cross disciplines into areas of adjacent expertise?
- Are those with whom you collaborate making the best possible use of technology to have meetings virtually, share documents, maintain a "punch list" of open items and ultimately provide and service a multi-disciplinary plan? Have you considered the security of that information shared virtually?
- When a project is finished (the business sold, the policy placed, the trust created and the legacy plan done), do you wait for the client to call you for another project? Or, are you coordinating with the other members of the team to provide an integrated snapshot or dashboard to the client once a year, or more often, of where their planning stands overall, not just with you?
- How do you handle qualitative services like family philanthropy, family dynamics and family governance (the soft areas)? If in your marketing territory,

> family offices and private banks are offering such services as a “value adds,” what’s your response? Do you provide such services going forward? Do you team with independents who do? Do you rely on the bank or family office to do it? And, how then do you maintain your role as lead advisor?

Family offices, private banks and independents strive to collaborate within their own ecosystems as they both compete and collaborate to provide multigenerational wealth management solutions. No one model is yet dominant—each model has its strengths and weaknesses. Meeting the challenge of partnering with peers and offering a more integrated wealth management experience for the client over the long term is a lofty goal for any model or group of advisors to meet.

This is an adapted version of the authors’ original article in the November 2017 issue of *Trusts & Estates*.

Source URL: https://www.wealthmanagement.com/high-net-worth/legacy-planning-changing