

FINANCIAL SERVICES

Family storytelling essential to successful wealth transfers, says BBH

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Image courtesy of Sentient Jet

By JEN KING

With 70 percent of generational wealth transfers failing, private bank Brown Brothers Harriman has set out to understand the shared factors that make the remaining 30 percent successful.

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For its "Families and Wealth Survey," **BBH** spoke with a select group of estate planners to determine why only a small percentage of family wealth successfully transfers to the next generation of high-net-worth individuals. According to estimates by UBS and PwC, less than 500 billionaires will transfer \$2.1 trillion, or the amount of India's GDP, to their heirs over the next 20 years.

"It is easy to attribute the failure of wealth transfer to today's ever-changing legal landscape and the complexities that it poses to families with substantial wealth, whether in the form of financial assets, real estate or a family business," said Scott Clemons, chief investment strategist at **Brown Brothers Harriman**.

"But things were seemingly no easier 240 years ago," he said. "Then, just as now, very few families succeeded in transitioning wealth beyond a generation or two."

"It appears that, in addition to mastering the legal and financial complexities of wealth transfers, other elements are at play that influence whether or not a family can preserve its wealth across multiple generations."

Educating the next generation

Causes of failed wealth transfers boil down to a breakdown of family communication and trust, an unfortunate, but understandable, outcome when large sums of money are involved.

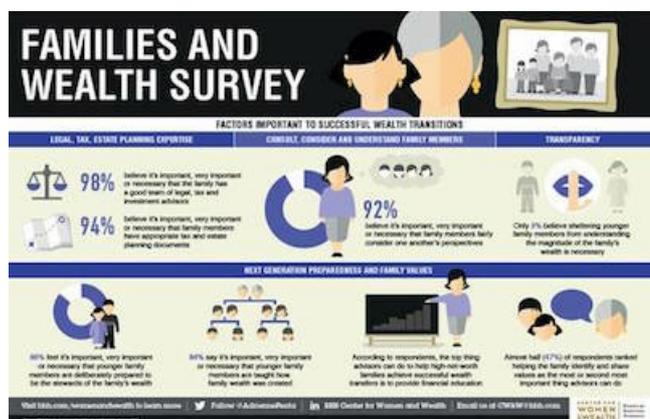
Additional reasons include inadequately prepared heirs, a failure to establish family mission and poor legal, tax and/or investment advice.

"Ninety-seven percent of the failures were attributable to the family itself: due to a lack of a family mission (12 percent), the inadequate preparation of heirs (25 percent) or a breakdown of family communication and trust (60 percent)," Mr. Clemons said. "The common thread in each of these causes of failure is a lack of communication. Therefore, better communication is the common cure."

BBH's survey of estate planners found that the key to a successful wealth transfer relies on three key objectives: education, honesty and storytelling.

Financial education was ranked as the most important thing UHN families and wealth advisors can do to ensure that the transfer process is understood from the elder down to the heir.

Honesty is also considered an important factor for successful wealth transfer.



BBH's Families and Wealth Survey infographic

Some UHN families tend to hide the magnitude of their wealth from younger members to allow for a "normal" upbringing. But, 98 percent of estate planners advise against this practice, saying that the sooner an heir understands the financial responsibility the better.

This can be achieved through storytelling. Eighty-four percent of respondents answered that it is very important, important or necessary that younger relatives be educated on how family wealth was generated.

Using storytelling to explain generational wealth may work to establish a personal bond among inheritors and the family's financial status. Also, younger relatives, who may be far removed from the source of wealth by a few generations, may benefit from understanding the context in which his family has accrued its prosperity.

"We all need to speak more about the why' of wealth not just the how' of transferring it to our children," Mr. Clemons said.

In addition to education, honesty and storytelling, 86 percent of estate planners agree that young family members are deliberately prepared to become the stewards of the family's wealth.

Above all, nearly all surveyed estate planners emphasized that a trusted team of legal, tax and investment advisors as well as the appropriate tax and estate planning documents are essential to a successful wealth transfer.

Where's the money going?

Transferring wealth is a common cause of fortunes becoming diluted. When a billionaire dies, the wealth is split between heirs, and oftentimes the resulting fortune does not meet the billion-dollar wealth ceiling.

Since exceptional wealth creation has been seen over the last two decades, there will soon be a substantial transfer of fortunes as inheritance. Per UBS and PwC's research, Asian billionaires will be the demographic to watch as a majority of that population is self-made, first-generation billionaires.

More than 85 percent are self-made, and it will be interesting to see if Asia's family-oriented billionaires take a European approach – upholding legacy and familial ties to their businesses – to wealth transfer and fortune preservation ([see story](#)).

"Many families are tempted to ignore these issues. And yet ignorance at least in this case is not bliss," Mr. Clemons said. "The benefits associated with taking the time to define your wealth can not be overstated.

"[BBH's] ultimate objective as advisors is to help our clients preserve and grow their wealth," he said. "If we are to succeed in preserving and growing our clients' wealth over more than a single generation, we must work with our clients to make sure that future generations are prepared to be good stewards of the family wealth and values. It's never too early to start, and it's also never too late.

"And it is the best investment a family will ever make."

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