Making the business case for philanthropy: an Australian perspective

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"Financial planning is... about helping people achieve what they want, and fitting their money around that. Once clients have achieved financial security, they start thinking about how their success can make a significant difference to others." *Stacey Martin, Senior Adviser, NAB Private Wealth*

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No professional is better positioned than a financial adviser to discuss, define and responsibly implement a client's philanthropic plan. However, there is still some reluctance in the profession to consider this area as having great potential for business development. But the good news is that the thinking around client philanthropy is changing in all sorts of positive ways, not least because of the expanding options for social investment and because of the desire for a meaningful legacy in high-net-worth (HNW) clients.

Advisers who have uncovered the rich experience of working with clients on their charitable journey know that discussing the subject with a client can significantly deepen their relationship. While this may be among the most logical motivations for introducing the subject, it's not always something advisers feel comfortable with doing: "It's too early for this level of personal discussion;" "My client might think I'm judging them about what they do with their money;" "I don't have the knowledge I need for this area"; "Should I even charge the client for this advice?"

There may also be barriers from the belief that giving is not a priority overall, or because advisers are concerned they will lose funds under management and that pursuing the conversation would not constitute sound advice. It's certainly true that philanthropy is not for everyone, regardless of whether they have the capacity for major giving or not. But we could argue it's the role of the professional adviser to provide a client with all the options that may resolve the issues at hand, or indeed find out if it's something the client wants. By not exploring the subject, an adviser may miss the bigger picture of what's important to the client, who may already be giving (it's been shown that HNW people generally do) and perhaps even getting assistance from another source for doing so. The motivation for the conversation might simply be a case of advisers satisfying themselves that they know their client well.

The arguments against considering philanthropy are, we would suggest, also mitigated by the fact that long-term or strategic giving, such as that created by a major gift or foundation, needs to fit a financial plan if it is going to be sustainable around the client's security. Further, from a technical view, a strategic giving vehicle is like any other form of trust. Investment advice is still needed, so it remains the job of the adviser to ensure a client's philanthropic financial strategy also produces the returns desired, whether financial or social. HNW customers are usually savvy financial investors and the principles of sound social investment will not be lost on them.

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In terms of operating in the client's best interest, like any financial decision, advisers will be a sounding board to help clients judge if their social investment is efficient and effective. In another case, if the client wants to be an active donor for a chosen cause (rather than just impersonally allocating funds), the adviser can potentially offer to play a hands-on role here, too. Clients have the opportunity for more enjoyment from their philanthropy, while the advisers come out looking pretty good as well.

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A common and excellent example of where there's a natural fit for client philanthropy is estate planning. There are numerous triggers for the discussion which make it a logical and fitting topic to suggest to the client. As with most things, learning how to provide philanthropic advice also eliminates much of any reticence in raising the subject. We can discuss a client's interest in philanthropy while still respecting privacy, values, personal boundaries and relationships. In close relationships with clients, advisers will already have discussed subjects that are as private, if not more so, than their potential interest in, and possible reasons for, giving.

Providing advice in client philanthropy may also:

- Increase new referrals and develop networks with clients' families and friends
- Attract new business from other service providers (e.g. estate planners or lawyers)
- Highlight additional parts of clients' portfolios not currently managed
- Allow advisers to meaningfully engage with their community and enhance their reputation
- Connect advisers with other professionals in a growing network in this fee-for-service arena
- Be a natural service environment to underline advisers' professionalism and integrity.

The relevance of exploring a philanthropic solution will be of universal interest to advisers who deal with a range of family dilemmas and estate issues, or the often-conflicted area of intergenerational wealth transfer. This relational area is just one of many triggers that come up regularly for advisers which can potentially be resolved through a philanthropic strategy. Others include inheritance, a client's desire for a memorial for a loved one, tax management issues, business disposal, retirement or a large termination payout. More than a usual legacy, a client's success in life moves to significance with his or her philanthropy.

The fact an adviser may help to realise a client's charitable aims does not mean the client has to give money or that the adviser's usual fee should be waived for philanthropic advice. These are, of course, up to the adviser, but it should be agreed that if advice is considered of value to the client, then a fee is appropriate. If the adviser wants to contribute by reducing or waiving the fee, then we suggest the boundaries for this should be articulated in some form. Professionalism wins the day every time.

It's often hard in business to create differentiation in a crowded marketplace. And loyalty and trust are decisions clients put into action when they can place a firm metaphoric finger on the basis for them. As professionals, we need to provide and maintain the reasons wherever and however we can for this. Wise positioning through a strong marketing plan around philanthropy is a winner for reputation – just think of the additional benefit when advisers help clients fulfil their aspirations to make the world a better place.

While these ideas around philanthropy as a business development strategy are increasing in Western business cultures, there is an increasing interest in broader philanthropic activity in Asia than previously, too, where the changes in economic capacity for this type of engagement have notably burgeoned over the past decade and more. Financial services have been quick to keep up with the trend.

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Charitable sectors across South-East Asia also look to Australia for expertise in developing their social engagement programs. They examine the growth of community foundations across Australia, for instance, and see an ideal model for their own society. Apart from learning from Australia's structuring and governance of the charitable sector, advocates of Asian philanthropy also see the opportunity to build an Australia-Asia philanthropy network that captures the experience of Australian financial services as well.

While there is significant diversity across countries that make up Asia, we see an overall increased interest in strategic philanthropy through structures like trusts and foundations. The main focus for giving through these tends to be on educational institutions and health care/research, though this will expand, as will not-for-profit organisations supporting various causes.

Private banks operating in the Asian region are also seeing a strong level of philanthropic activity among their clients. Asian advisers are creating client bases interested in the area of investment for social impact and introducing more ways their clients can engage with giving. While donations are mostly cash-based and things such as property and donation of shares are still a relatively novel idea, wealthy Asians are giving substantial amounts.

Unlike the US, Australia doesn't have strong fiscal incentives for people to donate their wealth. In Asia the tax rates are relatively low, so fiscal measures may also lack influence on encouraging people's giving. Hence, advisers there are watching how established philanthropy advisers everywhere value-add for their clients.

In mainland China, the picture varies somewhat to the rest of Asia. While the amount given to philanthropic causes has been on the rise, it is still a fraction of levels in other countries. The Chinese Government has begun considering the country's first charity law. This could help reverse its people's reluctance to give, as the new law, if passed, will also clarify charities' legal status and address tax deductions for donations. This is possibly good news for creating confidence and incentives for increasing philanthropy in China and beyond.

Summing up

It's natural to assume that most advisers' client relationships will aim to have a financially productive outcome. But for some clients, satisfaction from the professional relationship they enjoy with their adviser is not always measured entirely in this way.

Philanthropy may not find a home in every affluent client's portfolio. When introducing the subject of strategic giving – whatever the motivation or trigger – it's wise to keep in mind that philanthropy will only be the right solution for a client who truly wants to give. It is not a reliable solution without this vital element.

Finally, while it's probably easier said than done for financial planners to move sideways from increasing the client's security to one that potentially enables them to 'give money away', it is part of the professionalism we can come to expect from new-era advisers that they can be flexible in how they view and fulfil their clients' aims. If we think of investment as having much broader potential, such as philanthropy brilliantly demonstrates, then the value of financial advisers to clients becomes even clearer and more relevant in their lives.

There is certainly a clear and relevant business case for advisers to investigate if client philanthropy is for them.

Mandy Lamkin, *has a broad background in the world of philanthropy. She has designed and delivered education programmes on the subject of financial services over the past 12 years though her training/consultancy business Enrich Australia. The latest is a comprehensive online programme entitled* Providing Advice in Client Philanthropy. *Her training expertise also lies in the fields of practical ethics and emotional intelligence for professional advisers. Mandy has held various positions in the charity sector, including chair of a humanitarian organisation. As philanthropy consultant to advisers and their clients, she has worked on both sides of the grant-making/seeking equation in individual and organisational philanthropy.*