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22 April 2024 | Volume 22 Number 07

FINANCIAL STANDARD.

Advisers shoulder massive wealth transfer

Karren Vergara

Financial advisers shoulder much of the responsibility in helping facilitate the massive intergenerational wealth transfer that has blown out to nearly $5 trillion, according to new estimates, as recipients are largely financially illiterate and ill-prepared to manage their inheritance.

The $3.5 trillion Australians will inherit by 2050, according to the Productivity Commission, is more likely to be $4.9 trillion based on CoreData Research. This excludes $3.7 trillion of superannuation and money in savings accounts that aren't easily quantifiable.

"It's the biggest financial change in the history of Australia and what that means to us is that we have the biggest opportunity in financial advice that's probably ever existed. It's not going to be easy though," CoreData global chief executive Andrew Inwood says.

Many advisers find the transferral of money between the next of kin is not an easy conversation. Engaging recipients to be as financially savvy and literate as their parents is even harder.

Such conversations should not be taking place at the "point of mum or dad dying" or at the point of crisis but earlier in their lives, Inwood told a recent Vanguard event, urging advisers to reframe conversations with clients in a way that engages them through the process.

The Productivity Commission estimates the average recipient is a 50-year-old inheriting $125,000. A 1987 study in the US by John Ward claims that 70% of wealth transfers fail by the second generation and only 13% of family businesses survive by the third generation.

However, Lorica Partners financial adviser Brendon Vade says with the appropriate guidance, families can and do succeed across generations.

"Firstly, it is critical to tease out what the parents have in mind as their best-case scenario of passing on wealth and have an honest reflection of where things are at and where the gaps are," Vade says.

"The hard part comes when there are, for example, three kids with three very different positions or different capabilities when it comes to money. That's very normal."

Advisers must nevertheless help involve the next generation in their parents' plan.

"If the kids might be in the arts and don't like to think about anything financial, then the priority is how do we help get them involved in increasing their financial acumen? Parents are often frustrated by the gaps. They're also coming off the back of 40-plus year careers when you're having these sorts of conversations," Vade says.

Hugh Robertson, managing director of Centaur Financial Services, says advisers need to realise it's not just about retaining funds under advice but securing family values and what the next generation's family goals are.

"It's about being human and not treating them as 'the kids of someone'. None of us want to be treated as the kid of someone or the brother or sister of someone. The incumbent financial adviser is the best person in the world to advise the next generation because we can factor in the tax, we understand the history of the portfolios, we know the financial situation well, and how every asset works," he says.

"People will do what they please. But you've got to try and pass on a sense of purpose of the money."

Vade echoes Robertson's approach, seeing them as "family groups".

"It's common for us to treat kids of clients as clients in their own right. If they require simple [advice or guidance], we won't charge them, and it's included in what we do for the parents. Sometimes it doesn't involve a Statement of Advice. It might just be helping them find an accountant," Vade says.

"That helps build a relationship and as those requirements get more serious and important, then a more ordinary commercial relationship might take over."

Building trust with the children, Inwood says, cannot be done in one meeting. Quoting anthropologist Robin Dunbar, it will take at least 11 meetings to make it work. Inwood concedes while 11 is impractical, a series of meetings is necessary.

Robertson says advisers add substantial value by sitting with clients, solicitors, and estate planning lawyers to determine "what can we give away now" particularly in this current economic environment.

"We've all got sophisticated financial modelling software, which show clients have enough now and for the rest of their lives. Working more on what you can give while you're alive is becoming more paramount and more important with the cost-of-living pressures, and even help kids get into housing because this is a big issue in Australia," he says. FS

Hugh Robertson
Centaur Financial Services

Insurers struggle with code

Life insurers continue to breach their own compliance code with more than 12,000 instances recorded, yet the body overseeing their conduct fears this is likely under-reported.

The Life Code Compliance Committee (LCCC) saw another increase in the number of code breaches during 2022-23, rising 9% and amounting to 12,314.

Four life insurers, which the LCCC did not name, account for 90% of the breaches.

Breaches of section 8.15 of the code, communicating claim decisions, was the most prevalent, with 2630 instances reported in the period, up 38% year on year.

Breaches of section 6.7, refunding after cancellation, was the fastest-growing breach, sharply rising 322% to 963 instances. Breaches related to claims handling obligations rose by 18%.

"Failing to address claims promptly not only breaches code obligations but also adds unnecessary stress for customers, undermining trust in the industry. Life insurers must prioritise

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Vale Wayne McGauley

Eliza Bavin

The financial services industry has paid tribute to Wayne McGauley who passed away earlier this month.

Most recently the head of distribution at Wheelhouse Partners, McGauley had a long and successful career in the financial services industry spanning close to three decades.

Prior to Wheelhouse Partners, McGauley was the head of retail at Investors Mutual, a role he held for 17 years. He also held positions at Advance Asset Management, Deutsche Bank and JBWere.

At Wheelhouse, McGauley was responsible for driving the growth of Wheelhouse's global equities and Australian equity capabilities as well as cultivating close relationships with asset consultants, independent financial advisers, and private wealth firms.

Wheelhouse managing director Alastair MacLeod told *Financial Standard* McGauley would be deeply missed.

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