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# A new wealth paradigm

The wealth management industry is undergoing a period of significant and transformative change. Heightened political and economic uncertainty, increased regulatory pressures and digital disruptors have given rise to a new era of uncertainty for everyone involved. Yet the most significant and potentially lasting of these changes is still to come: within the next 20 years, we will see the largest ever intergenerational transfer of wealth, where trillions of pounds' worth of assets will be passed down between generations.

Understandably, wealth management firms are considering ways to attract new clients in this great generational transfer of wealth. Most of these potential clients will fall into two demographic groups: Generation X and Generation Y (popularly known as millennials). This latter group – those who became adults after 2000 – are perceived as more socially mindful, environmentally conscious and tech-savvy than their predecessors.

We are also often told that this group are less wedded to traditional models of investing, advice and money management, in many cases favouring electronic over human interaction. They look for new, innovative ways of saving and making their financial goals reality. As a result, wealth management firms will need to find new routes of attracting these potential clients.

There has been no shortage of media stories about millennials or reports into money being passed down the generations, but these invariably look at the story from one side. So far, there hasn't been anything that looked at this issue from the perspective of all the three key audiences involved in the story: the donors (those gifting the inheritance), the beneficiaries (those receiving the inheritance) and those who will be handling the transfer (financial advisers, lawyers and wealth managers).

This report provides an insight into each of these distinct groups. It also allows us to compare and contrast attitudes. This means we can identify potential trends or patterns, as well as uncover anything that could pose risks or opportunities in the future.

We believe there are greater issues at stake here than simply the transfer of wealth. As we celebrate Sanlam's 100-year anniversary in 2018, we are thinking about how we can contribute to building a lasting financial future, and ensuring our clients and their loved ones have the means to achieve their aspirations and make the most of their lives – for generations to come.



**Jonathan Polin**

CEO, Sanlam UK

### Report methodology

The figures in this report are taken from three separate sets of research undertaken for Sanlam UK in April 2018. These comprise:

- An online survey carried out by Atomik Research of 1,000 people aged between 25 and 45, who are expecting to receive an inheritance of at least £50,000 (in fixed assets or money) from their parents and/or grandparents.
- An online survey also carried out by Atomik Research of 500 over-55s, with investable assets of £100,000+, who are leaving an inheritance to their children or grandchildren.
- Interviews with family offices in collaboration with Global Partnership Family Offices, conducted by Dr Michael J Oliver from The Open University.
- An online survey of 200 financial advisers carried out by Opinium.
- We believe these audiences are representative of those expecting to receive significant inheritance and those expecting to leave significant inheritance.

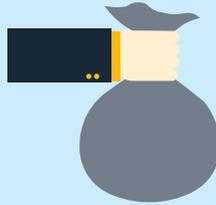
In addition, more than 100 face-to-face interviews with intermediaries, lawyers, accountants and family offices were conducted by Sanlam UK and helped inform the content of the report.

**Important:** All statistics used, unless stated otherwise, are taken from these sources, and all mentions of under-45s and over-55s in this report refer to the aforementioned sample, not the general population.

## Executive summary

34%

of under-45s are counting on the windfall of their expected inheritance to help them out in later life



31%

of people aged between 25 and 45 say the inheritance they expect has put them off saving to “live in the now”



<£10,000

over four in 10 people aged between 25 and 45 in our research have less than £10,000 in savings



1 in 3

under-45s and over-55s have used one or more fintech services in the past year



**The great wealth transfer.** Almost two-thirds (64%) of 25- to 45-year-olds expect to receive inheritance from their parents and grandparents, with nearly half of these (29%) expecting to receive at least £50,000 in fixed assets or money.

**Difference between expectations and reality.** The mean average value of the expected inheritance (for those under-45s expecting to receive £50,000 or over) is £233,000. The mean average amount our over-55s sample is actually leaving behind is £257,000, but mostly split between several different family members.

**Inheritance as a financial panacea.** A third (34%) of our 25-45 sample say they are relying on their inheritance to help them out financially in later life; and an additional third (31%) say the fact they have this inheritance coming has put them off saving so they can “live in the now”.

**Under-45s struggling to engage with longer-term financial planning.** Four in 10 (40%) of our 25-45 sample have less than £10,000 in savings; a quarter (24%) don't know the value of their pension pot, or say they don't have one at all; and over 40% think they need £100,000 or less for their retirement.

**Older generation concerned about the financial security of their children.** Almost two-thirds (61%) of our over-55s sample don't think younger generations are getting adequate financial advice and 40% are concerned about what they will do with their inheritance. The majority (59%) of inheritance donors want their children to see a financial adviser. But just one in 10 (9%) have spoken about it.

**Families not talking about inheritance.** Four in 10 (38%) of the under-45 sample who are set to receive a substantial inheritance haven't spoken to the person gifting about their plans for the money.

**Adviser industry concerned about its ability to target younger generation of clients.**

Four in five (81%) financial advisers say intergenerational transfer of wealth is the greatest opportunity for their industry, but a quarter (23%) are concerned about their ability to attract younger clients. The market opportunity, however, is there: three-quarters (76%) of the under-45s will be engaging the services of a financial adviser once they've received their inheritance.

**Fintech is starting to make its mark, but not to the detriment of traditional financial services.** Roughly a third of over-55s and under-45s have used one or more fintech service in the past year. Although many people still aren't aware of fintech providers, the changes could be significant over coming years. Meanwhile, one in 10 (13%) under-45s say they will be interested in investing in cryptocurrency, which is well below the quarter that say they'll be looking to invest in the stock market.



## Navigating a changing world

Penny Lovell, CEO, Sanlam Private Office

The findings from this report show that the level of wealth transfer in the UK is set to be highly significant. Therefore, it presents both opportunities and challenges for the financial services industry and society more generally. That it comes at a time of profound societal, political and economic upheaval simply adds another element of complexity and uncertainty to an already extraordinary picture.

Take, for example, the rise of fintech disruptors that have come to the market in the past few years on the promise of democratising financial services, or the fact that the world is only beginning to come to grips with the implications of big data and artificial intelligence, and how they will shape our everyday lives. These are potentially ground-breaking changes, and mean that any wealth being left behind for future generations could be inherited in a world that looks radically different to the one we're in now.

This is one of the reasons why, along with our consumer sentiment research, the team at Sanlam spoke to a variety of our private clients, financial advisers, lawyers, accountants and family offices to get their view on what this wealth transfer means for the industry.

This is a complex picture, and as an industry we need to make sure we listen to all sides in order to successfully navigate this future with our clients.

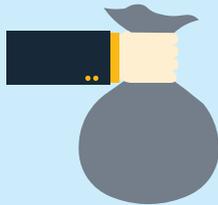
- Families are not talking about
- inheritance. Four in 10 (38%) of the
- under-45 sample who are set to receive
- a substantial inheritance haven't spoken
- to the person gifting about their plans
- for the money.

# Chapter 1

## The great generational wealth transfer

1 in 3

under-45s are counting on an expected inheritance to help them out in later life



76%

of under-45s are looking to engage with a financial adviser when they receive their inheritance

38%

of under-45s set to receive inheritance haven't spoken to the person gifting them money



According to the findings of our survey, nearly two-thirds (64%) of 25- to 45-year-olds expect to receive inheritance from their parents and grandparents, while nearly half of these (29%) expect to receive at least £50,000 in fixed assets or money.

Using the Office for National Statistics (ONS) population estimate for adults aged between 25 and 45 (currently at 17.6 million<sup>1</sup>) as the basis for extrapolation, this means there are 5.1 million people in this age group expecting to receive at least £50,000. What's more, the mean average that this group said they were expecting was £233,000. This equates to £1.2 trillion that this cohort is expecting to receive.

Meanwhile, the mean average approximate value of assets that over-55s (those with over £100,000 investable assets) will leave to their children and grandchildren is £257,000.

Clearly, even as a guideline estimate of the level of average wealth being left behind, this goes some way to bringing the scale of transfer into sharp focus.

<sup>1</sup> [www.ons.gov.uk/aboutus/transparencyandgovernance/freedomofinformationfoi/populationbyagegenderandethnicity](http://www.ons.gov.uk/aboutus/transparencyandgovernance/freedomofinformationfoi/populationbyagegenderandethnicity)

At first glance, this would suggest that the expectations of these beneficiaries are roughly in line with what benefactors will be leaving behind. However, it's important to note that over a quarter (26%) of the gifting respondents we spoke to say they'll be leaving inheritance to both children and grandchildren, with many likely to be splitting their money between more than two beneficiaries. When we asked the under-45 cohort how much they are expecting to receive, this was for them and them alone.

This indicates a discrepancy between what this younger generation are *expecting* to receive in their inheritance and what they will *actually* receive. This statistic is made more alarming when you consider that a third (34%) of our under-45s said that they are counting on the windfall to help them out financially in later life.

### The make-up of inheritance

85%

of the under-45 sample said they'd be likely to receive inheritance in cash



51%

said they expect to receive assets (including property or stocks)



16%

said they are likely to receive a business that the family has owned or part-owned



### **We need to talk about inheritance**

It seems that lack of communication between families is a contributing factor for this mismatch of expectations and reality. Indeed, four in 10 (38%) of the under-45s set to receive inheritance haven't yet spoken to the person gifting about their plans for the money. The most commonly cited reasons for not doing so seemed to be issues around awkwardness.

On a cultural level, it's clear that the conversation around wealth transfer is deemed a taboo topic. Regardless of the reasons for not discussing inheritance, the fact remains that these conversations are all too often not happening.

This leaves open a very distinct possibility that those who are relying on inheritance for their financial security may end up bitterly disappointed and in a more financially precarious position than they had anticipated. Given that a large proportion of the people we spoke to openly admit that they are relying on their inheritance to help them out at a later stage, this is clearly problematic and will likely have profound implications on their later-life aspirations.

Additionally, four out of 10 (40%) of the under-45s we asked for this report currently only have savings of £10,000 or less, and a further tenth (8%) have no savings whatsoever. Given the average inheritance expected is £230,000, there's a real risk that a lack of experience with large-value assets could lead to the inheritance being mis-managed when it's passed on.

### **Over-55s are concerned about the financial stability of younger generations**

Concerns about how the wealth is going to be used is a recurrent theme in our research of inheritance donors. Six out of 10 (61%) do not think the younger generation are getting adequate financial advice. In this context, it's hardly surprising that 40% of those giving inheritance say they are concerned about how this is going to be used. This suggests that, even in cases where there are conversations being had, there is disagreement on how and for what purpose the inheritance should be used.

When it comes to seeking professional help, a majority (59%) of over-55s want the beneficiaries of their wealth to see a financial adviser about their inheritance, with one in three (33%) saying they'd like this financial adviser to be the one that they currently use. Nonetheless, just one in 10 (9%) over-55s have spoken to the recipients of their inheritance about seeing a financial adviser.

Interestingly for the adviser sector, over three quarters (76%) of our under-45s say they will be looking to engage with a financial adviser when they receive their inheritance. This contrasts sharply with the one in 10 who currently use a financial adviser or wealth manager, and therefore presents an opportunity for the sector.

### **Let's talk about money**

Over a third (35%) of those who haven't spoken about inheritance say they find it too difficult a subject to broach with their loved ones. A fifth (18%) think it's the job of the donor to bring up the topic.

## Chapter 2

# Tracking generational differences in attitudes to wealth

1 in 3

under-45s are relying on an expected inheritance to help them get onto the property ladder



31%

of under-45s are putting off saving because they know they are receiving an inheritance



£0

8% of under-45s have no savings or investments



1 in 5

under-45s accept debt as a part of everyday life



More than the value of inheritance or transfer of wealth, we wanted to unpick some of the different attitudes between our two cohorts. Our research suggests that, generally speaking, the 25–45 group hasn't been afforded the luxury of thinking about its financial future. This is portrayed by the fact that over 40% of those we spoke to currently have less than £10,000 in savings, and a further tenth (8%) have no savings or investments at all. The findings also suggest low engagement with investments generally, which again could raise the risk of their inheritance being mishandled when they do receive it.

### **Inheritance as a financial panacea**

Crippled by increasing debt levels, rising living costs and stagnating wages – not to mention rising property prices – it is perhaps unsurprising that this generation are hoping for a substantial windfall from an inheritance to act as a cure-all for their financial situation.

However, there are a number of factors that make this overreliance problematic. First, as our research highlights, what the younger generation expect to receive in inheritance doesn't necessarily tally with what the older generation have said they're going to give. Expectations compared with reality is clearly an issue. More than this, the expectation that a windfall will act as a financial panacea is optimistic at best, wholly misguided at worst.

This is especially true when this expectation affects their relationship with money today, which, unfortunately, seems to be the case for many of our sample. Indeed, a startling number (31%) of under-45s admit to putting saving off precisely because they know they are receiving an inheritance. Knowing that they have this money coming means, as they put it, they are free to “live in the now”.

### **“Living in the now” at the expense of tomorrow**

Our findings do suggest that this younger generation put precedence on tangible outcomes, such as getting on the property ladder or paying for weddings. It's important to remember, however, that a large proportion of this cohort will have entered into the world of work around the time of the financial crisis, where the notion of debt and borrowing became the defining hallmark of the era. With tuition fees increasing over 900% since they were introduced in 1998, it's not unreasonable to assume that this generation instinctively feels more at ease with debt, simply by virtue of the fact they are burdened with such a substantial amount at an early stage in their lives.

• A significant proportion of  
• today's younger generation are  
• relying on money from their  
• inheritance to help them climb  
• onto the property ladder.



Certainly, our research seems to bear this idea out: when asked about the differences between their parents' attitude to money and their own, one in five of the under-45s we spoke to accept that debt is a part of everyday life, which is in sharp contrast to their parents and grandparents. This also somewhat explains why the third most commonly cited anticipated use for inheritance is paying off debt (24%).

### The property puzzle

Then, of course, there is the *generation rent* effect. Despite measures from consecutive governments to encourage and help people onto the property ladder, numerous reports<sup>2</sup> suggest there are far fewer young people getting onto the housing ladder than in previous generations. This automatically puts many people in this under-45 group at an immediate disadvantage, particularly when you consider the soaring cost of rent.

<sup>2</sup> [www.ifs.org.uk/publications/10506](http://www.ifs.org.uk/publications/10506)

This inability to get on the property ladder is clearly a pressing issue for a lot of the people we spoke to. According to our findings, a quarter (25%) of the under-45s said that owning a property is a major concern when considering their future financial security.

It's not surprising, then, that buying a property is listed as the key goal for over a third (35%) of those under-45s in our survey. Interestingly, this is roughly the same number (34%) that said they are looking to use their inheritance to buy a property. The assumption we can make here is that a significant proportion of this younger generation are relying on money from their inheritance to help get them onto the property ladder – and that's discounting those who will inherit a property from their loved ones.

### At the moment of transfer: where inheritance will be spent

Put it into a savings account	38%
Purchase property	34%
Set up a trust for my children	24%
Use it as my pension fund	24%
Pay off debt	24%
Buy things for me and my family	23%
Invest in stocks, bonds or equities	18%
Use it to retire early	17%
Pursue a life-long ambition	16%
Set up a business	15%
Gift to charity or causes that are close to my heart	12%
Pay school or tuition fees	11%
Invest in cryptocurrency	10%

### **How do the generations differ when it comes to wealth accumulation and management of money?**

Asked how they accumulated their current wealth, the most commonly selected answer for both demographics was by putting part of their salary away each month (44% over-55s vs 47% under-45s). However, there are some statistically significant differences across the rest of the responses. Perhaps another consequence of the increasing cost of living and escalating rental costs is that over a quarter (26%) of the 25–45 cohort say they have saved their money while living at home with parents – three times the number (8%) of over-55s who say the same.

One in 10 (11%) under-45s say investing in cryptocurrency has contributed to their current wealth compared with just 4% of over-55s.

Being an entrepreneur and running and/or selling a business is listed for a quarter (25%) of under-45s, compared with just 16% of our over-55s.

Other than investing in cryptocurrencies (11%), two fifths of under-45s have some sort of investment in property (21%) or in the stock market, pensions or other assets (19%).

### **Goals and aspirations**

When asked about their financial goals and aspirations, nearly half (47%) of our over-55s say they are actively saving and investing for the financial security of their family – this was the most selected option in the survey, and is higher than those who said they were saving for their own financial security (40%). Over a quarter (27%) say they are saving or investing so that they had the financial capability to “do all the things in life” they want. Nearly one in five (17%) are saving to visit exotic destinations, and over one in 10 (13%) are saving to start a business.

The under-45s’ overarching goals are strikingly similar – 47% say they are saving/ investing for their own financial security, with 46% saying they are doing so for their family. Over a third (35%) are saving for property (twice as much as the 14% of over-55s who selected this option). Nearly a quarter (23%) of millennials are saving and investing for starting their own business. Buying a holiday home is stated as a goal for 15% of under-45s respondents, twice as many as those over-55s who selected this. Interestingly, the pursuit of an artistic endeavour is mentioned by one in 10 under-45s as a goal compared with just one in 20 over-55s.

### **• Making a difference**

• Under-45s are more likely to consider venture philanthropy (10%), socially responsible investing (26%) and impact investing (15%). Over-55s prefer more traditional routes, such as boycotting companies that harm society or the environment.

## Green is the new black

It is commonly asserted that millennials are driving brands and businesses to be more sustainable and ethical in their practices<sup>3</sup>, and that this demographic are more socially conscious than any generation that has come before. This notion has become commonplace, despite limited or contradicting evidence. How can we be sure that, at a time when sustainability increasingly makes its way up the political and economic agenda, this shift isn't reflected across all age groups?

Our own research, for instance, suggests that over-55s are almost as likely to insist that their money is invested in companies that reflect their own values – four out of five (80%) over-55s we spoke to say it's important that their wealth is not invested in something that contravenes their own beliefs; by contrast, closer to nine out of 10 (88%) in the under-45s group say the same.

So while it's fair to say that under-45s are marginally more concerned that their wealth is invested in something that isn't against their values, the vast majority of over-55s have the same belief. Where there is a difference, however, is in what the two groups think is the most effective way of putting their money to use for a positive social and environmental impact.

<sup>3</sup> [www.ft.com/content/8b08bf4c-e5a0-11e7-8b99-0191e45377ec](http://www.ft.com/content/8b08bf4c-e5a0-11e7-8b99-0191e45377ec)



## The ethical investment trend

The view from a tax and trust specialist

In many cases “ethical” is more about people not wanting to be involved in something that contravenes their own beliefs, such as “I don't want to invest in tobacco stocks because I believe smoking is harmful”. It's more about what they *don't* want to invest in as opposed to being active ethical investors.

When there is a positive slant, it's usually inherently subjective. It might be that a young high-net-worth individual has found a one-off project that they are particularly interested in investing in – for example, a hotel in Brazil that invests in the local community. What's ethical to one person can be completely unethical to another, which makes it a challenge for the industry.

There is also a fair bit of confusion – both at a client and wider industry level – about what the terms actually mean. The younger generation talk about ethical, ESG, SRI and impact investing as one approach. We're getting to the point where that ethical sector is becoming too jargon-heavy.

It's important to remember that most clients are pragmatic. They are young entrepreneurs who will want to make a good investment – if it can be socially responsible at the same time, that's great. But they won't invest in something just because it's got the words “socially responsible” in it. They still want to make money.

## Fintech – the future of finance

The rise of fintech challengers entering into the financial services sphere has been well documented in the media. There have also been major policy initiatives, such as Open Banking, that have broadened their scope of influence by offering consumers the chance to do more things with their data. Despite this – and the myriad different reports and headlines claiming it will help democratise finance – our research suggests that, as yet, there is still a lack of awareness and, in some cases, appetite across *both* the over-55s and under-45 groups.

Additionally, just over one in 10 (13%) under-45s have used financial apps, though this increases to nearly one in five (19%) for those aged 25–35. This is statistically significant, as it highlights the rate at which fintech companies have breached the monopoly of the traditional financial services, particularly making their mark on younger audiences. It's also worth noting that many sector disruptors that have come to the fore in recent years are still in their infancy, and in this context the rate of their pick-up is impressive – they are starting to make their mark on our sector and this is only likely to accelerate in the next few years.

- A similar number of over-55s
- (32%) and under-45s (36%)
- have used one or more fintech
- provider over the past year.

### What people aged 25 to 45 use to manage money

	Total	%
<b>Total</b>	1,001	100
A current account from one of the big five major banks (RBS/Natwest, HSBC, Lloyds, Barclays and Standard Chartered)	620	62
A savings account from one of the big five major banks	549	55
Cash ISA	355	35
A current account from a non-big five bank	342	34
A savings account from a non-big five bank	269	27
Stocks and shares ISA	220	22
Financial apps	133	13
A wealth manager or financial adviser	94	9

# Chapter 3

## The problem with pensions

57%

of the under-45s we researched say they'll need to save more and spend more consciously to meet their retirement target



34%

of under-45s don't think they'll be able to meet their pension pot goals



1 in 4

under-45s don't know the value of their pension pot



<£10,000

a third of under-45s have less than £10,000 saved in their pension pot



In this landscape, where nearly half of the 25-45 cohort we spoke to have less than £10,000 in savings, it's not surprising to find that many have trouble fully engaging with the idea of retirement. Rising student debt, rents and property prices, and the increasingly unsecure world of work have all conspired to make it difficult for under-45s – particularly millennials – to prioritise paying off their debts, never mind saving for their retirement.

That said, this lack of engagement with retirement saving is still problematic, especially given concerns that the UK is heading for a pensions crisis<sup>4</sup>. While the introduction of workplace pensions has been an undoubted success in terms of participation, there are concerns that some young people are thinking it's "job done" and subsequently shut-off from thinking about later-life planning in a more considered way.

Certainly, the fact that a quarter (24%) of the under-45s we spoke to do not know the value of their pensions should make for sobering reading; that a further third (33%) have less than £10,000 in their pot will do little to assuage any concerns that people in the workforce today have a monumental savings challenge ahead of them.

The scale of the pensions issue isn't recognised by under-45s. When asked how much they'll need for a "comfortable retirement", 43% of our sample put a figure below £100,000. This is well below what most economists and think tanks have suggested is necessary for bare-minimum survival. The Consumer Association<sup>5</sup>, for example, last year published research which suggests an annual household income of about £26,000 would be needed to enjoy a comfortable retirement to cover basic expenditure. This would mean that 43% of our sample would have a pension pot that lasted them just less than four years. This is before you even consider inflation levels.

<sup>4</sup> [www.independent.co.uk/money/spend-save/uk-pensions-crisis-retirement-bill-trillion-ons-payments-a8246156.html](http://www.independent.co.uk/money/spend-save/uk-pensions-crisis-retirement-bill-trillion-ons-payments-a8246156.html)

<sup>5</sup> [www.which.co.uk/money/pensions-and-retirement/starting-to-plan-your-retirement/how-much-will-you-need-to-retire-atu0z9k0lw3p](http://www.which.co.uk/money/pensions-and-retirement/starting-to-plan-your-retirement/how-much-will-you-need-to-retire-atu0z9k0lw3p)

### • **Planning for later life**

• A quarter (24%) of the under-45s we researched don't know the value of their pension or don't have one.

• 43% think £100,000 is enough to fund retirement.

• A third (34%) don't think they'll be able to meet their pension goal.

• Yet just 21% say they'll need to save more.

## Live long and prosper

Carl Drummond, Financial Planner, Sanlam UK

Taking into account factors such as an increasingly ageing population, the state pension allegedly running out of cash in the 2030s<sup>6</sup>, or the potential for transformative social care changes, the precarious situation facing this younger generation of workers becomes all the more troubling.

Certainly, it isn't a given that the system today's pensioners enjoy will be around in the next 20 years; consequently, this places the need for a reappraisal of how we engage with pensions as even more of a priority.

When dealing with younger clients about the size of pot they require, I always try to keep it simple. I tell them that on average they are going to live for 20 years after stopping work (retire at age 65 and average mortality around age 85). This equates to 240 months' worth of wages. If in retirement they want to have the same income, then they need to have saved the equivalent of 240 payslips.

In simple terms, if they want an income of £2,000 each month then their pension fund needs to be worth £480,000 by age 65.

<sup>6</sup> [citywire.co.uk/money/state-pension-fund-running-out-warns-government-actuary/a1082316](http://citywire.co.uk/money/state-pension-fund-running-out-warns-government-actuary/a1082316)



### **The million dollar (pension pot) question, solved**

Penny Lovell, CEO, Sanlam Private Office

When I was a financial adviser, most clients I met at the point they were giving up work said they wished they had saved more and started saving earlier for their retirement. Hindsight is 20/20, but the good news is that parents and grandparents can help children avoid this regret.

In 2001, the government introduced pension legislation that allowed every child in the UK to have contributions paid into a pension plan and to receive tax relief on the contributions. This is limited to £2,880 per tax year, but investing this amount for a baby can have significant results, especially after the government add tax relief to the contributions, making the annual payment £3,600.

If a mum, dad or grandparent invested the maximum amount for a child from birth until they were aged 23, the child could have accumulated a pension fund of £165,000, assuming an investment return of 5.5% per annum. If that young person then entered the workplace, they would benefit from the current pension auto enrolment system – these regular salary-based contributions would then be added to the young person's accrued pension fund as detailed above.

The real benefit of early parental contributions is the length of time that the funds would remain invested – even if no regular contributions were made and the £165,000 mentioned above remained invested until state pension age of 68, and the investment return was a realistic 4% per year, it would be worth just over £1 million at age 68.

## Chapter 4

# View from the financial adviser: the industry perspective

63%

of under-45s  
are influenced  
most by personal  
recommendations  
from family, friends  
or colleagues



4 in 5

financial advisers see  
intergenerational transfer  
of wealth as the greatest  
opportunity for their  
sector

91%

of financial advisers  
don't think that  
under-45s are  
getting adequate  
financial advice



Wealth transfer clearly presents a huge opportunity for advisers, but it is also beset with challenges. Chief among these is how financial advisers will continually build their assets under management while also attracting a new client base. Perceived wisdom suggests the younger generation are much less brand-loyal than previous ones, and much more attracted to science-based models of advice and the rise of digital disruptors.

The findings from our financial adviser research make the scale of the opportunity and challenges crystal clear. The majority of financial advisers are acutely aware that this wealth transfer is going to happen, and of the implications for the advice industry.

However, running parallel to this are legitimate anxieties about their ability to capitalise on the opportunity: a quarter (23%) say they are concerned about their ability to target this younger generation of

clients in the future. This admission is made more concerning when you consider that 57% of financial advisers say they aren't taking any steps to specifically target this under-45 segment.

### **The threat from digital disruptors**

The rise of robo-advisers and digital platforms is seen by financial advisers as a big threat for the industry - nearly half (45%) of the financial advisers surveyed for this report say they think the younger generation is more likely to trust science or model-based advice than traditional (human) advisers. Some 40% of those surveyed specifically cite so-called robo advice as the single biggest threat to the future prosperity of their organisation. But are these concerns warranted?

The rise of fintech over the past five years has seen a number of new financial startups enter into the market, making it easier for consumers to invest, save, buy and borrow. These disruptors, many of which

### **How millennials differ from previous generations**

The view from a wealth consultancy

Client engagement is evolving rapidly - this next generation of clients aren't particularly bothered with the traditional ideas of wealth management. Lots of them, especially the younger ones, will want to use WhatsApp as the main means of communication; I've also had younger clients ask to be kept in the loop via Skype. Of course, this is a huge break with tradition, where everything went out on paper and communications were more formal.

This next generation are instead always looking to feel more at ease, more casual, and to be treated as though they are well-informed.

I think this is reflected in their investment attitude. Perhaps they are sharper and a bit more cynical. My experience is also that most of the younger generation aren't as interested as their parents in the markets. I've certainly met fewer young people who think about the FTSE or take an active interest in companies.

carry slogans of democratising finance for consumers, have certainly earned their fair share of media headlines and buzz.

Perhaps this is most obvious with the cryptocurrency, Bitcoin. Its increasing ubiquity has led to near-daily media headlines that invariably warn of its inherent volatility or promise its ability to make overnight millionaires.

The assumption often made in the media is that Bitcoin and fintech providers are more likely to be adopted wholesale by younger generations, and that this will be at the expense of more traditional financial services providers. There is nothing in our research to suggest that this is the case yet, but the implications could be dramatic as the technology improves.

While roughly a third of under-45s and over-55s have used a fintech provider and financial apps, the uptake is still at a relatively low level. While the role of technology and the adoption of fintech services is only going to increase, the rate at which this happens and the relationship these challengers will have with traditional services remains to be seen.

### Human touch still key

We also asked our under-45 sample what influences them most when it comes to their financial decisions – personal recommendations from family, friends, or colleagues (48%) comes out much higher than any other source, including social media (17%), specialist finance websites (27%) newspapers (17%) or television news (21%). This again seems to contradict the idea that younger generations will shun traditional routes of advice completely in favour of technology. Then there's the fact that three quarters (76%) of our under-45 sample say they'd be looking to engage the services of a financial adviser at the time of receiving their inheritance.

That's not to say that financial services aren't undergoing a period of substantive change, or that there aren't challenges ahead for financial advisers. But there are significant barriers people are concerned about, including data protection, Open Banking and sharing information.

Some four in five (80%) of the financial advisers that we spoke to for this report say they see intergenerational transfer of wealth as the greatest opportunity for their sector, and three in five (61%) say they have witnessed a notable increase in their clients asking about intergenerational transfer of wealth in the past three years. At the same time, the vast majority (91%) of financial advisers we spoke to say they don't think that under-45s are getting adequate financial advice.

## How do financial advisers think the millennial generation compares to the older generation of clients

Two-thirds (63%) of financial advisers think under-40s are less financially astute than previous generations.

Nearly half (45%) think the younger generation is more likely to trust science or model-based advice than traditional (human) advisers.

Over two-thirds (71%) think this younger generation is more interested in tech-based advice than previous generations.

Over a third (37%) think under-40s are more interested in socially responsible investing – but just 15% say this generation is more interested in seeing where their money is invested.

Seven out of 10 (71%) financial advisers see people in this group as being more comfortable with debt.

One in five (22%) think the younger generation is more likely to take risks with money than previous generations.

Half (49%) think under-40s are more concerned with what their peer group is doing than previous generations.



### **Attracting the younger generation**

John Pyburn, Head of Distribution, Sanlam UK

Our research has highlighted that financial advisers are acutely aware of the challenges intergenerational wealth transfer will create for themselves, their clients and their families over the next few years.

While already dealing with the benefactors or current asset holders, advisers can use their established relationships to help families start the conversation about how much will be left through inheritance and how to plan for its efficient transfer. It's a very British trait to avoid conversations about money and the sensitive subject of when parents or grandparents will pass away. However, the absence of these discussions is leaving clients and their families in limbo. Notably, people aged between 25 and 45 are expecting to receive an inheritance without fully understanding how much and the impact it could have on their financial futures.

These discussions will help both parties and start to build relationships between advisers and the beneficiaries. In addition, parents can take comfort from knowing their children are seeking financial support from a trusted adviser. For the adviser, it means they can continue to provide high-quality service and care with the transfer of wealth from one generation to the next.

- The vast majority of those set to receive
- a substantial inheritance will be looking to
- engage the services of a wealth manager or
- financial adviser once the transfer happens.

# The family office view

Working with Global Partnership Family Offices and Dr Michael J Oliver from The Open University, we conducted interviews with a number of family offices. These conversations uncovered the following themes:

**The emotional and cultural element of the transfer of wealth is far more important than the economic transfer, and will always precede it.**

When managing wealth across generations within the family office sector, so much of it is driven by the culture and values the families are brought up with. Long before any actual wealth is transferred to beneficiaries, they typically have been on a journey of education, both financial and cultural, as to how the family office approaches either its own financial self-governance or in selecting those to whom it delegates this authority. This should start from an early age so that the older generation can be comforted that inherited wealth will be managed responsibly and remain provisional for future generations.

**Supporting advisers play a vital role in bridging the generation gap.**

An adviser's role is to signpost strategies for future proofing their clients' interests. Wealth and associated areas (such as pension and wills) are 'deferred topics'; most realise they need addressing but will defer and defer until young becomes old and old becomes too late. Good private client advisers will encourage families to address these issues early on and are able to introduce them to a network of other supporting intermediaries. When looking for advisers, family offices value 'technical competence married with a bedside manner' and an approach that matches their often conservative and long-term thinking.

**The next generation are more engaged with ESG issues but note a conflation in ethical and impact investing.**

It is important to disambiguate between the various banners that fall under socially responsible investing. Family offices are noting that the next generation are concerned with more than the bottom line of a company and may boycott companies from a consumption and investment perspective if they are not demonstrating a wider social conscience. This is distinct from impact investing where the purpose of the investment is for a special philanthropic purpose. Wealth managers can harness their convening power in this area for the benefit of their clients and demonstrate their commitment to ESG integration in their range of services.

**Financial technology plays a supporting role, rather than a substitute.**

The transactional end of the market or 'plumbing' within wealth and finance will be increasingly digitised and taken over by fintech. Aspects such as online banking, payment means and spending oversight are good examples of how this area is set to change. However, the 'structure' or bigger and more sophisticated issues facing large, often multi-jurisdictional and generational families will only ever be addressed with human intervention. Administrative efficiencies borne through fintech may also serve to reduce the time burden old systems place on wealth and asset managers.

**Discussion of the transfer of wealth is naturally started by the older generation but is catalysed by life events within the younger generations (marriages, another generation born).**

Dialogue is the first step to facilitating the smooth transition of wealth between generations, and many families cite the importance of lessons the elder generations can offer the younger in preserving wealth. Most often quoted in these interviews is the notion of forgetting history at your peril – wealth can disappear in a very short space of time and beneficiaries should learn the difference between entitlement and privilege. Strategies for wealth transfer vary across family offices; some will be more protectionist and involve complex trusts to restrict access to capital or income, whilst others involve the next generation actively becoming part of the family office decision-making structure.



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A more detailed report about inheritance and family offices, co-authored by Dr Michael J Oliver and Global Partnership Family Offices, will be published in October 2018.



GLOBAL PARTNERSHIP  
FAMILY OFFICES

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- decision-making structure.

# Action points

## The way forward

Intergenerational wealth transfer is set to profoundly shape the future of financial services. But in a constantly evolving economic and cultural environment, it will also impact our society more generally. The findings of this report highlight some key points that donors, beneficiaries and the wealth management industry could consider:

### **1. Breaking the conversational taboo.**

Our research suggests that, more than ever, better conversations between families about passing down inheritance need to happen. Too often there is miscommunication; in other cases the conversations are not happening at all. This can lead to long-lasting negative consequences.

The wealth management industry can help broker these initial conversations and make sure their older clients are speaking to the younger generation. It can also provide expertise to make sure that both generations understand the issues involved and are adequately equipped to meet their financial aspirations.

### **2. Increased need for under-45s to engage with longer-term saving.**

Many under-45s expecting to receive inheritance are over-reliant on it safeguarding their future financial security, which is coming at the expense of savings. The idea that inheritance will act as a financial panacea is dangerous, especially if the inheritance they receive doesn't meet their expectations. Wealth managers need to find ways of speaking to this generation before they miss out on the long-term benefits of starting to plan early for their financial futures.

### **3. Financial advisers need to adopt a “retain and capture” approach to succeed in the generational wealth transfer.**

Three quarters of under-45s will seek to engage a financial adviser at the time of receiving their inheritance – but financial advisers risk alienating that audience by failing to establish strategies that build relationships with these prospective clients beforehand. Wealth managers can assist in bridging these conversations by helping financial advisers understand the client segment better, be it through hosting educational seminars, or keeping them abreast with latest market research or informative content.

### **4. Fintech firms are starting to make their mark, but headlines that herald the death of traditional firms have been greatly exaggerated.**

Despite one in 10 (13%) under-45s using financial apps – and nearly a third (33%) using some sort of fintech provider in the past year – there is still a relatively low level of awareness of these new firms. Traditional forms of managing money, saving and investing, remain the preferred option for now. While we expect that they will increase in market share in the coming years, we're also likely to see traditional firms adopting some of the innovations from the fintech challengers.

Still, all wealth managers need to ensure that they embrace the innovations in technology so that they can reach out to future generations. The path to greater client satisfaction for advisers is likely to involve spending time on the financial planning aspect of their roles. Outsourcing their investment decisions to a specialist asset manager is one way to achieve this goal.

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Over the next few decades, today's younger generations will inherit huge sums of wealth from their parents and grandparents. This transfer is already creating challenges and opportunities for everyone involved as well as their professional advisers.

To help inform our response, Sanlam has conducted an extensive survey to uncover the financial aspirations of those expecting to gift and receive inheritance. The results reveal some surprising ideas and attitudes about private wealth today and how people are thinking about their financial futures.



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