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Special Conference Issue

Key Trust Day at the Annual Private Banking Summit, Zurich, September 2007

For the second year, Key Trust designed the programme and secured the speakers for private wealth day at the Private Banking Summit.

This year's theme – "Service or Product: looking at the private wealth industry from the client's point of view" – attracted almost 100 senior partners, directors and other wealth management, private banking, and investment professionals from some of the sector's most famous names, among them: Morgan Stanley, Bank Julius Baer, Merrill Lynch, Credit Suisse, Goldman Sachs, UBS, Deutsche Bank, HSBC Private Bank and Bank Pictet.

Knowledge Partner

As Knowledge Partner of the post-conference day at the Private Banking Summit, working with organisers Euroforum, Key Trust used its international network of contacts across the private wealth industry to secure leading speakers from the highly specialist family office sector.

Speakers shared their understanding of what private clients really want: from the business model that serves them best to their professional role in successfully developing

the family's philanthropic activities as well as preserving their wealth.

By looking at the 21st-century advisor from a fresh perspective, the day addressed the question of how best to safeguard the hopes and resolve the fears of the ultra wealthy.

This Keymail Conference special issue presents extracts from each speaker's analysis:

Sebastian Dovey

(consulting firm Scorpio Partnership)

Martyn Gowar

(Lawrence Graham LLP)

Richard Wyatt-Haines

(University of Exeter)

Peter Leach

(BDO Stoy Hayward LLP)

Michael Maslinski

(Maslinski & Co)

Jeremy Arnold and Oliver Zucker

(Barclays Wealth)

Penny Lovell

(Fleming Family & Partners)

and Ludwig Forrest

(King Baudouin Foundation).



Attentive delegates in Zurich, September 2007

Key Trust hosts a private dinner for the speakers



Taking the client's perspective – what private clients really want

Sebastian Dovey, Managing Partner, Scorpio Partnership

From research among more than 1,000 wealthy individuals over the last 18 months we learn that what matters most to clients is trustworthiness – in particular that their providers will understand their family needs and goals.

These points are in stark contrast with such industry myths as performance is key, products are everything and fees are a deal breaker. In fact clients are motivated to buy into quality. They pick and mix, treating their family office as part private jet, part taxi – not hesitating to pay for what they value most but putting a lower price on what they regard merely as “product processing”.

One consequence is that the selection process is increasingly client self-directed,

strongly in favour of “empowered buying” rather than being sold to – something providers will need to adjust to. Another is that most people who are income-rich but capital-poor feel that they are under-advised, while the majority of capital-rich and income-constrained are over-advised.

Today, with inheritance representing less than 20% of world wealth, the vast majority (over 80% of wealthy individuals, around 70% of the ultra-wealthy) describe

themselves as “middle class at heart”. Most continue to work, despite their wealth, often because they are involved in owner-managed businesses.

Clients do not typically move for fees – but for better service and experience. They are looking for a sense of intimacy alongside good results. They use their own expertise to reflect their personal values and build legacies; they seek professional advisors who successfully become participants in this process.





The 21st-century advisor – a fresh perspective

Martyn Gowar, Consultant, Lawrence Graham LLP, UK

What kind of professional advisor does the truly wealthy, 21st century client really need and is prepared to pay for?

The clients, especially the newly wealthy, will need educating in some of the principles and the responsibilities of wealth ownership and management.

They need an advisor able to understand and empathise with each individual, acknowledging that different generations of the same family will often have entirely different outlooks. And with the communication skills and experience to understand their culture and exposure to social and religious influences, their experience and acceptance of risk and their national and global horizons.

Many advisors come from providing specialist services in particular areas – private client lawyers, accountants, bankers,

investment managers, or agents in the entertainment, sports or arts industries. If they approach the matter from their area of expertise, can they contextualise the advice they are asked to give?

“Intelligent wisdom”

The advisor must also have the specialist ability to assist with tax, banking and financial security, family succession advice, legal and accounting issues together with sub-specialist skills in areas such as insurance, administrative management of estates – and even domestic matters such as travel etc.

The industry needs to train advisors able to offer a wide range of expertise.

Perhaps the recipe for the ideal advisor is this: he or she should possess intelligent wisdom, be of complete integrity, independent, with skills in all directions – and blessed with a degree in “people”. They will be found working in a professional, probably fee-based organisation that is able to attract these talented people by offering them a balanced lifestyle.



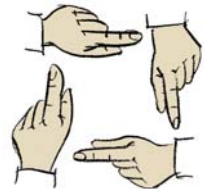
Martyn Gowar, Lawrence Graham LLP, UK



The importance of understanding family dynamics

Peter Leach, Chairman, BDO Centre for Family Businesses

Every country has a phrase for it: shirtsleeves to shirtsleeves in three generations (America); peasant shoes to peasant shoes (China); from the stables to the stars and back to the stables (Italy).



Instead of blame...



...a source of strength

Its origins are the personalities, business and structural issues – family, business and shareholders, each with different agendas – that characterise and can undermine the long-term sustainability of a family business. Only 30% of family businesses reach the second generation, only 13% survive through the third.

Of course family businesses have huge advantages: commitment, knowledge, long-range thinking, reliability and pride; the average CEO's tenure in a non-family business is 4 years against 24 years in a family business. But they may also be slow to deal with business challenges such as updating skills and raising capital.

Succession can be particularly complex. The founder may be reluctant to release control or unable to choose among the children. The younger generation may worry about living up to the founder's expectations – even

query whether they want to be there at all.

Within all these dynamics, the advisor's purpose will be: to help the family professionalise its culture, activities and values; to help build the business and continue the enterprise; to recognise and resolve shareholder issues and prepare the younger generation for business.

Enable them to become a learning family. Ask each member: do you want to work for the business, or do you want the business to work for you?

Create a governance structure – Family Constitution and a Family Council – whose processes, principles and relationships will help the family to realise their vision and objectives.

Some sources of conflict may never go away. Your role is to convert fingers that might otherwise point in mutual blame into a source of family strength.

Treating Customers Fairly: strategic threat or opportunity?

Richard Wyatt-Haines, Chartered Marketer and Leadership Fellow of the University of Exeter

Treating Customers Fairly (TCF) is very much on the agenda for the financial services industry. In the UK the Financial Services Authority (FSA) is determined to make TCF an integral part of the industry's culture – adding to the increasingly difficult environment that professional advisors work in. It is setting requirements that the industry must attain.

Alongside, private clients are buying differently and expecting you to deliver more.

For an advisor the safest course might seem to be the "me-too" route: relying heavily on research, making terms and

conditions easy to understand, and having communications certified as clear. But while such steps might satisfy the regulators, they are more likely to create lots of customers with whom the relationship is in fact inert.

Better by far is the route I describe as "pumping iron". To make sure that TCF will generate positive results organisations have to integrate it with their strategic thinking so it becomes central to senior management's decision-making; understood by all front and back office staff; managed across delivery partners; and with resources

allocated to TCF-related change.

As a result, ever deepening customer insights will emerge to create breakthrough thinking that enables the whole business to deliver from the customer's perspective and to meet their individual needs. Players will find new solutions that do not look like financial services products and will use intimate knowledge of their customers to change the basis of relationships.

And then you can expect customers not only to engage with what you offer, but to go further and become apostles for your brand.



Products or service? Finding the right balance

Michael Maslinski, Director, Maslinski & Co

Where does the modern family office fit with other wealth management providers?

The concept of private banking and wealth management is now firmly lodged in potential clients' minds. But many see the market leaders as product salesmen, not advisors.

A major problem is that the economic model promotes the sales approach.

Michael Maslinski, Maslinski & Co

There is a serious shortage of client relationship managers (CRMs) capable of delivering the promise, a lack of understanding of how to manage the organisation in alignment with clients' interests – and frequently no 'joined up' communications strategy from the CRM to the organisation's brochures.

A major problem is that the economic model promotes the sales approach. The main added value comes from advice and service, but revenues traditionally come from products.

Yet wealth management is a much bigger promise than portfolio management. It suggests influence across all aspects of a client's wealth and implies the closer and deeper relationship of trusted advisor status.

There is a particular problem with entrepreneurs and business families. Few private bankers have enough business experience to make a meaningful contribution to a high-level debate. There is a serious potential conflict between a private banker's theoretical view of risk and the businessman's more practical approach.

Exceptional skills

To deliver a family office service demands a great deal. Knowledge and experience that includes investment and business management, corporate finance, law and tax. Exceptional interpersonal skills covering long-term, vision, routine management, sound business judgment and conflict resolution. An outgoing and likeable personality, insightful and meticulous, robust enough to stand up to bullying – yet knowing their place! – and preferably known and trusted by the family for at least five years.

*Richard Wyatt-Haines,
Chartered Marketer and Leadership
Fellow of the University of Exeter*



Why we set up a family office and how it works with other professionals

Penny Lovell, Group Head of Business Development, Fleming Family & Partners, London

In 2000 Fleming Family & Partners (FF&P) was one of only about 20 family offices in the UK. The sale of the family business left its 190 members with a continuing need for asset management – but also other services, which no institution could provide.

These include: putting the client's needs at the top of the agenda, the ability to choose the best investment managers, trusts and tax planning, supporting an individual's own business, and philanthropy.

By 2007 entrepreneurs regard these services as a matter of course.

Self-made entrepreneur

The self-made entrepreneur who has made sacrifices to achieve their wealth expects the best cash rates, best asset management and a fast efficient service. They want strong performance but also want to feel special, and we respond to their broader needs holistically – from selling their businesses and advising on the right schools, to helping

them with running their busy lives.

Philanthropy has become increasingly important and plays a major role in a family's history, current identity and even the future unity. Our charities desk is there to support and advise clients who want to establish a foundation or have other charitable requirements. We work closely with clients who require support in areas such as art advisory, real estate or advice on their family business.

Flexible and innovative

As a family office, we understand and respond to the changing face of society and introduce flexible and innovative solutions to match.

Currently we have noticed that clients are becoming increasingly concerned not just with the value of their portfolios but with the quality of their lifestyle. Protecting lifestyle can be just as important to many families as generational planning.

Second generation programmes

We offer education programmes for our clients' children. Our summer internship includes a 'Dragons Den' experience where the interns get the chance to pitch a business idea to a panel of private equity specialists. Training also covers asset management, long term financial planning and even how to write a CV.

'As a family office, we understand and respond to the changing face of society and introduce flexible and innovative solutions to match.'

Penny Lovell, Fleming Family & Partners



Penny Lovell, Fleming Family & Partners and Jeremy Arnold, Barclays Wealth

Families and Philanthropy: maximising the impact of giving

Ludwig Forrest, Philanthropy Advisor, King Baudouin Foundation, Brussels



Wealthy families can make a real difference in our societies. Family offices are best placed to leverage their clients' intentions.

Philanthropy, characterised by the donors' desire for involvement and feedback on results, is different from charitable giving.

Families wanting to engage in philanthropy could need different types of professional advice: for example, the family that sets up a charitable foundation will want to know if their grandchildren and even great-grandchildren will be on future boards.

Research will help to avoid errors: one of our donors wanted to encourage women to become educated by building schools in

Africa. Looking into the problem, we realised it was not that that girls didn't want to go to school – but that their first responsibility was to fetch water for the family. So our client first created access to water – and then built the schools.

We describe philanthropy as a journey. Start by forming the objectives, analyse the challenges and assemble the stakeholders. Then set up your plan – the legal framework and organisation, from decision-making milestones to management and money.

Next, determine the supervisory structure for projects, budgets and quality control. Add a rigorous evaluation process.

When the family is ready, ask some 'simple' questions.

- What are the real-life experience and values behind their expressed ideas?

- *What has already been done in their chosen field?*
- How do they want to work – through grants or loans, or venture philanthropy?
- *Where do they want to realise their intention, and are there legal or fiscal aspects to consider?*
- How much will they give? Here consider the tax aspects, investment strategy, assets and management.
- *When – now, or later? And for how long – ten years or eternity?*

The answers will lead to different strategies, and that is fine; there is no single optimal method. Finally, philanthropy should not become a marketing tool for family offices or private banks, or a short-term fashion: it must be a long-term commitment. Only the people who need to be helped matter, always.

Safeguarding the hopes and resolving the fears of the ultra-wealthy

Jeremy Arnold, Managing Director (*left*) and Olivier Zucker, Director, Private Bank (*right*), Barclays Wealth



When Scott Fitzgerald said "The rich are different from us", Ernest Hemingway, responded, "Yes, they have more money." Yet they also have hopes and fears.

Hopes range from the obvious (staying rich), to controlling their wealth and passing it on. We have yet to meet a wealthy individual who has not thought about the latter.

"Wealth" is a relative concept, in a dependence with risk tolerance, and it is necessary to calibrate risk differently for the ultra high net worth. What sets them apart is their ability to accept a larger magnitude of

loss and to focus less on the probability of loss.

Among their fears is losing their wealth through confiscation. Against taxation they will seek deferral rather than outright avoidance, or jurisdictional arbitrage. Where death and inheritance taxes are concerned insurance may be the answer.

Another fear is third-party claims on the family's assets, whether by future generations or by spouses following divorce.

Here asset protection structures can be put to work, typically: trusts, family partnerships, family funds and corporate

structures. For these to be effective it is crucial to plan early. The successful transfer of wealth requires clarity of purpose, in which the family participates through a mission statement covering the family's history, how the wealth was accumulated, and its shared values.

Finally, information can be a source of fear, in the form of new government regulations or choice of jurisdiction. Often it concerns what information to give the family, in particular when to tell the children how wealthy they are.



The summing up

Brian Clarke, Managing Director, Key Trust Company

The wealth industry is poised for significant growth. One recent report shows that the number of high net worth individuals (HNWIs, owning financial assets worth £1m-plus) rose by more than 8% in 2006 alone. Another calculates that the estimated 6.34m HNWIs in G7 countries, around half of them women, will more than double in the next decade – and the number of ultra-rich will grow at a faster rate still.

Yet we believe that the sector as a whole will not benefit while most wealth managers stick to their old product-selling model. Industry data* support this view: although more than 80% of relationship managers believe they have achieved “trusted advisor” status, in reality the majority manages less than 40% of clients’ assets – and nearly 50% admit to lacking good knowledge of their clients’ family issues.

Relationship quality

Long-term, this knowledge gap could hold our industry back.

For the last two years Key Trust has enlisted the help of outstanding speakers, to share with the private client industry our vision of a service model that is enjoyed by the staff who deliver it and appreciated by the clients benefiting from it.

Our experience with the Key Trust service-driven business model is that when we listen, and deliver ‘service’ before ‘product’, we align ourselves with clients’ objectives. This gives us a richer quality of relationship with our clients and their advisors that we describe as *trusted above all*.

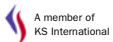
If our industry catches hold of these ideas we will all enjoy significant benefits. Professional advisors and managers in the industry will gain from significant growth in private client services. But clients above all will reap the advantages of superior service.

*PricewaterhouseCoopers 2007 Global Private Banking/Wealth Management Survey.

It is not surprising that far-sighted industry leaders recognise the “knowledge gap” between what clients really want and what some providers offer. Long-term, this could hold our industry back.

Brian Clarke, Key Trust Company

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