alpha development

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THE ART OF BALANCING GENERATIONS:

Wealth management advisory skills within inheritance & estate planning

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Robert's career in financial services began over 25 years ago at Axa. When he moved into banking, he became increasingly interested in how the selling of intangible financial solutions differed to the selling of tangible products.

Much of the training that he saw being offered to banks were generic and didn't focus on the specifics of financial solutions. He saw a gap in the market which led him to embark on a career as a trainer/advisor to help global banks grow existing, and win new, clients.

Robert has advised and trained in over forty countries for numerous banks such as Al Raji Bank, JP Morgan and Julius Baer, asset managers and Central Banks. His largest project was for HSBC where he created their global client service training for their trade finance area. Within wealth management Robert has extensive experience and he regularly works in private banking markets such as Switzerland, and Monaco.

Robert has a Masters in the History and Philosophy of Science, is accredited as a Fellow of the Institute of Sales and Marketing; and has a Post Graduate Certificate in Business Development from the University of Ulster and Babson Business School. In 2019 he was appointed as consultant to the Financial Services Faculty at Saïd Business School, University of Oxford where he designed their Leadership in Financial Services and Value Creation in Financial Services programmes.

INTRODUCTION – A BALANCING ACT

The hit TV drama Succession has turned the mundane topic of inheritance into a global broadcast phenomenon. The internecine struggle between Logan Roy and his squabbling offspring for control of the family empire has captivated millions of viewers. Yet the dynamic it explores is increasingly a fact of life for wealth managers everywhere.

Wealth management is becoming progressively multi-generational. There is currently a massive transfer of wealth across generations as the baby boomers, with their homes, pensions, and investments, grow older and – eventually – pass away. People who might not have seen themselves as classic wealth management clients now possess substantial assets that need to be managed.

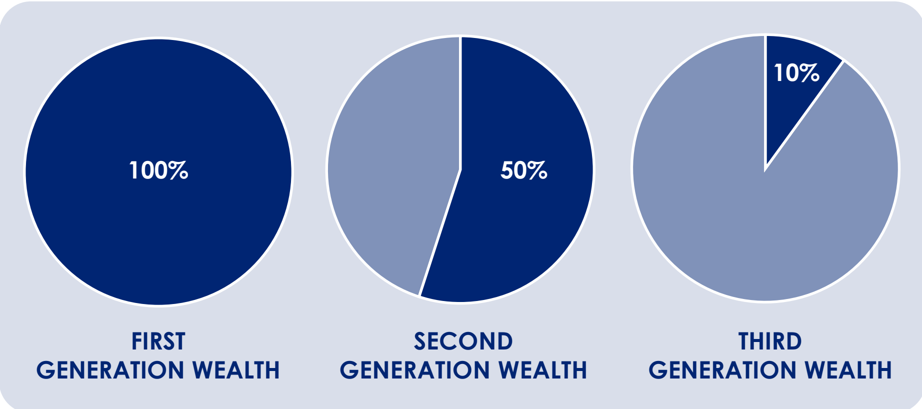
The opportunity for institutions, therefore, is to retain clients through the generations. Successfully doing so, however, depends on advisors balancing diverse (and occasionally conflicting) outlooks of parents, children, and grandchildren. It depends on the right professional skills, active listening, and diplomacy. It encourages a focus on long-term relationships over short-term sales targets.

This ebook explores these new challenges and opportunities. It outlines our approach to equipping advisors with the right soft skills to retain clients and thrive.

WEALTH MANAGEMENT IS CHANGING

Today's population is hugely affluent. According to McKinsey, the value of global assets more than tripled between 2000 and 2020, growing from $440 trillion to $1,540 trillion[1]. Virtually all this wealth is owned by private households, with real assets - mostly housing - accounting for around half of this sum, and financial assets including pensions, deposits, and equity making up the other half.

Too often, however, family wealth can be eroded due to a lack of trust, transparency, or communication between the current generation and its heirs.



The underlying concern is often that the next generation is not fit for managing the family's wealth, or for leading the family business into the future. Indeed, it is estimated that 90 percent of affluent families lose their wealth by the third generation[2]. There is a clear need, therefore, for effective wealth management advice that spans generations.

The wealth management business is also evolving rapidly. Regulations have made it harder for wealth management businesses to differentiate: on the face of it, one firm's products today are much like the others. This has led to a wave of consolidation among firms facing growing pressure on fees and margins[3]. The only way firms can differentiate and thrive today is through the skillset of their advisors.

> " The only way wealth managers can differentiate and thrive today is through the skillset of their advisors. "

What's more, technology has penetrated the space to such an extent that advisors can no longer expect to earn a living simply by presenting new investment products. In an effort to cut costs and reduce inefficiencies, many financial institutions have moved toward a self-service model, in which customers manage their affairs online.

Against this backdrop, it is clear that the talents of wealth managers need to evolve – away from a product-centric view of clients, and towards building lasting relationships.

[1] *The rise and rise of the global balance sheet: How productively are we using our wealth? – McKinsey & Company, November 2021*

[2] *Multigenerational Wealth Preservation: What You Need To Know – Francois Botha, Forbes, December 2019*

[3] *Wealth management consolidation leaves smaller groups on borrowed time – Financial Times, April 2023*

HANDLING CHALLENGING CONVERSATIONS

Private Banking often involves tough conversations with clients. These conversations could range from performance, fees or service levels, to the more personal, such as assuaging a client's fear of the unknown.

In addition, wealth managers need to understand that being technically correct doesn't mean they are persuasive. There is a level of de-escalation that is required in difficult situations which also necessitates getting to the source of the client's concern before any influence can be exerted.

It's the wealth manager's job to steer clients in the right direction and to speak to them in the right language with a focus on holistic financial planning rather than unemotional checklists and processes.

HUMANS – DELIVERING VALUE OVER TECHNOLOGY

There is much talk about how artificial intelligence (AI) will replace people in many service industries – not least finance.

AI can't read context, however, and context is crucial in wealth management. For instance, generative models like ChatGPT work on explicit prompts which the user must provide. It can't empathise, draw on prior knowledge of the person in question, or consider what the future might hold. And it has no way of discerning a client's unspoken needs or nonverbal communications

Since they cannot understand the client context, and its nuances, there is considerable risk for an AI to give a "bad answer" that potentially undermines the valuable relationship between client and advisor.

That's where human skills are important. A relationship manager understands context, individual needs, future considerations, and the unknown. And therein lies their value. Without this understanding, algorithms can only achieve so much for wealth managers.

With billions of dollars pouring into AI research and development, the gap between the capabilities of machines, and their human counterparts, will narrow. But few, if any, will be able to rival a human's ability to build trust and offer guidance. Even as fintech penetrates wealth management, advisors who evolve their skills in these areas will continue to thrive.

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WALKING A FINE LINE

Having multiple generations sitting around the table, often with different perspectives on money, can present several challenges.

Intergenerational politics within a family can mean wealth management advisors will often be walking into potentially hostile environments. And they'll need to have difficult conversations around sensitive subjects like bereavement, disability, and the parents' attitude towards their offspring's potential and suitability for managing their inheritance.

Advisors must walk a fine line, between maintaining the trust of the client – the parent – while building trust with the new investors – the children and grandchildren. But how do they enter these environments and conduct these conversations? And how do they deal with particularly challenging, sensitive information?

Perhaps the best illustration of this new paradigm is the family doctor. A family doctor's relationship with a patient often goes beyond the purely medical: they will talk to them about their lifestyles, future plans, and goals, so they can recommend the right courses of action. The wealth advisor's remit is, of course, quite different. But skilled advisors will get to the best recommendations by having equally broad conversations.

The difference with wealth advisors is that they need to do this convincingly with a variety of stakeholders, within the same family, each of whom will have different outlooks and expectations.

EFFECTIVELY USING CLIENT PERSONAS IN WEALTH MANAGEMENT

It is important for wealth managers to understand the psychology of the High-Net-Worth-Individual (HNWI) clients they are working with so that they can understand and communicate with them more effectively.

Whilst a personalised customer service is a contributer to success in any arena, it is increasingly important within the world of the HNWI where hyper-personalisation is to be expected.

To drive hyper-personalisation, wealth managers require a deep understanding of their clients so that communication styles can be adapted to them to create rapport. Forming client personas, spending time and money manually assessing each client or prospect's situation, means firms can streamline the personalisation process to improve their ability to better interact and connect with HNWIs to positive influence and service clients.

Wealth managers who use client personas can achieve greater outcomes. A 2018 study by TD Ameritrade found that firms with specific target markets had an 18% higher median profit margin and 35% higher median client growth[4].

[4][Source: https://www.kitces.com/blog/ideal-client-persona-financial-advisor-niche-marketing-messaging/]

SHAPING THE FUTURE OF WEALTH MANAGEMENT

Learning and development (L&D) leaders play a vital role in determining how their institution's wealth management and advisory capabilities evolve.

To help achieve this "family doctor" mindset L&D leaders need a clear, and structured approach to equipping advisors with the domain specific professional skills they need to build trust, empathise, and offer counsel to their clients.

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Alpha's CIRCLES methodology (see diagram below) provides a useful framework for assessing training needs for high-performance advisors. It is based on creating trust, empathy, and insight, and being authoritative through knowledge.

1. Create commercial targets and new business opportunities

Advisors should identify any notable events and external factors that provide an opportunity for a broader conversation. Major wealth events, such as selling the family business, or realising an explosive gain in asset values are good examples: after selling their business or liquidating some assets, a client worth $20 million may suddenly find themselves worth $70 million.

2. Intensity, conviction, and enthusiasm. Understand the client's situation, priorities, and needs

Advisors should be trained to recognise the different personas involved in wealth management and adapt their communication style accordingly. For example, many people who inherit wealth are finance-phobic and scared of the responsibility it brings. Others are VIPs who insist on special treatment. Others may have gained substantial fortunes quite suddenly – for example after winning the lottery – and will spend their money quite freely because they enjoy the independence it gives them.

3. Respond to clients' needs using paraphrasing and insightful summaries. Handle objections in a positive way that takes the eye off price and onto value

Advisors could encounter any combination of the personas described in point 2 around the table. Active listening and responding to different perspectives form vital parts of the skill set. It is down to advisors to understand their clients' goals and build their trust by demonstrating how their guidance can help them realise these goals.

4. Challenge (in a way that does not cause defensiveness) assumptions and emotions that maybe limiting action or exploration of options

When it comes to discussing investment products and options, advisors need the emotional intelligence to guide clients towards solutions they may not initially appreciate. Yet clients do not want to feel they are being "sold to" at any time. Institutions can play their part by shifting their emphasis from a "share of wallet" to "share of need." Doing so will focus minds on retaining client relationships. As wealth is passed down through generations, there is the potential for far greater long-term returns for institutions.

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5. Lead any solutions you offer to needs the client has verbalised

Advisors should know how to encourage - and process - sensitive, personal information. A client may tell them they have a terminal illness, or that their daughter has special educational needs and will require care for the rest of her life. To create the necessary atmosphere of candour, look again to the family doctor. Advisors must be emotionally literate without being emotional – clients want empathy from their advisor. This should never mutate into sympathy.

At some point, other experts such as inheritance planners or tax specialists, may need to be brought into client conversations. This always carries a degree of risk: poorly managed introductions could undermine the entire relationship. A deftness of touch is required to keep clients engaged.

6. Engage clients in what they care about – their agenda – not yours

An emphasis on share of mind over share of wallet, and an eye for long-term relationship building rather than short-term selling, will help give advisors the scope they need to deeply engage with their clients. Forward-looking organisations will look at a greater grasp of client needs, and trust that profits will follow.

7. Successfully close the deal, delighting the client and winning you more business

Ultimately, context and empathy are key. Wealth managers must understand the broader view of their client's situation, and appreciate the nuances involved. In an increasingly tech-powered world, many clients place more importance on the human touch. For advisors to add real value, there needs to be a behavioural shift, from simply selling products and solutions, to being ethically sound and demonstrably driven by their client's needs.

ADVISORY SKILLS FOR THE MULTI-GENERATIONAL WEALTH MANAGER

Having conversations around inheritance can be a sensitive topic. These discussions delve into topics that encompass various issues, including family relationships, end-of-life considerations, future uncertainty, intergenerational communication, and navigating family dynamics. Some of the key challenges faced by wealth managers in this context are as follows:

- Making these conversations as simple as possible
- Intergenerational planning and the flow of intergenerational wealth (mitigating outflows), tackling gifting and lifetime financial planning
- The ability to talk about basic pension planning and protection needs - providing clear explanations and building confidence in clients so they can make informed decisions
- Being able to build trust throughout the family: Parents, children (others) by being able to communicate and influence with integrity with different personas
- Shifting the dynamic of the conversation/challenging conversations
- Managing emotions in challenging conversations. Wealth managers should possess strong emotional intelligence and be adept at managing and addressing emotions to maintain a productive and empathetic environment
- Effective questioning in the inheritance tax (IHT) arena: wealth managers must be skilled in asking pertinent and probing questions to gain a comprehensive understanding of their clients' financial situations and objectives

Navigating these challenges requires wealth managers to possess a combination of technical expertise, interpersonal skills, and emotional intelligence. By addressing these complexities effectively, wealth managers can guide their clients and help them achieve their desired outcomes while maintaining strong family relationships.

CONCLUSION

Few clients will come close to the sheer nastiness of the Roy family. But the rise in multi-generational wealth management presents advisors with a clear challenge: **success no longer solely depends on market insight or having the best investment products**. Professional skills which reflect the new dynamics of wealth advice, like diplomacy, active listening, and consensus-building will now be the calling cards of the most successful intergenerational wealth management professionals today.

FIND OUT MORE

Wealth management is evolving. Speak to us today to learn more about the complex art of balancing multi-generational relationships as well as the wealth management advisory skills that are now required to stay ahead within the estate planning/inheritance arena.

Visit **www.alphadevelopment.com.**

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