



The role of wealth advisors offering philanthropy services to high-net-worth individuals



| BertelsmannStiftung



The
ATLANTIC
Philanthropies



Dynamics of the Irish market

October 2008

Introduction

In the summer of 2008, **Scorpio Partnership** was engaged by **New Philanthropy Capital** (United Kingdom), **wise** (Switzerland) and the **Bertelsmann Stiftung** (Germany) 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.

The first was to identify the current levels of service offered by wealth advisors to support the philanthropic goals of HNW and ultra-high-net-worth (UHNW) donors.

The second was to identify the potential benefits that advisors perceive in offering philanthropy services to their clients. This also involved highlighting some of the barriers currently preventing advisors from offering philanthropy.

The third objective was to identify the philanthropy tools, products and services that advisors need to offer to their clients in order to assist them to define their approach to giving, or to help them select and monitor suitable charities.

The research follows on from work undertaken by the partners on the views of UHNW donors and family offices in June 2007. A total of 35 active philanthropists each with more than EUR100 million in net wealth took part in this research.

In that study, 90% of the UHNW donors recognised the need for expert advice in the philanthropic process, but did not believe that traditional wealth advisors were meeting that need.

Methodology

The research was conducted through telephone interviews with 100 private client advisors across Europe between June and September 2008. Included in the sample group were a total of seven interviews with wealth advisors in Ireland.

The research methodology for the study was essentially qualitative, although a number of charts have been included in the main report where they are illustrative of significant trends.

Due to the sample size of Irish wealth advisors, it has not been possible to cross reference all the findings of the main research. However, this briefing report highlights the areas of significant difference from the main sample group. It also includes a number of charts, which have been selected where they are strongly illustrative of a trend that is different from the main sample group.

Naturally, the small size of the sample group means that any quantitative data included in this report should not be regarded as statistically valid, but only illustrative of an underlying theme or issue.

Sample group

- Of the 100 interviews carried out across Europe in the course of the research project, seven were conducted in Ireland.
- Of this total, four were specialist consultants who provide philanthropy advice to wealth families and/or foundation heads. They are identified in Figure 1 as “Other” wealth advisors.
- A further 10 Irish private banks, legal and accounting firms were contacted in the course of the research, but declined to comment. They typically felt they lacked sufficient expertise in the area of philanthropy to comment in a meaningful way. This was despite the fact that these firms had been referred as having notable capabilities in the field of philanthropy.

Importance of philanthropy to the wealth advisory business in Ireland

- It was a common view among the respondents in Ireland that there is a gap in the Irish market for better philanthropy advisory services for HNW clients.
- This gap is illustrated in Figure 2. The private bank, legal and accounting respondents indicated that on a scale of 1-5, philanthropy registered a score of 2 in importance to their business. This contrasts with the average across the whole study sample group of 3.2.
- Of note, the philanthropy specialists felt they were filling this gap, but that other advisors must build their services.
- Typical comments included:

“There is virtually no service in this area in Ireland.”

“There is very little input from the local banks.”

“Advisors need to fill those gaps by offering a compelling service, but there is very little coming from the wealth advisors.”

Figure 1: Segmentation of Irish sample group, by advisor type

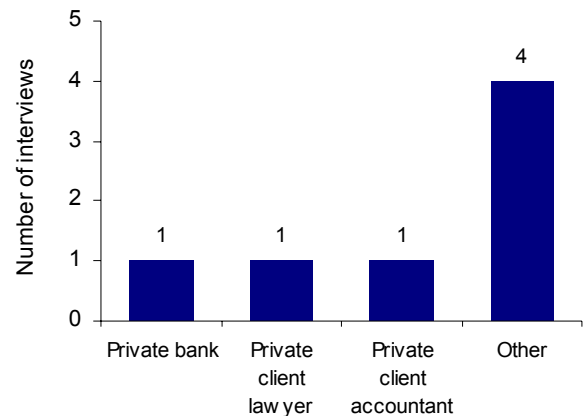
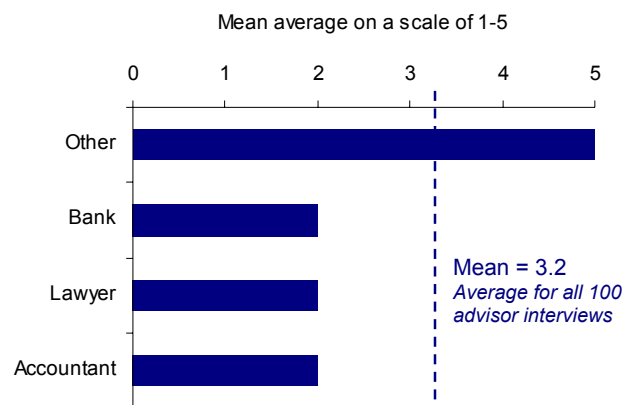


Figure 2: On a scale of 1-5, how important is philanthropy to the business?

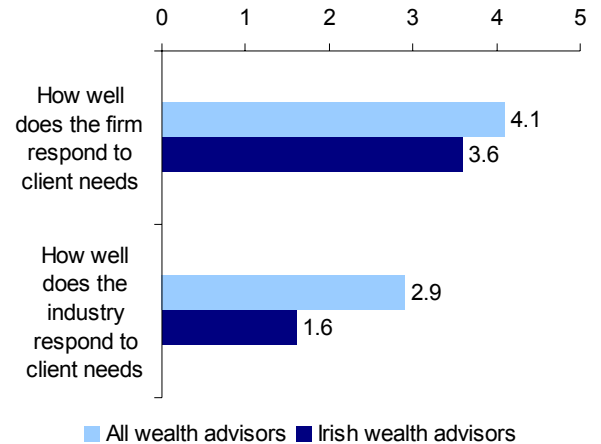
Irish responses



- This view was echoed when the Irish wealth advisors were asked how well their individual firms and the industry as a whole respond to client needs. The responses indicate that Irish wealth advisors do not feel their firm or the industry is responding well – particularly when contrasted against the responses of the wealth advisors in the full study.
- Of note, wealth advisors in Ireland felt the industry scored just 1.6 out of 5 in meeting client needs. This compares with the sample group of 100 wealth advisors in the full study that gave a score of 2.9 to the industry at large.
- Indeed, one wealth advisor in Ireland observed that their firm’s other European offices have philanthropy capabilities that are significantly more advanced and better integrated than the services they can offer in the Irish market.

Figure 3: How well do individual firms and the industry respond to client needs? (mean average score on 1-5 scale)

Irish responses contrasted with all responses



- Linked to this, the full study found that the majority of wealth advisors across Europe felt that philanthropy would be core to the wealth management proposition in five years time. By contrast, Irish wealth advisors were unanimous that the market would take more time to develop.
- Indeed, several of the advisors commented that Ireland’s wealth advisory business lagged 5-10 years behind the rest of the European Union and the United States in the provision of philanthropy advice to HNWs.
- Typical comments included:

“Maybe philanthropy services will be core in 10 years. The wealth management industry first needs to develop.”

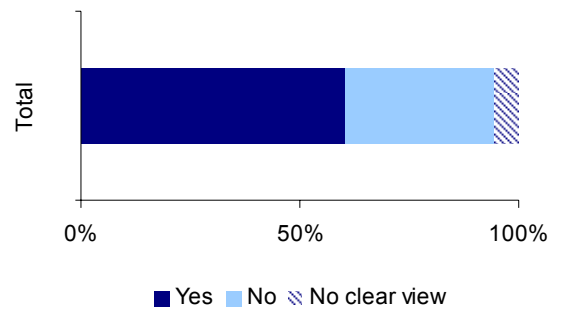
“The Irish market is in its infancy and will require more time for philanthropy to be an accepted part of the service offering.”

“The market still needs to do a lot of catching up. That alone may take more than five years.”

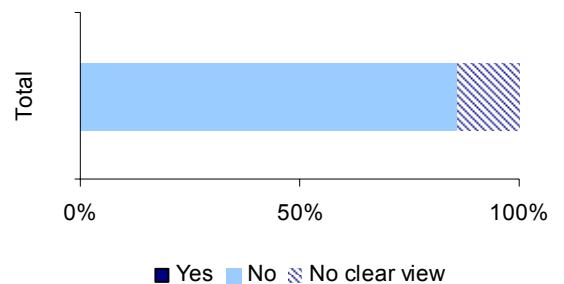
“The advisory community has been very slow to adopt philanthropy and there is very little being done.”

Figure 4: Will philanthropy be core to the wealth advisors’ offering in 5 years time?

All responses



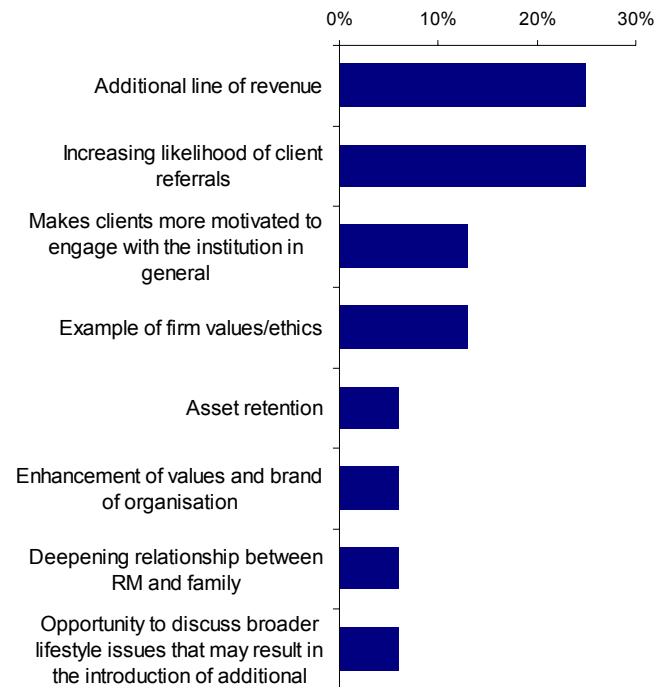
Irish responses



The benefits and drawbacks of offering philanthropy services

- All the Irish wealth advisors felt the demand for philanthropy services among HNW clients was growing. Indeed, 100% reported growth in the volume of client requests in the last two years, versus 63% among the full sample group.
- This demand was primarily being driven by the dramatic growth in the Irish HNW market, which has experienced strong double-digit growth for a number of years. Additionally, advisors commented on the tradition of giving in the Irish market.
- Of note among the Irish respondents, the opportunity to generate revenue and the increasing likelihood of securing client referrals featured particularly strongly among the benefits of offering philanthropy services.
- By contrast, the full study showed that the opportunity to add value in the relationship was the key benefit of providing philanthropy services.
- The focus on revenue partly reflects the Irish sample group, which had only one private bank represented. Private banks are the least likely advisor type to charge for services.
- However, interestingly, several of the Irish participants observed that private banks in Ireland will only be motivated to launch philanthropy services if there is the potential to generate revenues.
- This would suggest that revenue potential is likely to be a major motivating factor for wealth advisors to launch philanthropy services in Ireland. In turn, this may mean that in the future philanthropy advisory services are more likely to be offered on a fee basis in Ireland than in other European countries. By contrast, among the full sample group only 42% of advisors charged for their philanthropy services.

Figure 5: What are the benefits of offering a philanthropy service? (% of responses)



- Also of note, the Irish wealth advisors cited reputational risks as being the most important potential drawback to offering philanthropy services.
- In particular, the Irish participants cited examples of the misappropriation of funds by charities in Ireland as having damaged trust in the sector. Wealth advisory firms may therefore avoid getting involved in the provision of selection advice to avoid the potential reputational risk.
- The view was also expressed by several of the advisors that the lack of expertise among wealth advisors and third-party charity specialists also held the possibility of reputational damage. Put simply, where firms offer any form of philanthropy advice, it tends to be on an ad hoc and one-off basis, which carries reputational risk.
- By contrast, reputational risk ranked seventh in the list of potential drawbacks among the sample group as a whole.

Delivery of philanthropy services

- Among the sample group as a whole, it was the common view that improved training and marketing for existing philanthropy services would be key to increasing client volumes. Incentivisation of front-line staff, improved networking and the creation of pooled vehicles also featured among responses.
- By contrast, in Ireland the view was that as most wealth advisory firms do not have a philanthropy service yet, the priority is to encourage firms to meet the existing demand from HNW clients.
- This is best illustrated in the responses to the question of who should fill the gaps in the wealth advisory team for philanthropy advisory services. The unanimous view in Ireland was that existing providers need to build their services to meet client needs.

Figure 6: Reasons for not offering philanthropy services (% of responses)

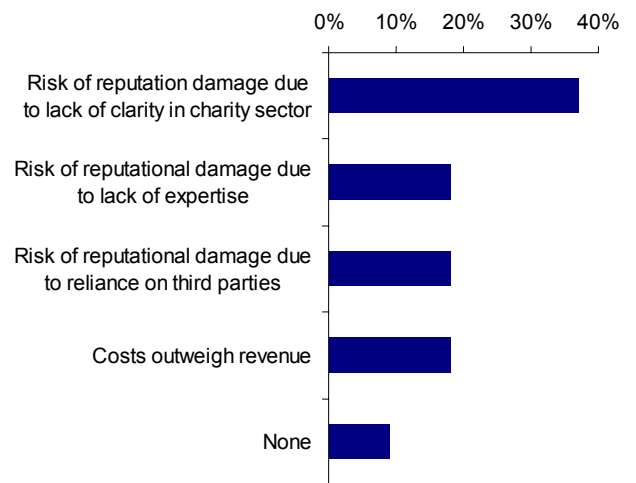
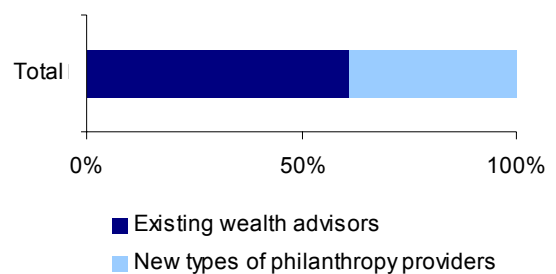
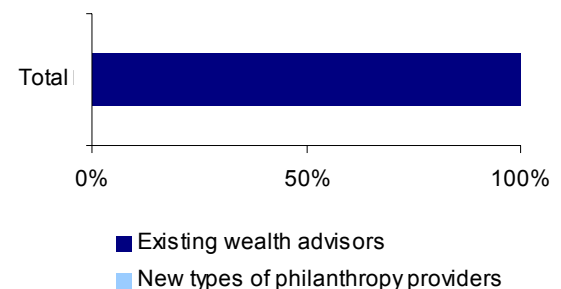


Figure 7: Type of advisor best placed to fill the gaps (% of respondents)

All responses



Irish responses



- To stimulate this change, the Irish participants felt that the creation of pooled vehicles that could facilitate wider giving among HNWs would help to stimulate demand. It was also felt that the government and clients themselves have a role to play.

- Typical comments included:

“Wealth advisors haven’t even come to grips with philanthropy so how can a new entrant into the market actually add anything? There is no market to gain access to at present.”

“Up until now the banks have done very little to offer a service to clients. As a consequence, they find that by the time a client approaches a firm, they have already done the majority of the work themselves.”

“Wealth advisors need clients to drive the demand. Until then, there won’t be enough work in Ireland and philanthropy will never be a dedicated service.”

“The demand for an extended service has been very muted. Clients believe the impetus should come from advisors and not from them.”

“The clients do not ask for it but that is because there is not formalised visible service in the market at present. The legislation is also very poor and the tax relief given to charitable giving has been reduced significantly.”

“There is a lot of work being duplicated in the industry and the administration costs are not addressed. Unless there are greater efficiencies, clients will be hesitant to set up a foundation.”

Summary

Among the sample group as a whole, the responses from wealth advisors in Ireland suggested that it is currently one of the less developed markets in Europe with regard to the range and depth of philanthropy services on offer to HNW clients.

This is despite a long tradition of giving and significant growth in HNW wealth in recent years.

However, there are also some notable moves to push the issue of philanthropy and philanthropy advice onto the wealth advisory agenda.

For example, the Institute of Bankers in Ireland is seeking to integrate philanthropy into the professional training curriculum.

The Community Foundation for Ireland has also undertaken a broad advisor study in Ireland to improve understanding of clients’ giving behaviour and how this might impact the industry’s development.

The Irish government, meanwhile, has commissioned a study to determine the extent of current philanthropic giving as part of a review of fiscal policy.

More broadly, there is an expectation that the wealth advisory community in Ireland will increasingly engage with the issues of HNW giving, but that the country will likely remain 5-10 years behind Europe for some time.

About the partners

New Philanthropy Capital

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?

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wise

wise is an organisation that accompanies donors and their families in fulfilling 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.

To achieve this objective, wise listens attentively to donors to thoroughly understand their needs and aspirations. They are then guided in choosing among the multitude of existing organisations; those that best meet their expectations and correspond to genuine needs. wise has developed tools and processes to meet the standards of transparency and impact, ensuring that the opportunities created will make a sustainable difference.

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The Bertelsmann Stiftung

In keeping with the longstanding commitment of its founder, Reinhard Mohn, 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. Furthermore the Bertelsmann Stiftung promotes the concept of philanthropy and wants to bring fresh momentum to civic engagement. The Bertelsmann Stiftung was founded in 1977. It functions exclusively as an operating foundation.

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Scorpio Partnership

Scorpio Partnership is a strategy consultancy to the wealth management industry and is based in London. The firm, founded in 1998, has conducted more than 300 global assignments for over 120 institutions in private banking, fund management, family offices, technology and resource management, as well as for related service providers to the wealth management industry. The firm is independent and owned by management.

Scorpio Partnership specialises in qualitative interviewing of HNW individuals and wealth management industry professionals to support strategic assessments and future initiatives. This forms the foundation for strategic recommendations to clients. Scorpio Partnership bases its interviews on an assignment brief and an interview issues guide that is developed in conjunction with the client. The firm has interviewed over 5,000 HNW and UHNW consumers of wealth management services globally and more than 10,000 wealth management staff and intermediaries.

In April 2008*, Scorpio Partnership was voted the best global consultancy to the wealth management industry for the third consecutive year, ahead of the top three global management consulting firms.

**WealthBriefing, 2006 - 2008*

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