

***The role of wealth advisors in offering
philanthropy services
to high-net-worth clients***

October 2008

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Assignment 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.

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.

www.wise.net
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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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Methodology

The research was conducted through telephone interviews with 100 private client advisors across Europe between June and September 2008. The scale of this research is unprecedented, as well as the view it provides on HNW advisor attitudes to issues surrounding philanthropy in Europe.

The study focused on firms that offer philanthropy; although a number of firms that do not offer philanthropy were also included to understand the barriers or obstacles to offering the services. Of the 100 interviews conducted, 78 were with firms that currently offer the services and 22 with firms that do not. Moreover, the advisors were segmented into six groups: private banks, multi-family offices (MFOs), trustees, private client lawyers, private client accountants and other specialist wealth advisors who focus on philanthropy, foundations and socially-responsible investing (SRI).

This latter category is the most disparate, including consultants to wealthy families, heads of the foundations linked to wealth advisory firms and philanthropy advisors whose practice covers charities and donors. Of note, none of the partners participated in the 2008 research.

It should be noted that due to the qualitative nature of the interviews, not all advisors responded to each question.

Defining the private client services related to philanthropy

There are four categories of service that are related to the philanthropic journey of HNW clients. These are: planning, vehicle structuring, selection and monitoring.

The specific services that wealth advisors would include in each category are described below. Typically wealth advisors offer a range of these services either in-house or in conjunction with third parties.

Planning

- Decision on what type of giver to be
- Advice on finance and tax implications
- Information and advice on the giving process
- Facilitation of discussions on how to get the family involved
- Education for the current or next generation
- Networking with peers

Vehicle structuring

- Setting up a giving vehicle
- Asset management style 'products' to facilitate donations

Selection

- Identifying causes, charities, organisations or projects to support
- Introductions to organisations or project teams
- Arranging personal involvement for clients or family members

Monitoring

- Cash management of donations
- Review and advice on current portfolio relative to peers
- Monitoring and impact assessment

Figure 1: Segmentation of sample group, by advisor type

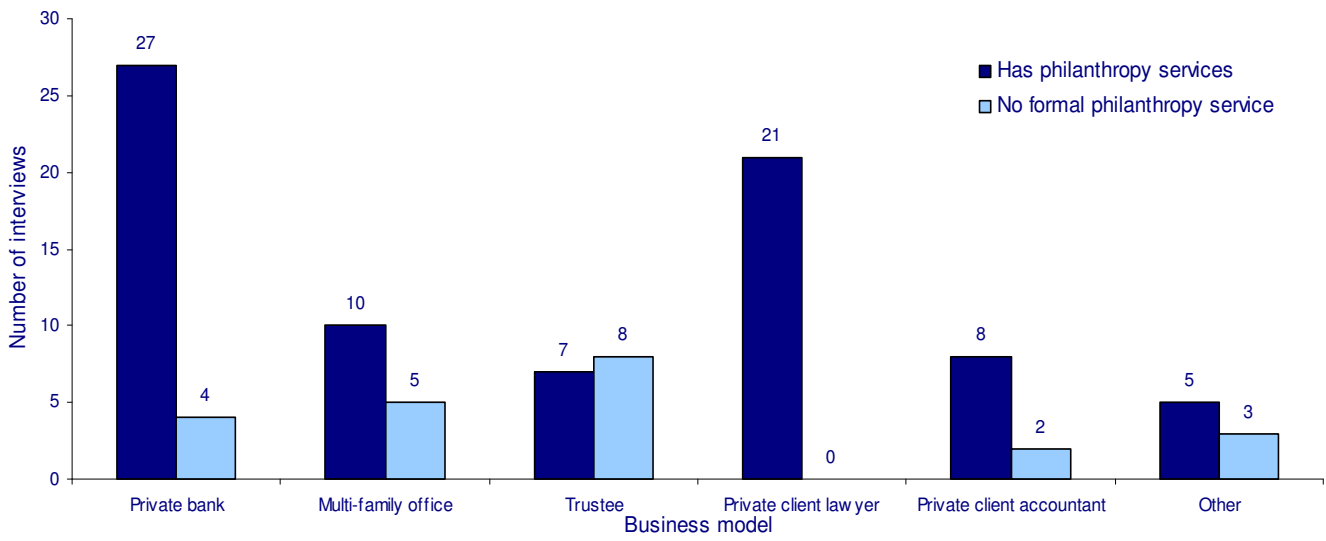
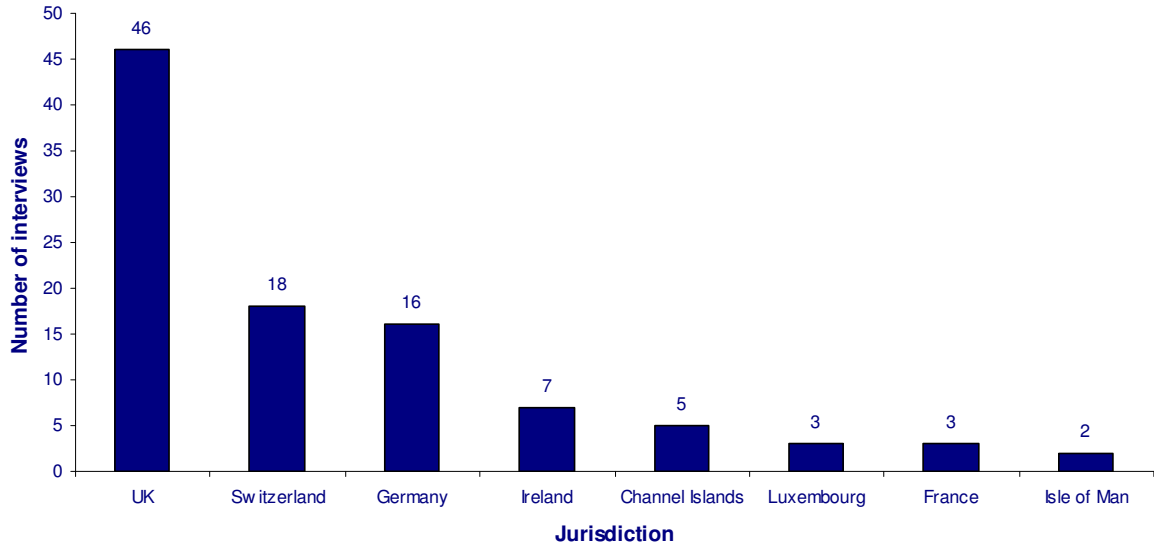


Figure 2: Segmentation of sample group, by geography



Source: Scorpio Partnership

Key findings

- Philanthropy is important to the business of wealth advisors and 60% of participants believe that it will continue to grow in importance over the next five years to a point where it becomes a core pillar of private client services in their respective fields.
- Even in the current economic environment, advisors feel that client demand for philanthropy services will remain strong due to long-established wealth creation trends and the growing importance of markets such as the Middle East and Russia.
- Setting up a giving vehicle and providing advice on finance and tax are the services wealth advisors are most likely to offer, but many have expanded their philanthropy service from this core offering with in-house and third party resource. However, the combination of services offered by different wealth advisors in different ways creates a complex landscape of service provision for HNW clients to navigate.
- In part, this fragmentation explains why most wealth advisors report relatively low client volumes for philanthropy services, with most firms receiving only between one and five requests from clients per month.
- In addition to fragmentation, other key challenges include the lack of incentivisation for front line staff to offer philanthropy services, a lack of detailed knowledge surrounding revenue flows linked to philanthropy services and a lack of pro-active external marketing of philanthropy services directly to clients. Most firms have yet to tackle these problems, although many now have active training and internal marketing programmes to build awareness.
- Wealth advisors 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 five for its ability to service clients' philanthropic needs.
- It is also important to note that despite the challenges, most wealth advisors are positive about the benefits of offering philanthropy services to clients. 63% of wealth advisors believe that the benefits to offering philanthropy services outweigh the drawbacks with the ability to deepen client relationships is seen as the main value added of offering philanthropy advice to clients.
- This positive outlook is feeding through to grass-roots change and there are clear signs that the wealth advisory industry is taking on some of the structural challenges. Wealth advisors believe that better networks are the key to developing the sector. These networks can be formed to support thought leadership and to build best practice approaches. Moreover, wealth advisors believe that efforts to standardise services and lobbying for vehicles that can pool the philanthropic activity of less wealthy clients will help improve the economies of scale within the industry.
- Finally, there are recognised common goals across the industry: in terms of the steps in the philanthropic journey that clients need support to achieve and the levels of standardisation necessary to achieve the requisite economies of scale. This common understanding presents a firm foundation on which wealth advisors can build and extend their capabilities.

Five recommendations

- With many advisors that offer philanthropy services stating that it will be core to their wealth advisory service over the next five years, firms need to assess their level of commitment to this activity and gear up accordingly.
- Those offering philanthropy services will benefit from a greater pooling of information and expertise to create streamlined and cost efficient giving processes and vehicles in order to attract donors in larger numbers. In turn, this will assist to build critical mass and efficiency in the service offer.
- The low volume of requests and conversions, as well as direct feedback from HNW and UHNW clients, indicates that many private clients are not aware of the philanthropy services that have been built by wealth advisors. Training, profile building and an examination of incentive schemes should be considered to maximise the benefits of existing philanthropy services and fuel future expansion.
- Wealth advisory firms would also benefit from targeted segmentation of their philanthropy services to ensure they have cost effective solutions for all segments of the HNW and UHNW client base. This would broaden the appeal of the service and increase volumes. Moreover, it would assist advisors to identify gaps in their current service offering and fill those gaps in-house or in partnership with third parties.
- Many wealth advisors already work in partnership with third parties to offer a comprehensive range of philanthropy services, while focusing in-house on their core areas of expertise. However, many advisors lack knowledge of the range of philanthropy services available from specialist providers. More effective networking opportunities would benefit all parties.

European philanthropy industry dynamics

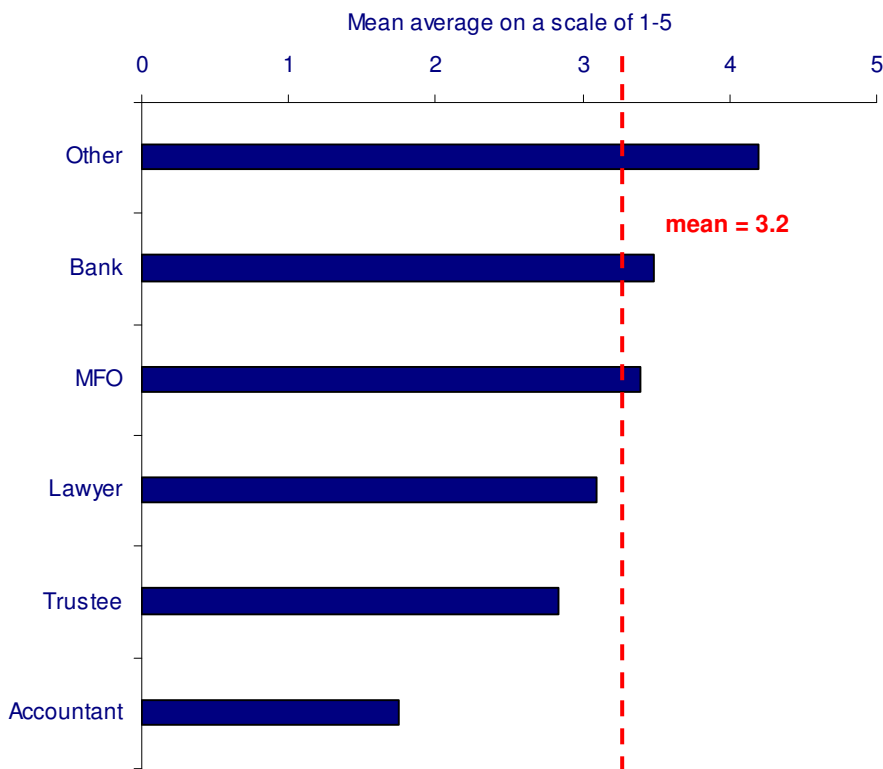
The growth in importance of philanthropy-related services to wealth advisors

Philanthropy is set to become more important to the business of wealth advisors according to the 100 private client wealth advisors interviewed in the summer of 2008 for the study. Overall the respondents gave philanthropy a mean rating of 3.2 out of five in terms of importance to their businesses today.

The responses indicate that philanthropy services are regarded as more important to private banks, MFOs, lawyers and the other specialists than they are to trustees and accountants. This is related to the view that philanthropy is important to maintaining the holistic relationship for which private banks and MFOs strive.

The other specialist wealth advisors and project experts, who include consultants to wealthy families, heads of the foundations linked to wealth advisory firms and philanthropy advisors whose practice covers charities and donors, regard philanthropy services to be of the highest importance to their businesses. This reflects their agenda-setting role in the philanthropy world.

Figure 3: How important is philanthropy to the business, by type of advisor? (mean score)



Source: Scorpio Partnership

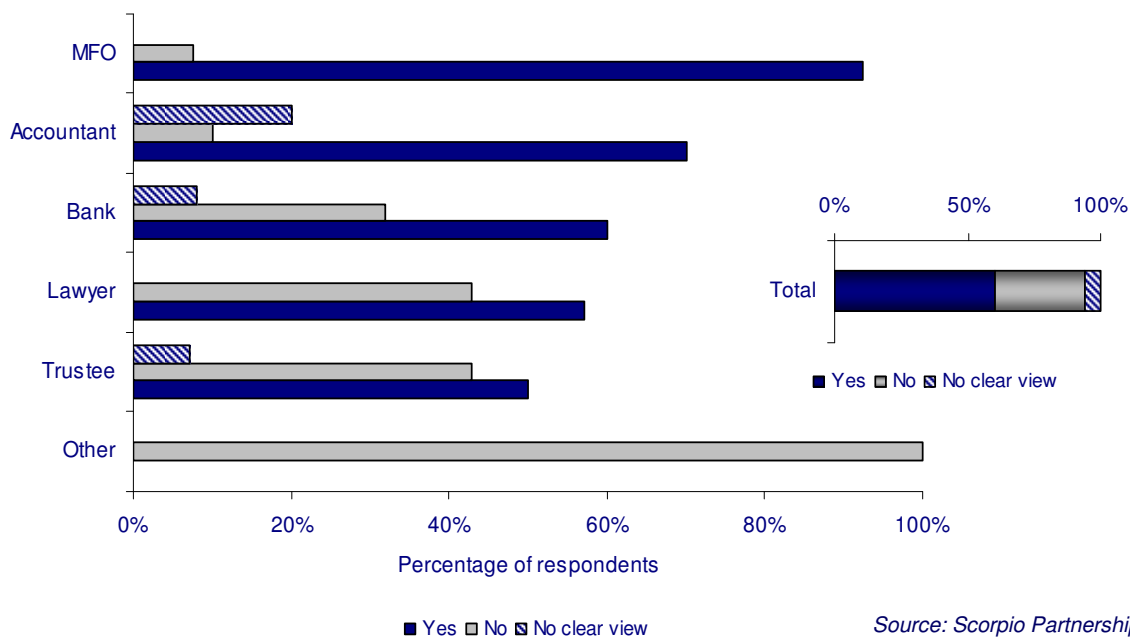
The European philanthropy landscape is changing, however. 60% of all the participants believe that philanthropy will continue to grow in importance over the next five years to the point where it becomes a pillar of the wealth management or private client service for advisors in their respective fields. Notably, this percentage includes both wealth advisors currently offering philanthropy services and those that do not.

The only exception to this general finding is among the specialist consultants and advisors to wealthy families, who felt that mainstream wealth advisors do not necessarily have the skill sets or the business models to support the breadth of HNW client needs. In particular, they felt that UHNW clients and major donors often have complex or sensitive requirements that may take considerable consulting time to support.

The view was that these needs cannot necessarily be met by wealth advisors whose focus is on structuring; or by wealth advisors who charge on an hourly basis; or by those who do not charge for philanthropy and therefore are less likely to be willing to devote the necessary time to the project.

Even so, the results strongly indicate that a dramatic shift is underway in the wealth advisory community and the importance of philanthropy to all the types of wealth advisor will increase over the next five years.

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



Driving this change is a predicted rise in the demand of HNW individuals to engage in philanthropy. Private banks in particular believe that long-term wealth creation trends and the growing importance of markets like the Middle East and Russia to the wealth management industry are likely to fuel the philanthropy trend even through the current market downturn.

Some noted that UHNW clients are somewhat insulated from economic shocks as their capital base usually far exceeds their consumption requirement. Where philanthropy is a priority, these clients will likely continue as donors.

Others observe that many HNW philanthropists whose wealth was generated through a liquidity event often have a staged exit from their business. These individuals may continue to receive capital inflows; albeit potentially reduced due to stock market performance.

Meanwhile, markets such as the Middle East and Russia are likely to continue on a growth curve fuelled by high oil prices. Many predict it may be 10 years before these markets reach their full wealth creation potential. By extension, the philanthropic activity of wealthy individuals from these markets is also likely to grow and they will continue to seek philanthropy services in countries where the expertise exists.

Participants highlighted another driver of philanthropic activity is the movement in Europe toward the US approach to philanthropy, where giving is often integral to the activities of wealthy families. Several advisors, notably in Switzerland, commented that their UHNW clients are adopting this Anglo-Saxon model of philanthropy. Not only are UHNWs increasingly engaging in philanthropy, but they are also viewing it as an important part of the family's activity. Indeed, they will often run their philanthropy along the same lines as their business. For example, UHNWs expect their foundations to be run with overheads not exceeding 10%-20%. They also expect strong asset management performance to ensure the foundations will remain adequately funded for the future.

Market snapshot – Switzerland

The Swiss philanthropy market is undergoing a rapid change. Swiss banks are taking a more active interest in philanthropy services. Family offices of all types also have a keen interest and are discreet leaders in the field.

Swiss foundations are the most popular philanthropy vehicle. The key benefits offered by the foundations are control and secrecy. Unlike in the UK, charity records are not public information in Switzerland.

However, the international nature of Swiss-banking clients means that there are often parallel structures in the country or countries where funds are dispersed. These may be different and depend on the local tax and regulatory climate. For example, a Swiss foundation may distribute assets through a UK registered grant-making charity in order to maximise the monetary value of donations. Consequently, the cross-border aspect of Swiss philanthropy is seen as one of the key challenges in structuring effective vehicles for UHNW clients and a significant part of the advisory remit.

There is little direct tax incentive for a client to establish a giving vehicle in Switzerland; the tax benefits usually accrue in the country of dispersal. Yet, if family offices are based in Switzerland, Swiss vehicles are used for administrative convenience.

The Swiss market has well-evolved networks and information sharing forums. Private banks' philanthropy services are thus more visible in Switzerland than most other jurisdictions, and clients are aware that their private banks can assist them in this respect.

By contrast, few MFOs or lawyers formally market their philanthropy solutions. They consider philanthropy to be part of a wider suite of services available to clients and rarely used as a tool to attract clients.

There is also a small, but growing market for specialist advisors such as philanthropy project managers. This is due to the high concentration of UHNW clients who require these services.

The main players and the range of services offered

As Figure 5 shows, most wealth advisors indicated that setting up the giving vehicle is their core area of competence in the philanthropic process. Trustees, lawyers and accountants unsurprisingly also commented on their unique ability to offer advice on finance and tax. Meanwhile, MFOs, private banks and trustees highlighted their abilities in the management of philanthropic cash flows.

However, it was notable across the sample group of wealth advisors that offer philanthropy services that many have built out from this core service offering to try to support their HNW clients through the philanthropic journey. Some have broadened the range of services offered in-house; although many work in conjunction with third parties for specialist advice and expertise. For example, MFOs and private banks will invariably work with lawyers and accountants to provide their clients with advice on the tax implications of philanthropic giving.

It is also common for wealth advisors who offer philanthropy services to work with specialist third parties to provide clients with support on the decision regarding what type of giver to be, advice on the giving process and education. Third parties are also widely used by wealth advisors to support HNW clients in the identification of organisations, projects or charities, introductions, personal involvement, ongoing monitoring and the peer review of philanthropic portfolios.

Figure 5: Which services are offered in-house and by third-parties as part of the giving process?

(To be included the service had to be offered by at least 60% of wealth advisors in the category)

Activity	MFO	Private bank	Trustee	Lawyer	Accountant	Other	All
Decision on type of giver	○/❖	○/❖	○	❖	❖	○	○/❖
Advice on finance and tax	❖	❖	○	○	○		○/❖
1 Advice on giving process	○/❖	○/❖	○	○		○	○/❖
Facilitating family involvement	○	○/❖	○	○			○
Education	○	❖	❖	❖		○	❖
Networking with peers	○	○	○			○	○
2 Setting up vehicle	○	○	○	○	○		○
Products to facilitate donations	❖	○					○/❖
3 Identifying organisations/projects	○/❖	○/❖	❖			○	❖
Introductions to organisations/teams	❖	○/❖	❖			○	❖
Arranging personal involvement	○/❖	❖	❖				❖
4 Monitoring and impact assessment	❖	❖	❖		○		❖
Cash management	○	○	○				○
Review of portfolio relative to peers	○/❖		❖			○	❖

○ = In house
❖ = Third party

1= Planning 2=Vehicle Structuring 3=Project Selection 4=Ongoing Monitoring

■ Philanthropy service for wealth advisors are most likely to offer in-house (core) ■ Philanthropy service wealth advisors are most likely to offer through third parties (non-core)

Source: Scorpio Partnership

Indeed, wealth advisors are far more likely to concentrate their in-house efforts on supporting the early part of the philanthropic process. There are several reasons for this. One, if clients approach a wealth advisor for philanthropy advice they are usually in the early phases of the giving process. Two, selection and monitoring are resource intensive activities, requiring a large number of analysts to perform due diligence and to track performance. Three, there are greater reputational risks to the advisor in making specific recommendations in the absence of specialist knowledge.

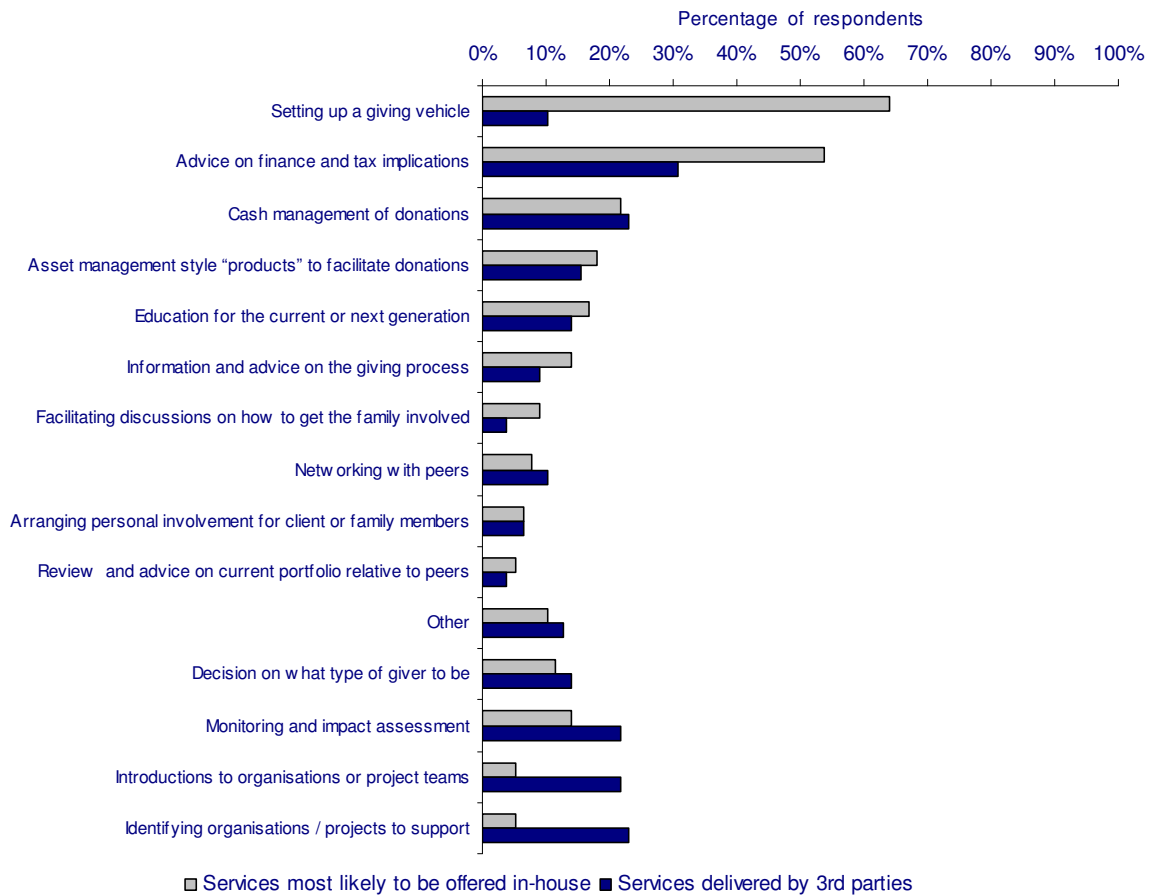
MFOs and private banks are the most likely types of advisor to stretch their offering to support clients across the philanthropic process. This reflects the fact that MFOs and private banks are increasingly seeking to provide their clients with a broad range of holistic wealth management services. MFOs in particular work exclusively with UHNW clients and see it as part of their role to support their clients' full range of wealth needs. Similarly, trustees, who take full fiduciary responsibility for their clients' assets, must demonstrate the ability to support all aspects of the giving process.

Among the other types of advisors, lawyers and accountants are most likely to focus on core competencies relating to tax advice and vehicle structuring.

Meanwhile, specialists philanthropy advisors are most likely to support HNW and UHNW clients with decision-support, education, the identification of and introduction to projects and organisations, and benchmarking. To some degree they are operating to provide services that have not historically been part of the wealth advisors philanthropic offering.

The range of services offered by different advisor types and their areas of focus, shown in Figure 5, would suggest that wealth advisors that offer philanthropy services have a fairly well rounded offer. However, when the sample group as a whole is considered, a very different picture emerges.

Figure 6: Comparison between services offered in-house and services obtained from third parties (% of respondents)



Source: Scorpio Partnership

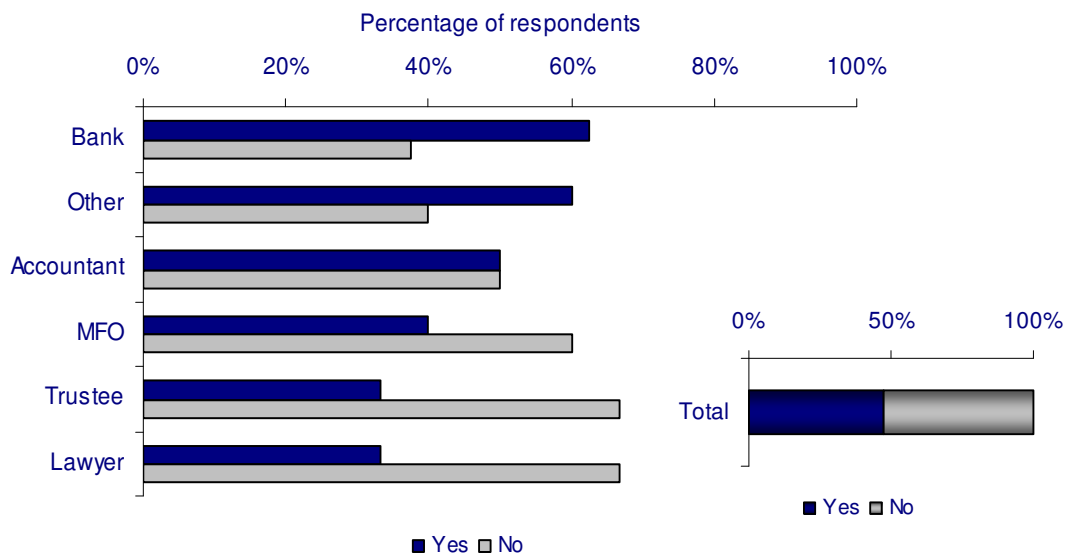
Figure 6 clearly shows that wealth advisors that offer philanthropy services universally give advice on setting up philanthropic vehicles, including the finance and tax implications, but aside from these core services it becomes increasingly hit and miss whether the firm can support other philanthropic needs – either in-house or with the help of third parties.

It is therefore not surprising that the UHNWs in the 2007 study indicated that they did not know where to turn in the wealth advisory community for support for their philanthropic needs.

Expansion of advisors’ philanthropy offerings

To some degree, the industry is addressing this issue of fragmentation. Of the total sample group, just over half of the wealth advisors are looking to expand their philanthropy services. However, there is clearly a long way to go before the service offering is standardised.

Figure 7: Proportion of advisors that plan to expand their philanthropy offering



Source: Scorpio Partnership

Private banks and specialist advisors in particular were looking to build their capability. Many private banks already offer a broad array of philanthropy services and thus are looking to beef up their existing teams. This is reflective of the expectation that philanthropy will become increasingly core to the European wealth management business over time.

Private client lawyers, by contrast, feel that a decision to focus more on philanthropy will depend on what kind of clientele a firm has and how much sense it makes for the firm to concentrate on this area. Tax and legal matters related to vehicle structuring are likely to remain at the forefront of their services, but an increasing focus on governance within the family context may mean firms become more involved in areas such as planning and monitoring in conjunction with third-party specialists.

However, some cautioned that an increased focus on philanthropy services will inevitably be accompanied over time by questions about the quality of different offers. Many MFOs believe that those players with a head start will maintain the lead and the largest share of the market. As one MFO observed:

“There is very little reason for a client to go with an untried provider.”

Growing demand for philanthropy services

There is already evidence of growing client demand for philanthropy services in Europe. 63% of the respondents receive more requests now than two years ago. The respondents believe that this demand will be a driver of growth in philanthropy services.

The increased interest in philanthropy is due in part to growing wealth. For example, individuals who have made windfall gains have a strong desire to give back. The UK, with its sophisticated financial services industry and resident non-domiciled tax advantages is home to many successful financiers. For these individuals, charitable vehicles are becoming a “must have” among the new rich. One private banker said:

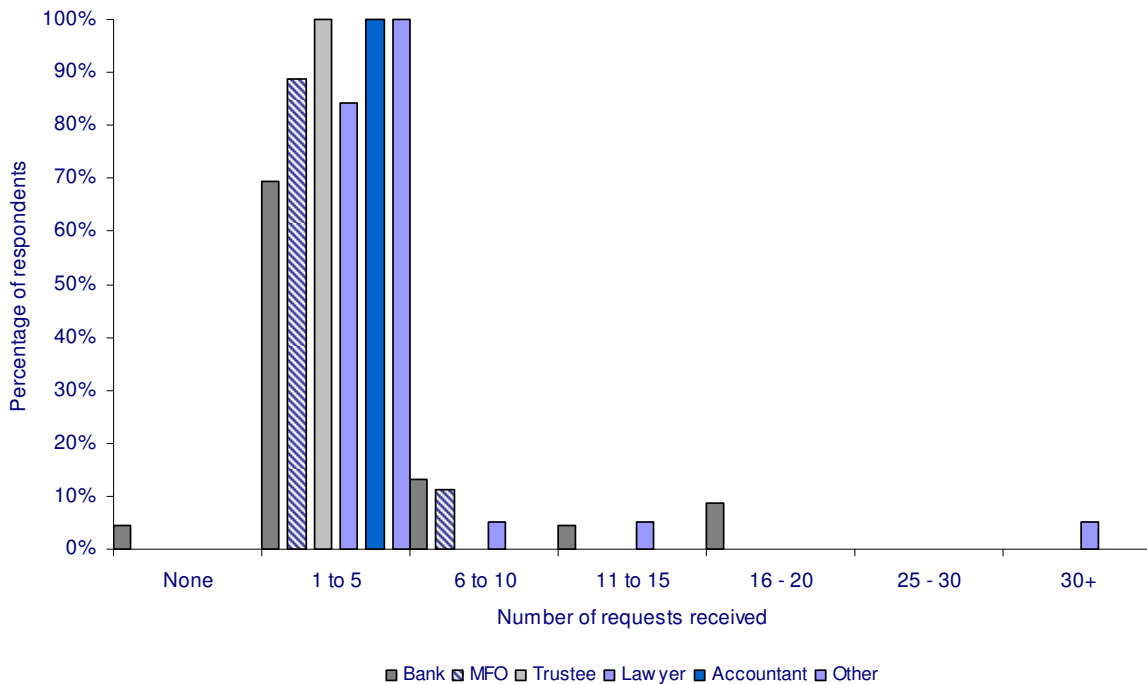
“Charitable trusts are very fashionable among our clients and there is strong demand from the new wealth community, particularly those in hedge funds.”

Fiscal changes are also playing their part. In Germany and France, recent tax amendments have enhanced the benefits of giving both in terms of deductibility and choice of vehicle. For one French MFO this has led to a 50% increase in enquires in the past year alone.

Advisors noted that the requests come from both domestic and international clients. However, advisors in Switzerland are far more likely to receive international requests, reflecting the international nature of the private client business in Switzerland and the fact that many clients who use Swiss wealth advisors have higher levels of wealth. By contrast, in large domestic European markets, like Germany, France and, to a lesser extent, the UK, the domestic HNW populations hugely outweigh the domestic UHNW and international UHNW populations in number. As a consequence, in these markets less than 10% of advisors are likely to receive requests that are international in scope.

Interestingly, despite the growth trend, most advisors still report a relatively low number of monthly requests. It is commonplace for the philanthropy specialists at a wealth advisory firms to receive only between one and five referrals per month (see Figure 8). Some note, however, that this does not necessarily mean that the business receives only a handful of requests. Rather that only a small number are identified by front-line staff to be requests the firm can assist with and which are referred to specialists.

Figure 8: How many requests do you receive each month for your philanthropy services?



Source: Scorpio Partnership

Moreover, there are exceptions to the general rule. One highly respected Swiss legal firm that has a strong client base of international HNW and UHNW clients reported a monthly volume well in excess of its peers.

Business case study – capitalising on cross-border structuring expertise

The highest number of requests for advice on philanthropy was reported by a law firm in Switzerland. This firm was the only advisor to deal with more than 30 requests a month.

Like many other law firms, this legal practice focuses on planning and vehicle structuring. However, its success is founded on its depth and experience of cross-border planning and structuring.

This is of particular importance to offshore clients who engage in philanthropic activities in their home countries and have to deal with the tax and legal issues that this presents. Consequently, the firm attributes the large volume of client referrals to its experience in setting up cross-border charitable vehicles.

Equally importantly, the firm offers its philanthropy service pro-actively as a core part of the suite of private client services it provides. This high level of visibility is judged to have a significant impact on the number of requests.

In the context of discussions on the monthly volume of client requests, a number of advisors also observed that only a small number of the referrals to the philanthropy specialists result in mandated activity. This was particularly true for lawyers who may introduce the subject of philanthropy as part of a broader discussion on estate planning with the client, but find that clients do not necessarily choose to act. Indeed, Swiss and UK private client lawyers indicated that they only see new vehicle structuring business from 10% to 15% of initial leads.

It also reflects charging structures. Lawyers are far more likely to charge for their philanthropy services than other advisor types.

By contrast, MFOs are more likely to find that their clients follow through on philanthropy discussions. This partly reflects the focus of MFOs on UHNW clients. It also reflects the range of approaches to giving that MFO clients adopt: from light-touch donor-advised solutions funded by small portfolios; through to co-investment with an in-house philanthropy trust; to the creation of a dedicated foundation.

Business case study – converting requests into philanthropic activity

One international MFO business has enjoyed a 67% success rate in turning client requests into philanthropic activity—16 of the 24 requests in the past year have converted to mandates.

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

This hands-on education programme for staff has led to relationship managers becoming increasingly confident in broaching the topic of philanthropy with clients. Furthermore, relationship managers have become effective at channelling significant requests to the philanthropy team.

In effect, the relationship managers have become more knowledgeable at screening their clients' requests, so those with the greatest need, and therefore likelihood of conversion, are introduced to the philanthropy team. Of note, the relationship managers also see this as beneficial because they do not wish to waste client time.

To ensure that no disintermediation occurs the relationship manager remains the key point of contact and works alongside the client, the philanthropy team and any outside experts.

The fact that there are some notable success stories suggests that there are potentially higher volumes for firms that have a compelling philanthropy solution. However, more broadly, it appears that many clients who are seeking philanthropy advice have not yet approached their wealth advisors.

The discussions with wealth advisors on the volume of philanthropy requests they are receiving from clients and the conversion rates highlight that many wealth advisors have not yet achieved critical mass with their philanthropy solutions. This is despite the investment made by many firms in deepening their philanthropy offerings and the growing focus on philanthropy by HNW and UHNW individuals.

The findings are consistent with the research undertaken with UHNWs in 2007, which revealed that 90% of that sample group recognised the need for expertise in the philanthropic process but felt there was a shortage of access to the right advisors to meet the needs of donors.

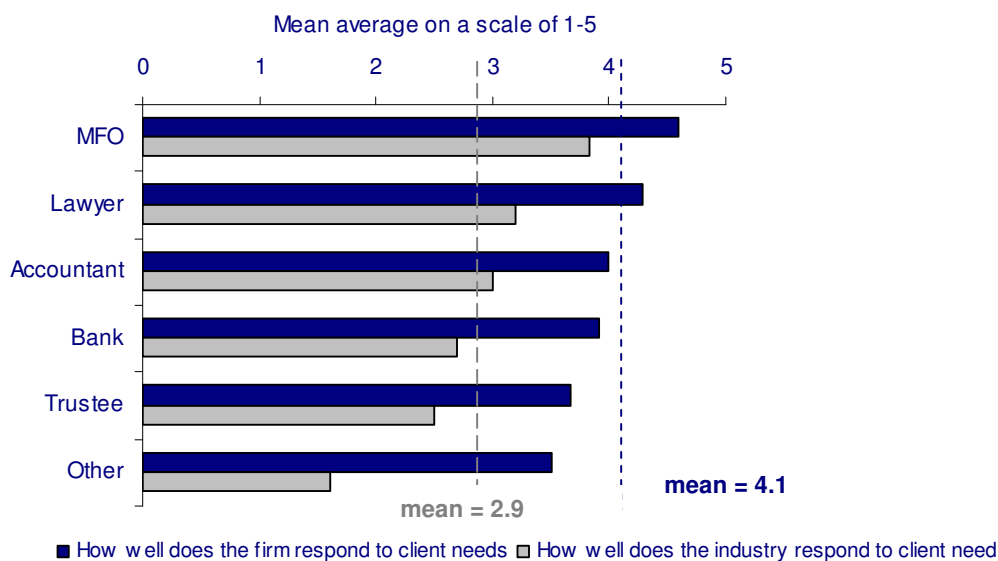
The client-advisor expectations gap

Ability of advisors to respond to client needs

Wealth advisors are evidently aware that the industry as a whole is not fully supporting HNW clients' philanthropic goals. Across the sample, wealth advisors gave a mean score of 2.9 out of five to the ability of the industry to meet client needs.

However, firms that have philanthropy services are more confident in their ability. To their own performance, they give a mean score of 4.1.

Figure 9: How well do firms and industries respond to client needs? (mean score)



Source: Scorpio Partnership

Interestingly, however, there was a wide variation of responses on the performance of individual firms, particularly among private banks. To some extent this reflects different areas of focus and expertise. Some regional German private banks, for example, feel very well able to respond to client needs because their clients and the projects they donate to are in close proximity. They therefore feel they have an advantage over the larger more centralised German private banks in this regard.

The common feeling was, however, that the philanthropy offerings of many private banks are still in their infancy or non-existent. As one advisor at a private bank observed:

“It is a new area and private banks in general are struggling to understand it all.”

There are also regional variations in the maturity of private banks' philanthropy services. Swiss banks are considered to be particularly advanced. Respondents say this is aided by a more holistic approach to wealth management and an understanding by management of the need for cost centres in large private banks, particularly for UHNW clients. By contrast, private banks in the UK feel that there is a need for development, particularly in the area of thought leadership. As one advisor observed:

"Coutts does a lot but no-one else seems to be taking any meaningful public lead."

These disparities across the market explain, in part, why end-clients do not necessarily see private banks as their first port of call for philanthropy services.

Other private banks cited the problems associated with incentivising front-line staff as a reason that their philanthropy services are not adequately represented to clients. Put simply, relationship managers at private banks are partly paid based on the revenues they generate for the private bank. Because philanthropy services are not usually incentivised in this way, relationship managers are less likely to spend time with clients discussing philanthropic options.

Private client lawyers also feel that their industry has shortcomings. The main criticism is that lawyers are too reliant on client instructions and therefore may not recognise when a client wants or needs to receive advice on philanthropy. The feeling is that lawyers need to find a way to take the lead with clients when it comes to initiating discussions on philanthropy. A typical remark is:

"We need to be more pro-active and engage with clients on these issues as a sector."

A number of lawyers observed that they feel a partnership with a third party could assist them to open up this dialogue with clients on a pro-active basis. On balance, the view is widely shared that lawyers will increasingly professionalise their philanthropic activity over time.

MFOs generally feel that their sector does a reasonable, but not outstanding, job of supporting its UHNW client base with philanthropy services. Because many MFOs have recently launched these services, there is a sense of a lack of coherence and a lack of leadership in the sector, despite the prevalence of family office networks. One international MFO said:

"The market is very inefficient. There is a lot of room for improvement."

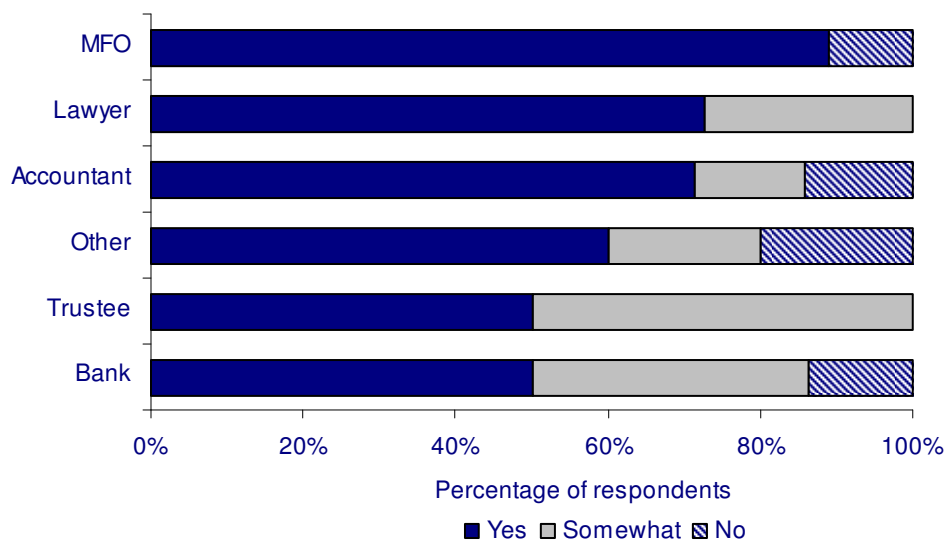
There were also some specific observations about the German MFO industry, which respondents believe is overly-aligned to the asset management function of the foundations and is missing out on the other opportunities to advise families. In fact, they are taking a more myopic view of the potential need for a broad philanthropic offering than MFOs in Switzerland and the UK.

All of these views are consistent with the themes in the 2007 research and point to a general lack of pro-active marketing of philanthropy services by front-line staff.

The role of internal marketing and education

The most common ways to combat the lack of pro-activity by front-line staff are through internal marketing and education. Many firms that offer philanthropy services are focusing their efforts on this activity to improve referral rates. The approaches to internal marketing and training differ between the different types of wealth advisor in Europe, but little between geographies.

Figure 10: To what degree are wealth advisors trained on their firm's philanthropy offering? (% of respondents)



Source: Scorpio Partnership

Although many wealth advisory firms have formal training programmes on the philanthropy offer, as shown in Figure 10, there were significant differences in the level of confidence at different firms about the impact of that training.

In this regard private banks are a good case in point. Most private banks that offer philanthropy services have some form of organised training such as seminars and 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.

However, only 50% of respondents felt their front-line private banking teams are well trained in the philanthropy offer and 36% think they are only somewhat trained. This compares with 70%-89% of lawyers, accountants and MFOs who felt their teams are well trained in the philanthropy offer.

This is a particularly surprising statistic for private banks, many of which have a broad philanthropy offering. Advisors commented that the incentive structure is the biggest obstacle to encouraging private bankers to offer philanthropy more pro-actively. Private bankers are simply not incentivised to have philanthropy discussions with their clients and therefore tend to focus their energies on products and services that will increase their bonuses.

Linked to this, some private banking professionals observed that relationship managers are hesitant to promote the philanthropy service because they are unsure to which profit centres any revenues will be attributed. Put simply, they are not prepared to spend the time discussing philanthropy with clients if any revenues are then attributed to the philanthropy team and not their own or their team's revenue pool.

Business case study – incentivising staff to offer philanthropy services

To meet the challenge of incentivising private bankers to offer philanthropy, one German private bank has begun to include the number of new foundation mandates brought by each private banker as a direct measure in staff bonus reviews. The bank also penalises private bankers who fail to bring in at least one new mandate annually.

The private bank has restructured its operations in order to make philanthropy a specialist area of strength and a differentiator against its peers. The approach to incentivising staff is part of this strategic vision.

Relationship managers are supported by a centralised marketing campaign that promotes the philanthropy service to new and existing clients. The private bank runs philanthropy roadshows, inviting clients to attend for an educational seminar and to meet other philanthropic clients. This provides HNWs who are not currently active givers with the opportunity to network with other clients who already use the bank's philanthropy service.

More generally, private bankers believe that better communications between specialist philanthropy teams and relationship managers will encourage relationship managers to offer the philanthropy services more energetically to clients.

Larger law and accounting firms also have a wide range of resources for their philanthropy offering, including intranet and continuing education programmes which help to market the firms' philanthropy capabilities internally. Where the service is provided outside the private client practice unit — perhaps by the charities team — there are also generally strong communication channels between the two. Smaller firms rely on the proximity of the teams for cross-marketing.

By contrast, trust companies, all of which indicated that their staff are trained on their philanthropy offering, in fact rarely have formal training and marketing programmes for the philanthropy service. Instead, the centralised control structure required to deal with fiduciary obligations means that information is easily dispersed through these firms and all the trust companies in the study felt their staff were trained on the offer.

Among MFOs, the larger international firms are likely to have formal awareness and training programmes. In the smaller ones, however, it is felt that there is little need for formal internal marketing because of the small size of the firm and the concentrated client base. The MFO participants have a high regard for training and staff development and believe it is critical to gaining credibility with clients. One said:

“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.”

The comments of the other specialist philanthropy advisors were also revealing. Those who work with both charities and individuals often indicated they had no formal training to handle HNW issues. Heads of foundations linked to other wealth advisory firms also noted that they, or their colleagues in the wealth advisory practice, lacked specialist training to deal with HNW requests.

Given their role as philanthropy specialists their lack of formal training on wealth issues is particularly telling about the state of philanthropic advice for the HNW market.

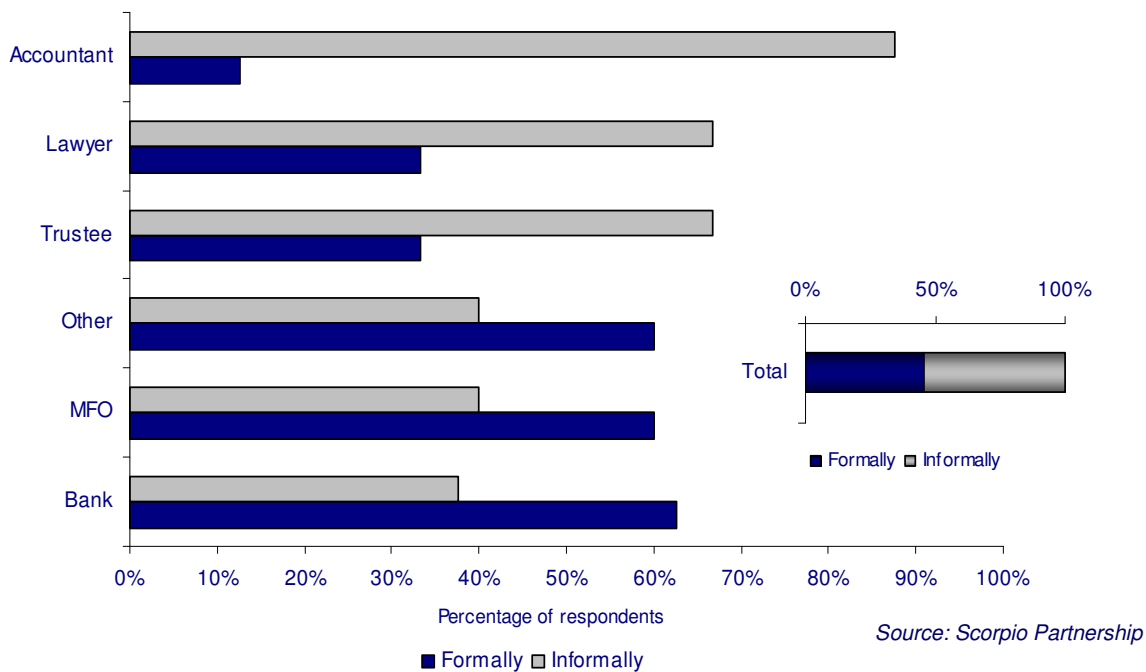
The role of external marketing

While most wealth advisors felt their staff were trained on the philanthropy offering, there was a notable lack of formal, pro-active external marketing of the offer to clients. This lack of pro-activity again explains the views expressed by UHNW clients in the 2007 research that wealth advisors are not meeting their philanthropic needs.

Just over half the respondents indicated that their philanthropy services were marketed informally to clients. This was defined as offering the service purely in response to requests from clients or on an ad hoc basis, rather than highlighting the capability in their marketing literature.

Of course, this means that slightly less than half the respondents formally market the philanthropy services to end clients. Given that many wealth advisors have clearly invested significant resources into building their philanthropy service, the balance of responses suggest that the market is at a point of inflection and potential future change.

Figure 11: Is the philanthropy service marketed to clients formally or informally? (% of respondents)



Source: Scorpio Partnership

Lawyers and accountants are the most likely to offer their philanthropy services on an ad hoc basis, although in part this reflects the nature of the business of lawyers and accountants. In most cases these advisors act on specific instructions and they are less likely to seek or promote an holistic relationship with a client. Indeed, discussions on philanthropy usually arise when they are working on tax, trust or estate matters more broadly. As one private client lawyer observed, dryly:

"My clients know what they want. I am a mechanic. I connect the A to X."

Trustees are also likely to offer philanthropy services informally, reflecting their fiduciary role to implement the wishes of their settlors rather than being pro-active advisors.

More private banks and MFOs offer the services formally, however, underlining their desire for an holistic relationship with their HNW clients and the fact that those that offer philanthropy services are likely to have made a substantial investment in building a broader service capability.

What more would wealth advisors like to do to bridge the gap?

Among the participants, most types of advisor feel they could be doing more to fulfil client needs. In addition to the staff training and internal marketing issues, the private banks would like to offer more strategic planning, strengthen the ties between their philanthropy and socially responsible investment businesses and have greater international expertise — particularly in areas like Russia and the Middle East — in order to increase credibility with potential clients.

If they were given unlimited time and budget, respondents from private banks indicated they would form better networks that can provide thought leadership and allow advisors to present a united front that would allow them to tackle common mistakes that clients make when setting up their giving structure.

MFOs also share the desire for better networks, although they already tend to be more cohesive as an industry group than private banks.

Private client lawyers believe that developing a more formalised offering is important because it will allow firms to move towards commoditising their advice and making the solutions more cost effective for clients. At the same time, they want to take a more strategic view of their clients' philanthropic activities and to act more effectively in an advisory capacity. However, at present the provision of philanthropy services remains relatively insignificant to the legal business — particularly in the UK, where many Magic Circle firms have their European headquarters. As a result, there has been little impetus to form best practice and standard solutions.

Geographically, an area of change and improvement was highlighted in Germany. There, the problem of having a large number of under-endowed foundations could be solved if advisors came together to develop a common solution to the problem, or found ways of pooling these vehicles. As one German private banker explained:

“75% of all foundations in Germany have less than EUR1 million in assets and will not last more than 10 years if alternate sources of funding are not found.”

In turn, this points to a trend away from expensive customisation for less-wealthy givers in Germany; a view which is shared elsewhere. There is a common desire among advisors to develop philanthropy solutions that are as easy to administer as donor-advised funds, but still manage to preserve the intimacy with the cause that standalone vehicles like foundations can provide to donors.

This type of solution would not only increase the efficiency of the existing philanthropy services offerings, but it would also encourage more participants to enter the market. Advisors commented, for example, on the potential for a tax-efficient vehicle with sub-funds for individual families or a standardised corporate governance process to assist commoditisation of the market. However, both would require substantial investments of time to achieve. The result is a chicken and egg situation, where either greater investment in philanthropy services or an increase in demand for philanthropy services must occur before the other is possible.



Market snapshot – Germany

Philanthropic giving in Germany is highly regionalised and wealth advisors have been developing comprehensive philanthropy services to meet the increased appetite for giving that has resulted from tax incentives introduced in 2000. Prior to this, Germany had a long tradition of philanthropic giving, but until the start of the decade it was largely motivated by benevolence.

The *Spendenrechts*, or the law of donations tax was amended in 2000 to allow the deduction of up to EUR300,000 on qualifying charitable donations from taxable income. The tax change coincided with a demographic wave of wealthy Germans who wished to endow foundations before their death and this led to a boom in the setting up of foundations.

However, in order to qualify, a donation had to be used to endow a new foundation, which in turn led to a glut of unsustainably small foundations in the market.

In 2007, the law was changed again to raise the deductible amount to EUR1 million over a 10 year period and to permit the deductible gifts to be made to existing foundations, allowing for the accrual of tax-efficient philanthropic capital as well as the potential for pooled philanthropic vehicles.

The view is that this change will result in enhanced economies of scale in the German foundation market as well as a wave of new pooled vehicles that will attract smaller donors.

Another engine of change in German philanthropy is the growth of community foundations or *buergerstiftungen*. These foundations provide administrative support to smaller, undercapitalised foundations in order to make them viable, but also offer a range of donor-advised funds for smaller gifts, typically between EUR50,000 and EUR100,000 according to the advisors. The first *buergerstiftungen* originated a decade ago and they are modelled after community foundations in the US, which pool and coordinate donations for social causes in a specific location. This structure meshes well with the German emphasis on giving to regional causes.

The German philanthropy industry has also invested a great deal in training over the last decade. In particular, the vast number of *stiftungen* has created a demand for foundation management courses that are now offered up to a post-graduate level at a number of German universities. It is not uncommon for future employees of private banks and law firms to take these courses, or for private banks and law firms to sponsor staff members to take these courses as part of their continuous professional education.



Market snapshot – Channel Islands

Wealth advisors see the Channel Islands developing a philanthropic offering that could position these UK offshore centres as international market leaders in the field of trusteeship for philanthropic vehicles. This is a long-term vision in response to the growing use of trusts as charitable vehicles, rather than charitable companies or organisations.

Although these vehicles do not provide secrecy like foundations in other jurisdictions, in light of the greater transparency in the affairs of international UHNWs and the increasing declaration of assets for tax purposes, this is not seen as a problem.

In response, a number of Channel Islands' organisations have been lobbying for improved legislation, local firms are setting up dedicated philanthropy teams and there has been a concerted effort by the industry to meet client needs. This has coincided with modernisation of trust legislation in Jersey and Guernsey and in particular the more flexible definitions for 'charity' and 'charitable purpose'.

A number of trust companies have ramped up their current capabilities and hired individuals to establish their philanthropy practices in the last year with more hires planned. This marks an increase in the number of Channel Islands' trust companies offering a visible and formal philanthropy service.

In any event, it is clear that the Channel Islands are recognising the complexity of the issues surrounding philanthropy. Lawyers and trust companies in particular are looking to move beyond the traditional role of structuring and trusteeship into addressing issues relating to trusteeship such as succession planning, family governance and next generation education.

The philanthropy services offer

Motivation for implementing philanthropy services

While training, internal marketing and external marketing undoubtedly have their place in improving the delivery of philanthropy services to HNW clients. There are also structural issues that need to be considered.

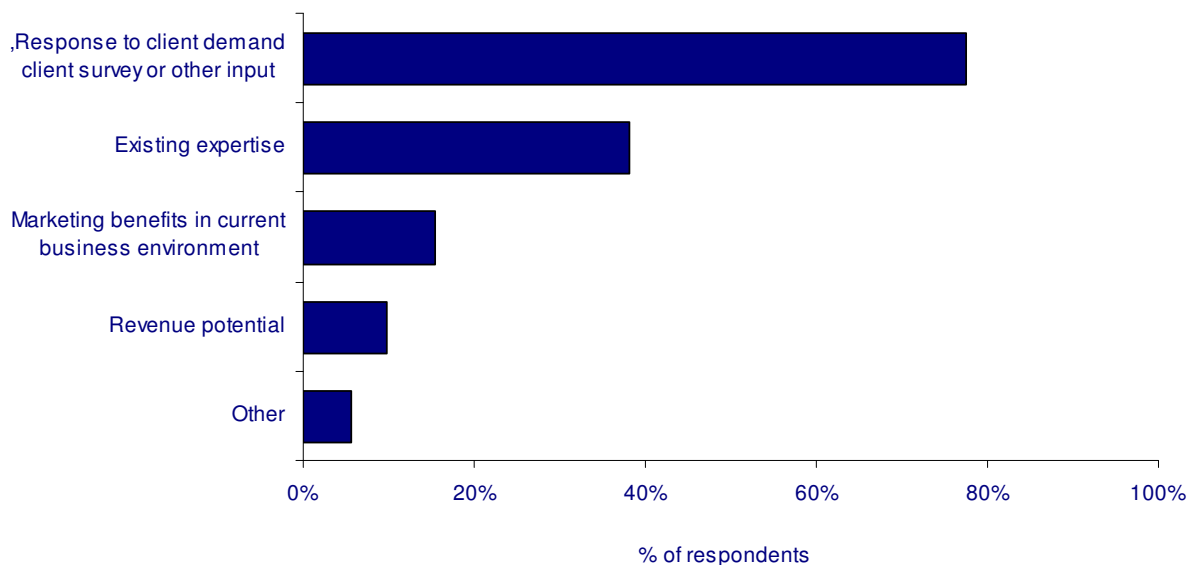
The lack of pro-activity in the delivery of philanthropy services by wealth advisors can, to some degree, be explained by the fact that wealth advisors were principally responding to client demand when they established their philanthropy operations. Indeed, 77% of the respondents established their service on this basis. By contrast, only a small minority of respondents launched philanthropy services because of the revenue generating potential. Only 10% of respondents set up philanthropy services for this reason.

Historically offered only reactively and seen to have limited revenue potential, it is not surprising that wealth advisors have not been highly pro-active in delivering philanthropy solutions to clients.

However, responses given elsewhere in the study indicate that once the service is established the revenue it generates is a valuable benefit of the service (see Figure 16). Moreover, those who are considering setting up philanthropy services today are hotly debating the merits of charging for these services. This debate may well decide how well wealth advisory firms are able to bridge the gap and fully meet the philanthropy needs of their HNW and UHNW clients in future.

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

Figure 12: What was the primary reason for setting up the philanthropy service? (% of respondents)



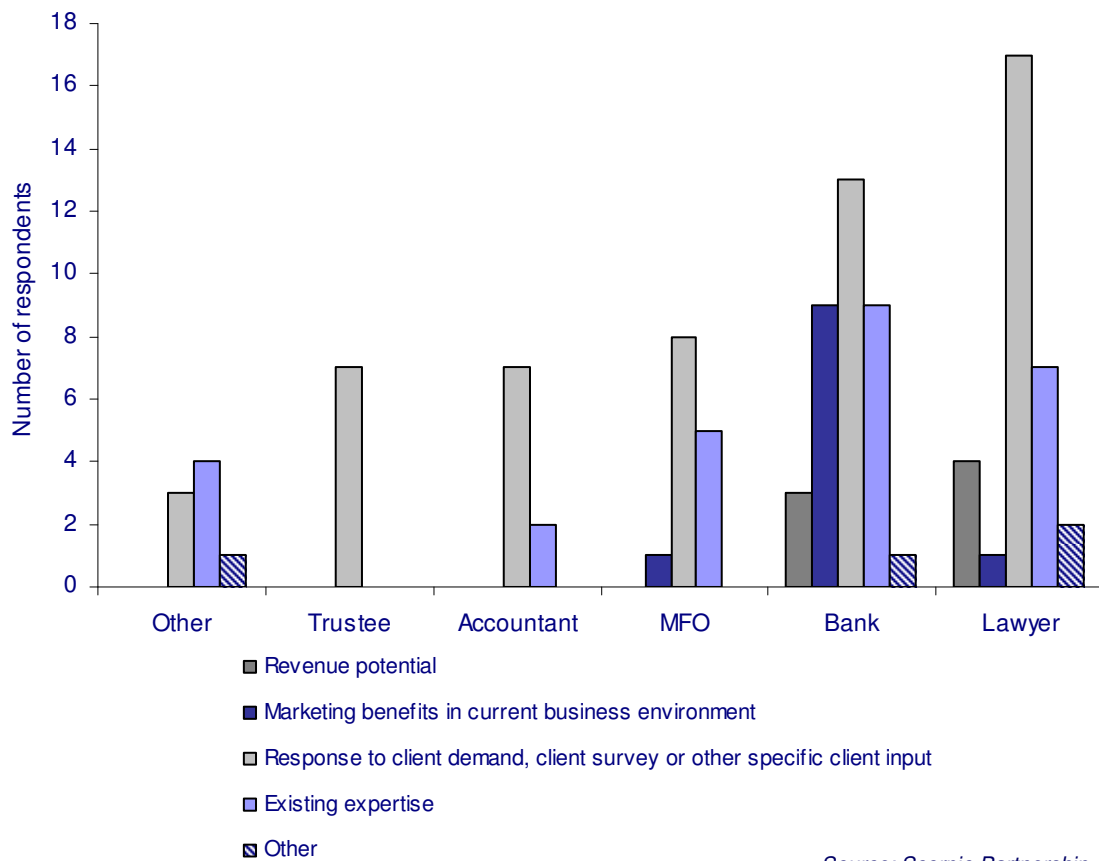
Source: Scorpio Partnership

Those participants that launched their philanthropy services historically as revenue generating activities felt that there was a gap in the market. Lawyers in particular cited the revenue potential of the service, reflecting their ability to charge on an hourly basis for philanthropy advice (see Figure 13). One observed:

“It’s a good opportunity—the advice is fully charged.”

A significant number of private banks were also motivated by revenue opportunities. However, private banks find it more difficult to charge for their philanthropy services on a direct basis because their fee structures typically relate to a percentage of assets and clients are reluctant to pay additional hourly fees. They therefore need to be more selective about how the services are “packaged” in order for clients to feel they are receiving value for money. As a result, fees based on philanthropy vehicle’s assets under management are the most common way that private banks charge for their philanthropy advice.

Figure 13: What was the primary reason for setting up a philanthropy service? (number of respondents by segment)



The revenue motivation is also notably strong among firms in countries where philanthropy services are less well developed. Ireland is a case in point. Because there is little client demand for a service that is not yet perceived to exist, firms are taking a hard-nosed view on whether it is a commercial benefit.

However, there is some debate about the validity of a revenue motivation for establishing a service. If profits drive the way the service is established, costs will be closely managed and providers will be dissuaded from offering a first-rate philanthropy operation where client demand is still relatively low. As one Irish philanthropy specialist observed:

“Revenues are what are motivating most firms and this will be the wrong way to go about it. The firms that will succeed will be in it for much more than just the money.”

Market snapshot – Ireland

Ireland is one of Europe's least-developed markets in terms of the range of strategic philanthropy services on offer, despite a rich history of charitable giving. The immaturity of the market can be ascribed to the fact that with the exception of a handful of local private banks, lawyers and some recently-established specialists, the local wealth advisors have been slow to identify and respond to client demands for a philanthropic offer.

Instead, the market is served by a new generation of specialist advisors, such as The Community Foundation of Ireland, which was established eight years ago and is Ireland's only community foundation. The Community Foundation of Ireland is primarily engaged in grant making and donor services. However, it has extended the range of services on offer to incorporate support services for private foundations.

By contrast, legal and accounting firms provide straightforward vehicle structuring advice and private banks have barely ventured into the philanthropic field.

Only one wealth manager stood out as having an advanced service. However, even this service is not yet formally available and it is expected that it will set the philanthropy agenda in Ireland when it comes fully on stream.

Interestingly, a relatively high proportion of advisors in Ireland cited financial challenges as the reason for not offering philanthropy. It appears that they are taking a hard-nosed attitude toward the commercial arguments for entering a market where they believe there is little current demand for philanthropy services.

There is a consensus view, however, that the tradition of public giving in Ireland and the enormous wealth of the country mean that it has significant potential upon which providers could capitalise. This could be spurred further by legislative change. The government has commissioned a study to gain a baseline understanding of the extent of philanthropic giving, which may lead to a revision of the current level of tax deductible allowances.

There are encouraging signs that the wealth management industry is recognising this potential – for example, there is an increasing willingness to engage with established philanthropy providers and foundations to increase understanding of strategic philanthropy. Moreover, there are moves by industry bodies such as the Institute of Bankers of Ireland to integrate philanthropy into the professional training curriculum. However, it is expected to be some time before philanthropy is an established part of the advisory service of wealth providers.

Who are philanthropy services offered to?

Questions around the revenue model and business model of the wealth advisor also drive decisions regarding which clients are offered the philanthropy services, even though broader client demand is usually the stimulus for setting up the service. What this means is that business factors and not client factors are driving the targeting of services.

While this is far from unusual in commercial entities, it is evident from the responses that there is no clear consensus among wealth advisors for which type of clients the philanthropy services are most appropriate. In turn, this presents a confusing landscape to HNW and UHNW clients who may be seeking the services of a wealth advisor to support their philanthropic journey.

For example, lawyers' fees are based on an hourly rate and they offer their philanthropy services on this basis also. It therefore makes sense for them to offer advice to any clients willing to pay for it.

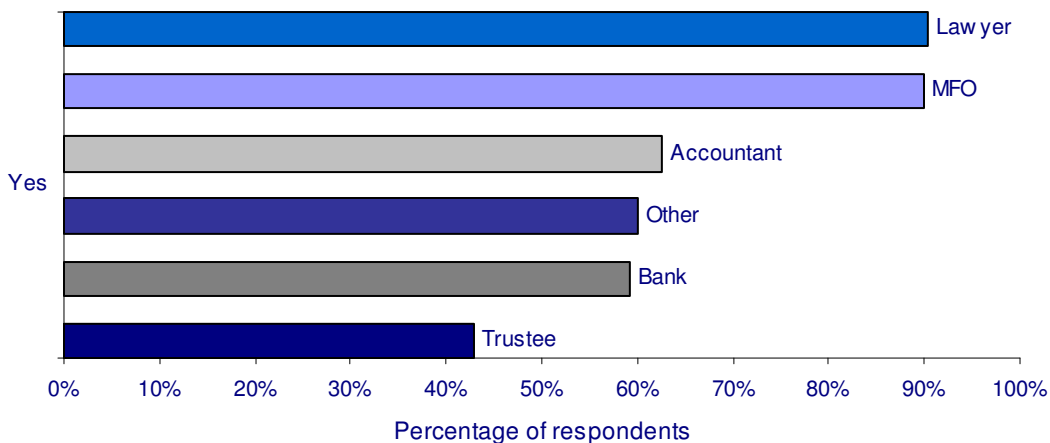
A similar percentage of MFOs offer philanthropy services to all clients due to their focus on UHNW clients, who are the most likely to request these services. This is also linked to their close involvement in their clients' affairs, particularly on non-financial issues like governance and education. In light of the complexity of the issues involved, a small minority of MFOs offer the service only to their wealthiest clients.

Private banks, on the other hand, are more likely to limit the service to their UHNW clients because it is difficult to charge for and hence reserved for high value relationships.

Accountants are equally selective about the clients to whom they offer the services. They are likely to be offered only to clients by whom they are retained on complex tax structuring matters.

Meanwhile, the diverse activities and client bases of the trustees explain why they offer the solution to the smallest proportion of clients.

Figure 14: Do you offer philanthropy services to all clients? (% of respondents)



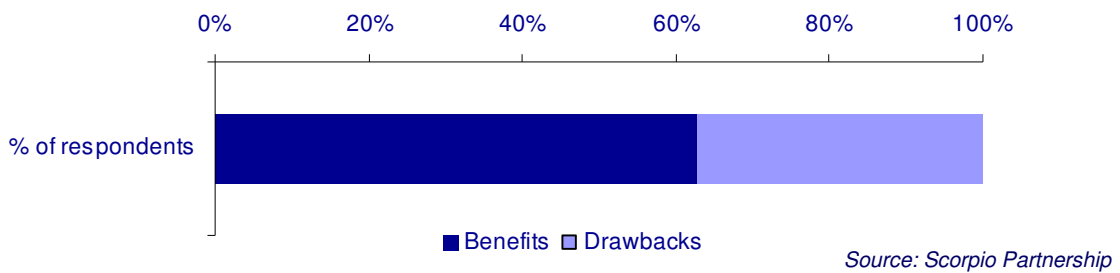
Source: Scorpio Partnership

The benefits and drawbacks of offering philanthropy services

Perhaps the solution to some of these structural challenges is to consider in more detail the benefits of offering philanthropy services to clients as well as considering how any potential drawbacks can be overcome. The first point to note here is that the responses from all the advisors are positive about the benefits of offering philanthropy to HNW clients.

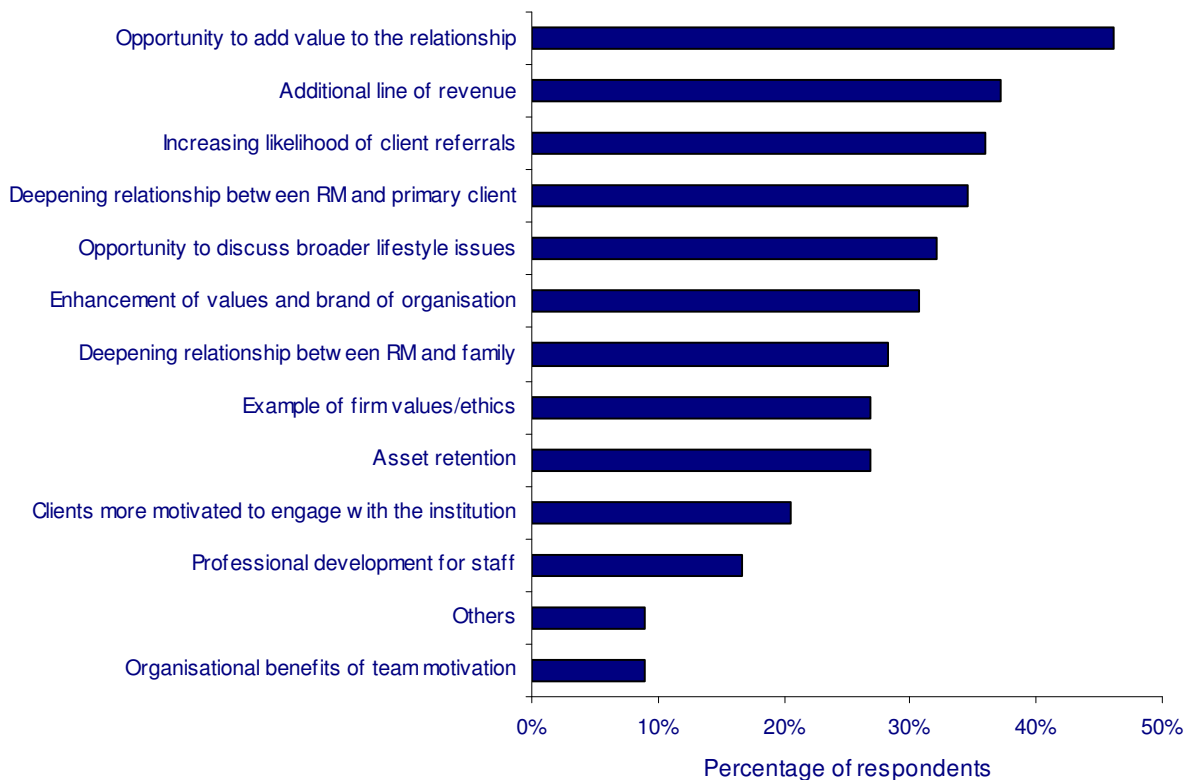
When asked to identify the benefits and drawbacks of offering philanthropy services, 63% of responses cited the benefits of philanthropy versus 37% which noted drawbacks. The figures were identical for those who do and do not offer philanthropy.

Figure 15: Frequency of benefits and drawbacks being cited in connection with offering philanthropy services (% of respondents)



At a more detailed level, the main benefit from offering philanthropy is widely regarded as the opportunity to add value in client relationships. In particular, participants commented that discussions on philanthropy tend to link broadly with clients' future wealth objectives and open the conversation with a client into new areas. Closely linked to the opportunity to extend the dialogue with clients was the opportunity to generate additional revenue from the relationship.

Figure 16: What are the benefits of offering a philanthropy service? (% of respondents)



Revenue benefits were cited by those who charge directly for the service and those who found that opening a wider-ranging discussion about clients' motivations results in the take-up of other products or services. Since only a small minority of respondent firms set up their philanthropy services with revenue generation in mind, it appears that early expectations have been exceeded on this front.

Advisors did, however, find it difficult to comment in detail on the revenue streams from philanthropy services. Perceptions of the cost-effectiveness of philanthropy services often depend how costs are allocated. For example, several UK private banks observed that philanthropy may be a revenue-generating activity, but the profit is not booked by their philanthropy units. This mistakenly leads to the perception that philanthropy is a cost-intensive service. Moreover, if philanthropy is offered by senior private bankers, who are likely to have a solid book of clients generating substantial revenues in other areas, the private bank is less concerned about cost implications.

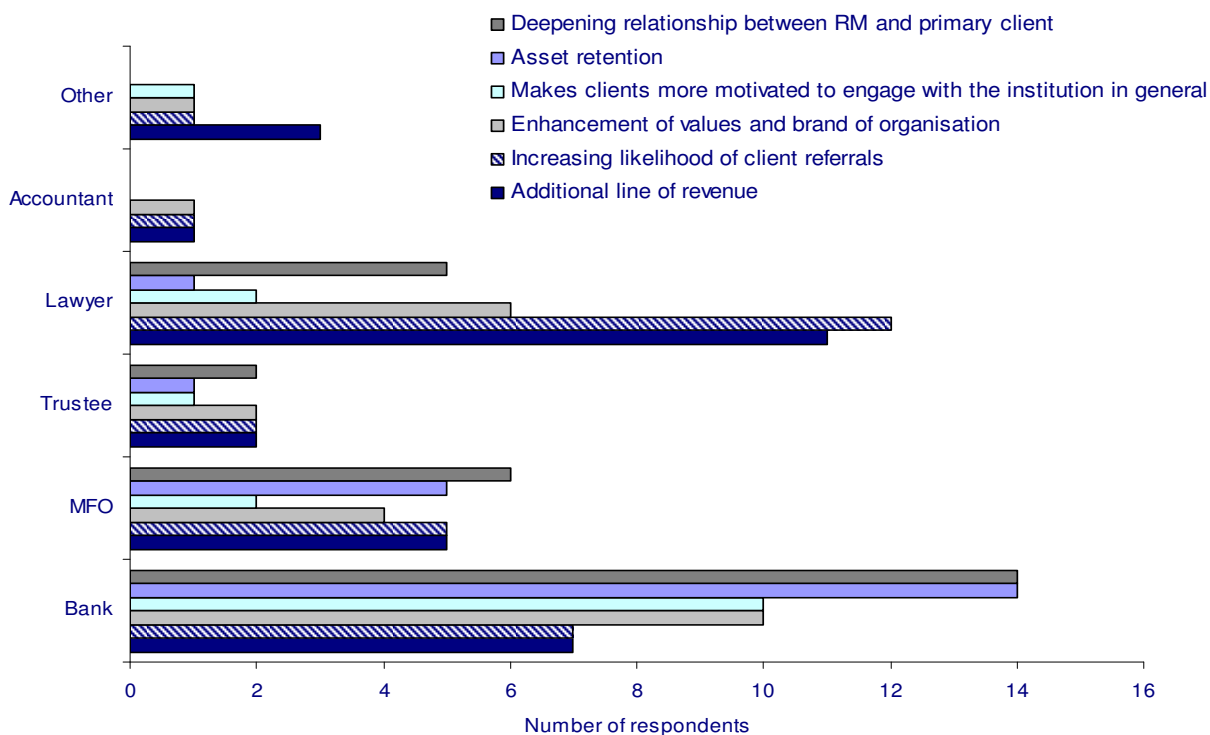
This in turn would suggest that wealth advisory firms that offer philanthropy services, or are considering doing so, should not discount the opportunity for direct and indirect revenue generation and should consider in detail how the revenues will be tracked and allocated internally.

Many of the other benefits cited by participants such as client referrals, building deeper relationships and the opportunity to discuss broader issues, all underline the potential benefits of philanthropy for engaging clients.

Fewer participants commented on the benefits that relate to the image of the organisation, such as brand and firm values. However, it should be noted that the responses are reasonably evenly spread, so these areas of emphasis are only marginal. By contrast, among the participants that do not offer philanthropy services, the main perceived benefit from doing so is the halo effect from providing an example of the firm's ethics and values.

Viewing the top benefits of offering philanthropy services by type of advisor shows that private banks are clearly convinced of the opportunities that philanthropy services provide to deepen client relationships and to retain client assets within their organisations. These benefits are more apparent to private banks than additional lines of revenue, but it appears they flow to the bottom line anyway.

Figure 17: Top six benefits of offering philanthropy services segmented by advisor (number of respondents)



Source: Scorpio Partnership

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 as well. 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. As one MFO observed:

“Clients in the past have given blindly to NGOs and now they have learnt that their money has not always been managed in the best way so they are less keen to give blind and want to understand where the money is going and what it is achieving.”

Regarding the capacity of philanthropy to enhance values and brand, 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. Every situation and aim is different and the only way to offer a quality service is through experience.”

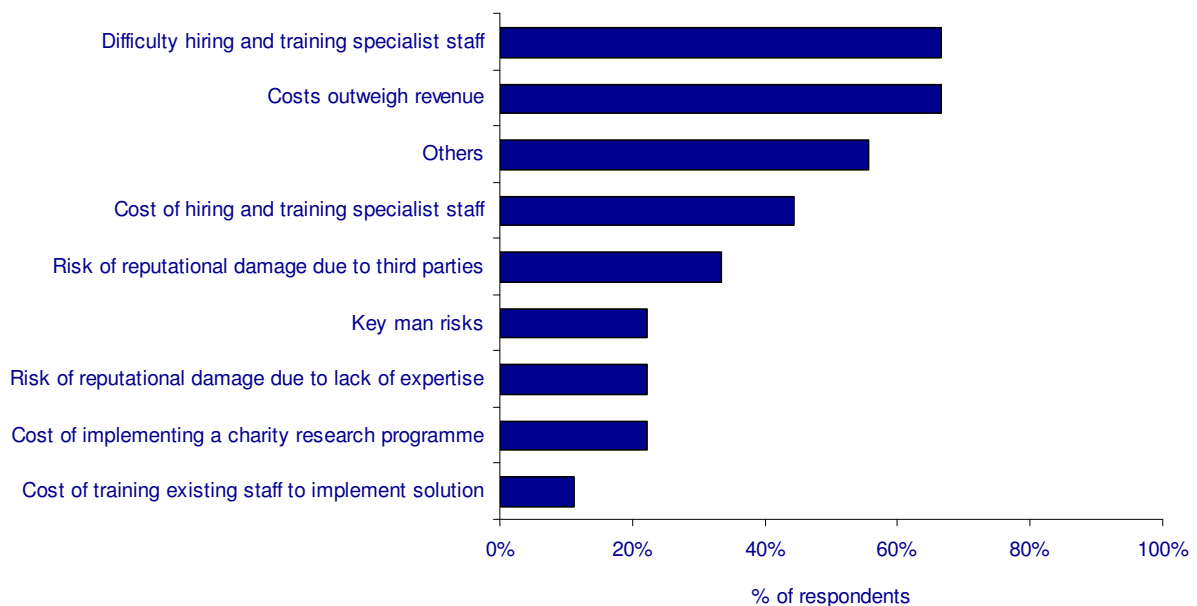
The lawyers’ view is that the philanthropy services are strong revenue generators and also a catalyst for viral marketing, leading to referrals from clients who are enjoying their philanthropy journeys.

When asked about the drawbacks to offering a philanthropy service the most frequently cited responses related to the difficulty of hiring staff and the view that the costs outweigh the benefits.

Both responses point to the lack of critical mass in the supply and take up of these services. If more firms were offering philanthropy services by extension the pool of experienced talent would increase. Similarly, as many advisors observe that philanthropy services are a positive revenue generating activity, it follows that the fact that these services are not always breaking even is down to a lack of volume.

Alternatively, as indicated earlier, the revenues derived from the philanthropy service are not always booked directly with the philanthropy team so it can be difficult to establish revenues versus costs to understand the profitability of the sector. Clearly this is an area the industry needs to address.

Figure 18: Reasons for not offering philanthropy services (number of respondents)



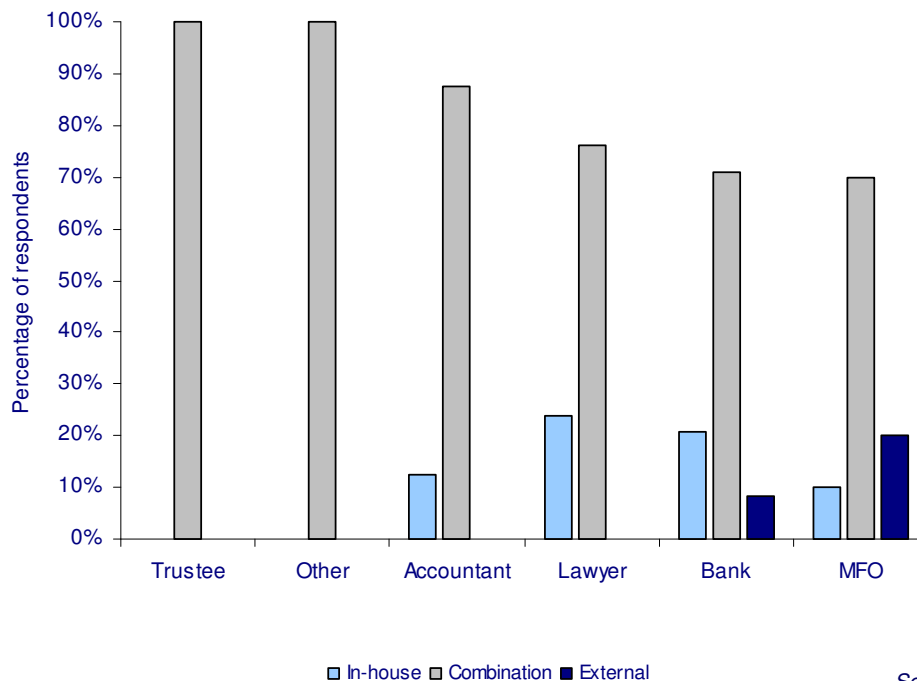
Source: Scorpio Partnership

Delivery of philanthropy services

Working with third parties

One way to minimise costs and maximise the potential for client referrals to increase volume is to work with third parties. As previously noted, wealth advisors already work extensively with third parties to deliver philanthropy services. The question, therefore, is to what extent can these networks be enhanced and maximised.

Figure 19: Types of provider used for core services (% of respondents)



Source: Scorpio Partnership

Cost was cited as the primary motivation for a decision to work with third parties rather than providing resources in-house. If it is cheaper to obtain a high-quality resource from a third party than to build 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 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."

In fact, there are also some services where building in-house capability is simply not economically viable. For example, the administration of foundations is an area where even some of the more well-rounded organisations seek to work with specialists. As one Swiss MFO observed:

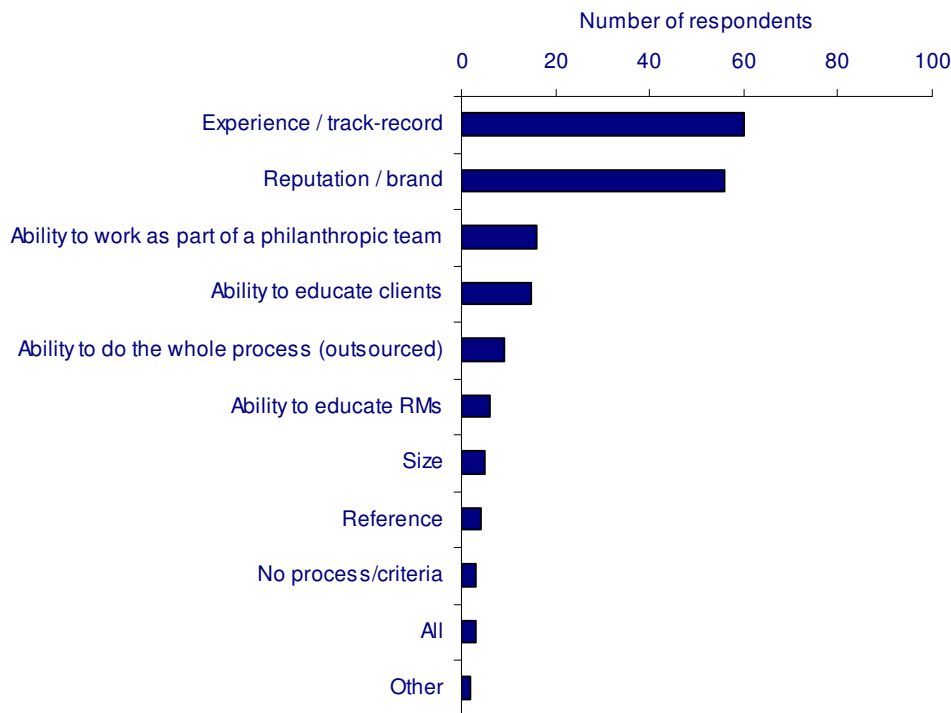
"The only thing we will not get involved in is in the offering of an administration service. There is no reason to be involved in the day-to-day running of the foundation."

Another motivating factor in the decision to work with third parties is geographical coverage. Some of the participants with international operations will work with external specialists in some markets, but not in others, depending on the country. For example, a Swiss private bank uses a philanthropy project expert for the selection of large projects in the UK, but does this in-house in Switzerland. As with many other Swiss private banks, the focus of the philanthropy team is on UHNW clients.

The size of the donation is also an important factor. Many private banks and MFOs feel comfortable providing selection and monitoring services for smaller donations, but will involve a philanthropy project expert where large amounts are invested in a single initiative. For example, a UK private bank will make general recommendations on causes for smaller structures, but for gifts over GBP1 million it prefers to involve an outside provider. This is based on an analysis of the level of reputation risk the advisor is willing to take internally, while providing clients with the necessary philanthropy support.

In addition to the cost benefits, there was also an implicit understanding among wealth advisors that working in networks increases client referrals. Indeed, respondents frequently observed that working with a close network of experienced third parties who have a good reputation for offering philanthropy services ensures that business is referred two-ways within the network. These factors were cited as primary reasons for choosing external specialists.

Figure 20: What criteria do you use for choosing external specialists? (numbers of respondents)



Source: Scorpio Partnership

In fact, only a handful of wealth advisors choose on principle not to work with external parties. Among these, the majority are highly specialised German lawyers with a domestic focus. There is also a view in the German market that in the longer-term private banks will likely rely less on specialist philanthropy lawyers for every-day advice. This is due to a recent change in the law that has expanded the scope of the legal advice that German private banks can provide in-house.

Only one MFO indicated an objection to working with third parties on principle and this is due to concerns that they wish to remain central in the discussions with clients.

“By relying on others there is the potential to get locked out of philanthropy discussions.”

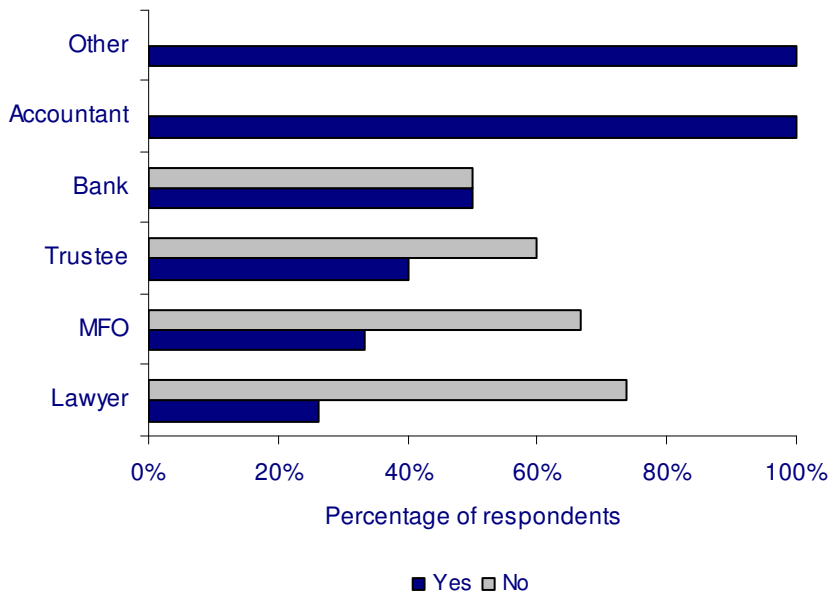
Gaps in the philanthropy team

Given that cost reduction and client referrals are significant reasons for working in networks, it makes sense for wealth advisors to extend these networks as widely as possible. Indeed, a number of advisors – particularly private banks and MFOs – comment that better networks would improve the offering more generally from the perspective of thought leadership and best practice.

Wealth advisors indicated that a typical philanthropy network will involve a private bank or an MFO, plus a lawyer and an accountant. However, it was interesting that wealth advisors were broadly evenly split on whether there were other gaps in the team that needed filling.

When asked about the ideal range of advisors to support philanthropic activity, 45% of participants felt that were gaps in the team. In particular, they felt that the team should include a philanthropy project expert who could support with the selection of and monitoring of giving activities.

Figure 21: Are there gaps in the team? (% of respondents)



Source: Scorpio Partnership

Again, the even balance of responses suggests a market that is at a point of inflection with some advisors looking for new ways to support their client bases, while others operate according to established practices.

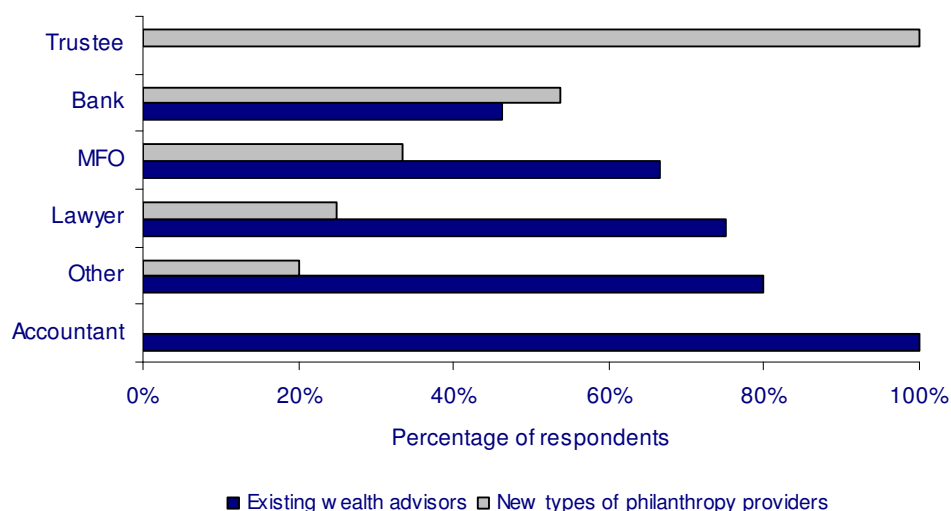
This moment of change was more noticeable in the responses given to the question who would be most appropriate to fill the gaps. The responses highlight the varying perspectives on what services are currently available in the market.

For example, trustees who take fiduciary oversight of clients' philanthropic activities are particularly concerned that there is a lack of specialist providers who can monitor the performance of these activities. By contrast, accountants, who also perceive the gap in the market for effective monitoring, believe the skills are essentially a sub-set of the accounting discipline and therefore can be plugged by existing providers.

Specialist advisors also commented that there are already a broad range of skills represented in the philanthropy industry that wealth advisors could tap. However, a lack of common awareness means that some wealth advisors believe that new providers are required to plug the gaps.

Essentially, the responses point to the fact that a lack of formal networking means that wealth advisors are not necessarily aware of who offers different capabilities and as a consequence it is likely that client needs are not always fully met.

Figure 22: Type of advisor best-placed to fill the gaps (% of respondents)



Source: Scorpio Partnership

Thus, more extensive networking is potentially a tool that could assist with many of the challenges faced by wealth advisors offering philanthropy services to HNW clients. Current practices already leverage the power of networking for cost benefits and client referrals. However, there are clearly knowledge gaps and wealth advisors widely recognise that given unlimited time and budget improved networking would also assist them to develop best practices and thought leadership.

Indeed, among the many changes and developments that the wealth advisory industry may choose to adopt over time, it seems likely that networking has the singular opportunity to support the variety of wealth advisors to come together and form a more coherent level of service provision that will assist potential philanthropists across the board.

Conclusion

The responses throughout this study highlight that the European wealth advisory industry is at a point of inflection with regard to the provision of philanthropy services to HNW clients with significant change potentially underway. Above all, advisors recognise that philanthropy services are important and will become more so over the next five years, fuelled by a mixture of rising wealth, fiscal change and greater social conscience.

While many advisors aim to offer a range of different services covering all four stages of the philanthropic journey, in practice many advisors' services are oriented around their core skills of vehicle structuring and tax advice. The patchy nature of service provision in other areas, by type of advisor and type of service, presents a confusing landscape to potential HNW clients for these services.

This problem is compounded by the variation of business and revenue models and the fact that many wealth advisors do not have a formal marketing programme for their philanthropy services. These challenges make it difficult to identify whom clients should approach for which philanthropy solutions.

However, there is strong evidence in the responses of wealth advisors that many are aware of these problems and are seeking ways to address them. However, they too are challenged by their own limited ability to demonstrate commercial value either through critical mass or directly attributed revenue. Consequently, many focus on the value added to the business, which is harder to quantify from a commercial perspective.

Equally, there is a broad lack of awareness within the industry on the varying degrees of service provision of existing and new types of philanthropy provider. This means the cost benefits of working with third parties and the potential for cross-referring business within networks are not yet being fully realised.

On the positive side, there is a common understanding that networking and leadership on best practice will help drive the industry forward. Moreover, there are recognised common goals in the wealth advisory industry: in terms of the client experience and philanthropic journey which advisors are seeking support; and in terms of the benefits of scale that can be achieved through standardisation. This common understanding presents a firm foundation on which to build and extend capabilities and to face the challenges that are associated with this growth.