

THE CHALLENGES FACING THE ADVISORY MARKET

Working with emerging wealthy families and individuals has taught Fiscal Engineers some valuable lessons that have ultimately forced it to re-shape its business, says Shane Mullins

Given the complexity of managing wealth in today's fiscal environment and the levels of dissatisfaction with traditional advice channels, there is a growing trend among emerging wealthy families to look for new and alternative services when it comes to engaging advisers.

The extent of their wealth and demand for ever more complex service arrangements has risen significantly with the number of wealthy families steadily increasing since the mid 1990s. The UK financial services marketplace has failed to keep up with the complex demands of this group and is coming under increasing pressure to build more diverse, client-centric offerings.

Recent surveys estimate there are around 85,000 individuals with £1m or more in free assets and this number is set to grow. Managing time and complexity for them are two critical factors and are said to be shaping a new wealth market within the UK.

In the past, ultra high net worth families with over £150m in free assets have had their needs met by establishing their own family office or employing private banks dedicated to offering inter-generational wealth management services. Establishing a family office, however, is a costly and time-consuming business and involves co-ordinating numerous experts in the areas of investment management, banking, and tax and estate planning.

Although historically the larger players have dominated this market, there is a shift towards the development of strong independent brands or boutiques that offer their clients a much wider suite of services than the typical wealth manager. As a Nottingham-based advisory group, we specialise in providing a multi-disciplinary approach to managing wealth. This is founded upon strong relationship building qualities and fierce independence, something which is often lacking within traditional firms.

We commissioned research in 2004 to find out what clients really wanted from their advisory firm and what was most important to them. We weren't altogether surprised by the results, but the findings did force us to reappraise the very way we conducted business.

Having discovered that while issues like professional competence,

qualifications and charges were all very important, what clients really wanted to focus on were much softer issues like trust, understanding and peace of mind, all of which posed a challenge as to how we would respond in terms of service delivery.

We had to learn that we were dealing with the committed emotional responses to the way we engaged with our clients, not just the hard facts of advice. In essence, we were learning that clients wanted to buy and not be sold to, they wanted a hand in designing the services they received and they wanted a central point of contact, a co-ordinator to help organise their entire affairs.

To make the necessary shift we had to go through a complete metamorphosis from high-level strategic business planning down to where we sat people in the office. But this was not all about structural change on the outside, it was more to do with our culture, values and getting to grips with what we really believed in as a team.

We had to form teams within teams to focus on areas like fund research, client services and education and training. We had to learn new skill-sets such as process re-engineering and coaching, which have proved invaluable not only in working with each other, but more importantly, with our clients. Other changes included 'up-skilling' the team and we now have two certified financial planners, (soon to be three) and two fund management qualifications in-house.

A number of key structural changes were also made, perhaps the most important being to build our own financial planning tools and investment process. We observed a growing demand among institutional investors for liability-driven investment solutions (LDI), designed to meet specific investment needs or match the liabilities of a given fund and incorporated this into our process for private clients and trusts.

We began with working out a liability profile for each client individually to form a tailored benchmark for the core of their portfolio. We then set a clear definition of how a risk budget determines the satellite portion and the ultimate asset allocation decision for their funds. Because many of our clients are entrepreneurs, they tend to have very diverse portfolios and we



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have to educate them that diverse doesn't always mean diversified, so we separate these out from the main portfolio and manage these risks very differently.

The other challenge was to build institutional capability for the private client market, which meant leaving behind the ties of working closely with life companies to concentrate on B2B relationships with fund management groups. This enabled us to reduce costs for our clients and improve their investment experience.

The culmination of this work has meant re-engineering our business, not only in terms of the way we manage wealth, but how we blend that with the other important services our clients demand such as tax planning, company administration services and private equity funding.

Working with emerging wealthy families and individuals has taught us some valuable lessons that have ultimately helped to re-shape our business. We have effectively become a multi-disciplinary practice from our platform as a regulated entity, establishing what we call outsourced family office services.

Establishing a family office is quite different from simply providing financial planning or wealth management services. Firstly, you have to work as a dedicated team and have that team understand often very complex financial arrangements which you don't always meet head-on with the average client. Secondly, co-ordinating these arrangements into a single coherent strategy and helping to define objectives that might span 100 years or more requires a different level of thinking. Thirdly, you have to become obsessed with execution and delivery and be able to make things happen not just make recommendations.

We provide the equivalent of a business plan and implementation framework for each client to bring clarity as to what the key objectives and timescales are and who is ultimately responsible for any actions to be taken. Clients often form an advisory board, each having different areas of responsibility which might include family members themselves.

The result is about getting families and estates well-organised and helping them to clarify what their wealth not only means for them, but also

for future generations. The emphasis is often on wealth preservation rather than accumulation and on strategic not just tactical issues.

There is a need for alternative charging structures where transparency and managing conflicts of interest are critical. Furthermore, there is a need to adapt and change as advisers in getting to grips with what clients really want from us. This key question is, how will the market respond?

The larger players serving this market are still trying to compete on the wrong basis and should redeploy their resources around service, not product design, manufacture or distribution.

Segmentation models will be adopted as the panacea by wealth management businesses but will leave wealthy clients, who are highly individualistic, feeling pigeon-holed into repackaged service solutions no different from the products they are already highly disenchanted with.

The winners servicing this emerging group will be those who can design truly bespoke service arrangements, centred on catering for their clients' needs, not simply re-bundling and selling packaged products and services.

In the end wealth breeds complexity and with complexity comes the need for professional advice ■

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