More advice needed

New Philanthropy Capital

The role of trusted advisors in offering philanthropy services to high net worth clients

October 2008

Plum Lomax

Summary

There is a seismic shift underway in the landscape of European philanthropy. 60% of Europe's trusted advisors believe that philanthropy will be 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 from high net worth (HNW) 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 (UHNW) 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 a 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 that they cannot afford to ignore.

Background to the research

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

New Philanthropy Capital (UK), wise Partnership[i] (Switzerland) and the Bertelsmann Stiftung[ii] (Germany) commissioned Scorpio Partnership[iii] to research the role of wealth advisors in offering philanthropy services to HNW clients. The study's objectives were to identify:

- the current levels of philanthropy services offered by advisors,
- the potential benefits perceived in offering these services to their clients,
- 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 Table 1. The 'Other' category includes advisors focusing on philanthropy, foundations and socially-responsible investing (SRI).

The study follows research commissioned in June 2007 on the views of UHNW individuals—90% of whom recognised the need for expert advice on philanthropy, but did not believe that traditional wealth advisors were meeting that need.

Philanthropy in fashion

Increasing wealth across Europe has led to a growing interest in philanthropy. Many wealthy individuals 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.'

Table 1: Segmentation of sample group by advisor type

Service Offering	Private Bank	Multi-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

Source: Scorpio Partnership

60% 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 service to their clients. Furthermore, 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 service provision: 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 effectively spent, often requiring as much advice as structuring one's finance portfolio.

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 philanthropy requests because the conversion rate to mandated business is low. For example, Swiss and UK private client lawyers indicated that they only see new vehicle structuring business from 10% to 15% of initial leads. Interestingly, the new business success rate for MFOs is higher, perhaps due to the close relationships MFOs enjoy with clients.

MFOs achieving high conversion rate

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.

At this firm, the dedicated philanthropy expert invested significant effort collaborating with relationship managers to identify client situations that required specialist philanthropy input.

This hands-on education programme has led to relationship managers becoming increasingly confident in broaching the topic of philanthropy with clients. In addition, the relationship manager remains the key point of contact and works alongside the client, the philanthropy team and any outside experts.

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.

Advisors in this 2008 study are aware of the difficulties associated with the provision of philanthropic advice and give the industry as a whole a performance score of 2.9 out of 5 for its ability to service clients' philanthropic needs, although believe their individual firms respond better to client needs.

> "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.

> "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.

Private banks cited the problems associated with incentivising frontline staff as a reason that their philanthropy services are not adequately represented to clients. This has been recognised by a number of banks and there appears to be a trend towards encouraging frontline staff to talk to clients about philanthropy.

Incentivising philanthropy

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 this incentivisation model appears unique in the industry.

Aside from incentivisation issues, other key challenges are internal marketing and training. Many private banks 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.

Despite these training programmes, only 50% of the private banks interviewed felt their front-line teams are well trained in the philanthropy offer and 36% think they are only somewhat trained. As shown in figure 1, this compares with 70-89% of lawyers, accountants and MFOs who felt their teams are well trained in this area.

> 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 vehicle structuring and tax advice. But just over half the sample group is looking to expand their philanthropy services. 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 advisors planning to expand their services, two options were noted during the research as available:

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 advisors with regards to their philanthropy needs.

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.

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 it 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

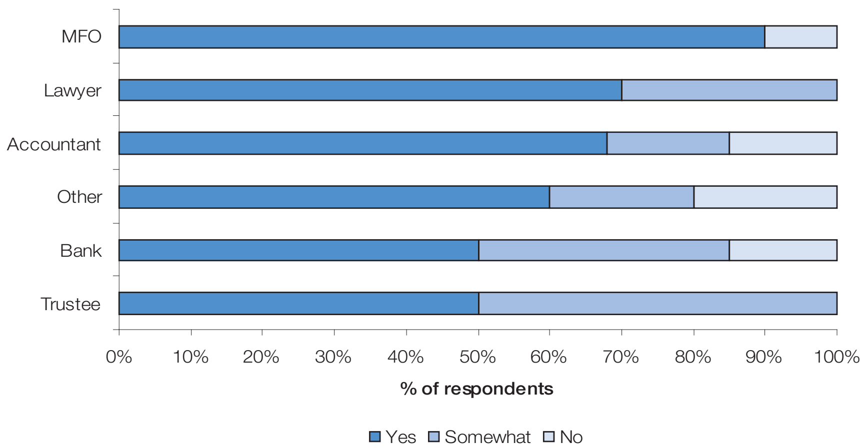
The benefits of offering philanthropic advice are great. 63% of advisors believe that the benefits of offering philanthropy services outweigh the drawbacks, with the main advantage seen as the opportunity to add value in client relationships. Other benefits cited by participants include client referrals, 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 2 shows, is the second-most mentioned benefit. Wider-ranging discussions about clients' motivations often result in the take-up of other products or services.

In the context of revenue potential, it should be noted that only 42% of respondents charge directly for services; 36% by way of hourly fee and 6% on a flat fee, mandate or project basis.

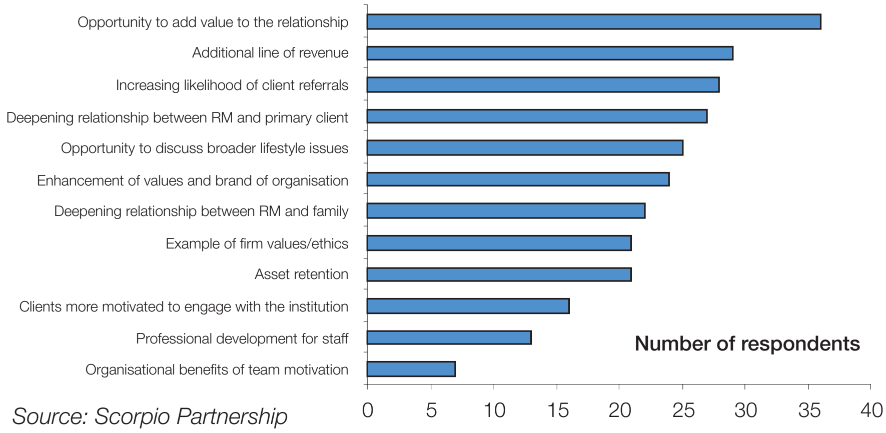
MFOs feel that discussions around philanthropy link well with the more complex and potentially contentious discussions regarding family governance and charters, leading to deeper relationships too. To some degree, philanthropy helps to soften these kinds of discussions. Moreover, discussions about the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

Figure 1: To what degree are advisors trained on philanthropy?



Source: Scorpio Partnership

Figure 2: Benefits of offering a philanthropy service



Source: Scorpio Partnership

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 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!

To read the entire research report, visit www.philanthropycapital.org

Notice and Disclaimer

The content of this report is the copyright of New Philanthropy Capital ("NPC").

- You may copy this report for your personal use and or for that of your firm or company and you may also republish, retransmit`, redistribute or otherwise make the report available to any other party provided that you acknowledge NPC's copyright in and authorship of this report.
- To the extent permitted by law, NPC shall not be liable for loss or damage arising out of or in connection with the use of this report. This limitation applies to all damages 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

New Philanthropy Capital (NPC) is a London-based charity which maximises the impact of donors and charities—it does this through independent research, tools for charities and advice for donors. Its research guides donors on how best to support causes such as cancer, education and mental health. As well as highlighting the areas of greatest need, NPC identifies charities that could use donations to best effect. Using this research, it advises clients and their trusted advisors, and helps them think through issues such as:

- Where is my support most needed and what results could it achieve?
- Which organisation could make the best use of my money?
- What is the best way to support these organisations?

To find out more see **www.philanthropycapital.org** or call +44 (0) 20 7785 6300.
Registered charity number 1091450

i **The wise Partnership** is an organisation, based in Switzerland, that accompanies donors and their families in fulfiling their philanthropic aspirations. Wise advises donors seeking to create new opportunities for social change and connects them with those acting with insight, expertise and leadership in the social field..**www.wise.net**

ii **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. **www.bertelsmann-stiftung.de**

iii **Scorpio Partnership** is a strategy consultancy to the wealth management industry and is based in London. The firm works with private banks, global private client investment managers and industry suppliers, plus high net worth individuals. **www.scorpiopartnership.com**

Additionally funded by

Investec Trust
The ATLANTIC Philanthropies
Butterfield Bank 150 Years