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Smarter Succession Series: A shift towards sustainable investing

Generations of wealthy families find common ground in social and environmental purpose

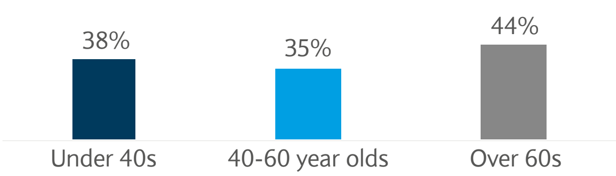
By 2030, the world's wealthiest are due to transfer US$15 trillion of private wealth to their heirs, the next generation of high net worth individuals (HNW). As this wealth transfer is fast approaching, Barclays Private Bank commissioned research to investigate the relationships between generations within HNW families and how their different attitudes affect how they invest. The growth of sustainable investing and the inclusion of environmental, social and governance (ESG) factors in investment decision-making, has been revealed as an investment approach that global HNW families are increasingly taking seriously. Furthermore, in contrast to competing priorities in financial planning, such as overall aims or risk profiles, it is providing common ground for inter-generational relationships, as they look towards effective succession.

HNW individuals of all generations actively look to make a positive contribution to the world, but until recently they have done so in different ways. In coming years, sustainable investing will play an important part to help align families around their common goal of using their wealth positively. Already, younger generations are influencing and persuading their seniors to act. In addition, the Covid-19 pandemic has bolstered this shift, as HNW families reevaluate their aims. As such, responsible and sustainable investing has the potential to bring together generations around similar aims for their wealth and businesses, making succession a smoother, more rewarding process

Trust between generations is key to good wealth transfer, but different risk profiles and aims can be a barrier

Trusting how each generation will employ their wealth is key to ensuring HNW families maintain their assets in the long term. But, different generations within families don't always feel their personal aims and willingness to take risks are understood by each other. Older generations can be fearful of the risks their children may take when investing wealth – creating a potential challenge for efficient and fulfilling succession. In the same vein, younger generations can feel misunderstood by their seniors around how they plan to use the wealth effectively and grow into their role as future custodians.

Percentage of those who strongly agree that their family understands their aims



Source: Barclays Private Bank and Savanta survey.
Q13. To what extent would you agree with the following statements about your interests and aims? Base: Under 40s (151 participants) 40-60 years old (158 participants), Over 60s (93 participants)

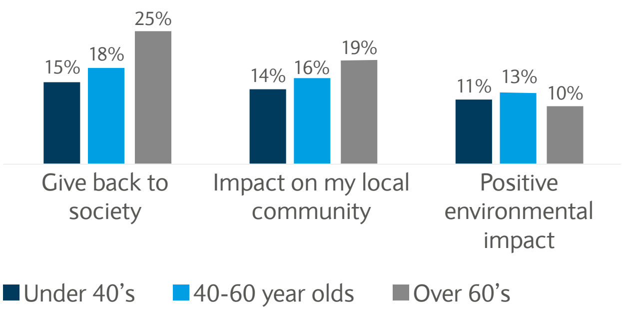
A key source of concern within HNW families is the different attitudes towards risk across the generations. In fact, this notion is cited as a source of conflict by around three in five (61 per cent) family members. More than a third (35 per cent) of over 60 year-olds are concerned that their children will take greater risks when they become responsible for the family wealth, risking the legacy that they'll inherit.

In addition, across all generations, many do not feel that their family understand their personal aims. One area younger generations can feel misunderstood is around how they prefer to make a positive social impact with their wealth.

All generations of high net worth families are looking to make a difference with their wealth, though they go about it in different ways

Many individuals across all generations of families with more than £5 million net worth are looking to give back to society, supporting local community initiatives, environmental causes and wider social projects. In fact, all of these areas of positive impact regularly appear in HNW family members top three personal aims.

Top three personal aims



Source: Barclays Private Bank and Savanta survey.Q10. What are your top three personal aims? Base: All participants, Under 40s (151), 40-60 year olds (158), Over 60s (93)

There is a clear common desire to use family wealth for the greater good. There are differences, however, in how the generations look to make a positive impact on local communities, society and the environment.

Over 60 year-olds have a much stronger focus on traditional methods, such as philanthropy and charity (38 per cent), compared to 40-60 year-olds (25 per cent) and under 40 year-olds (20 per cent).

"Philanthropy is something that me and my brother keep our mouths shut about- my father is very sensible... My father takes all the main calls (on philanthropy), and me and my brother are just the silent supporters"

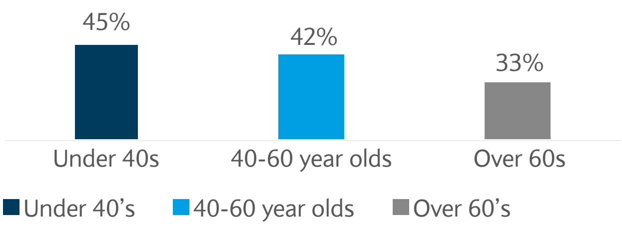
40-60 year-old ultra-UHNW

There is a strong tendency among older generations to strive towards traditional charitable giving – the setting up of foundations for causes that are close to their hearts. It fulfils older generations, providing them with the security and peace of mind that they are leaving behind a positive legacy in the family name.

"I want to set up a fund or charity that looks after the homeless. Homelessness in the UK and Ireland, particularly up around Manchester where we have a business, is frankly disgraceful… it is about moving the goalposts just slightly from the corporate and entrepreneurial end of things, to creating something that will continue on after you."

Over 60 year-old ultra-HNWI

Percentage of those who have thought about 'Impact Investing' but have not yet invested.



Source: Barclays Private Bank and Savanta survey. Q26_2. Have you ever considered...Impact investing - Base: All participants who are Under 40s

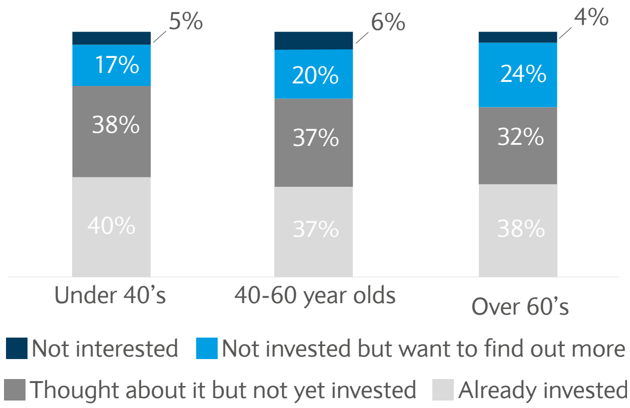
Yet, younger members of these global families are increasingly taking a different approach. Looking beyond these traditional means of having a positive influence on society, they are more open to the notion of impact investing that seek to generate financial returns, as well as a positive social or environmental outcome.

Sustainable investing is holding ever greater importance for high net worth families, with younger generations leading the charge

Beyond charitable giving and impact investing, sustainable investing, that is, investing for both financial returns and with consideration of its impact on the world, has been gaining momentum for some time. But it is often thought to be an area that only younger generations are interested in.

Within wealthy families though, this shift is no longer just the preserve of the younger generations. Responsible investing is expanding rapidly among all age groups.

Consideration of responsible investing

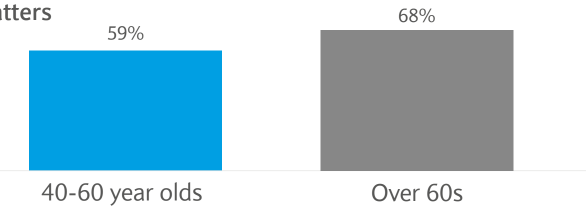


Source: Barclays Private Bank and Savanta survey. Q26_1. Have you ever considered...Responsible investing or sustainable funds -Base: All participants who are Under 40s (151), 40-60 year olds (158), Over 60s (93)

This is led by the children who are positively influencing their parents on ethical and social investment matters. Our data shows that most of the patriarchs and matriarchs of HNW families (59 per cent of 40-60 year-olds and 68 per cent of over 60 year-olds) say that their children have taken the lead on ethical and social investment matters for the family.

As such, opinions have changed within HNW families to the extent that responsible investing now resonates with high net worth individuals of all ages: over a third of all generations strongly agree that responsible investing is important to them, 39 per cent of under 40 year-olds, 36 per cent of 40-60 year-olds and 35 per cent if over 60 year-olds. The older generations show similar levels of interest in investing sustainably, as a result of their children's influence. Sustainable investing, therefore, serves as a common ground for the different generations with all involved looking to make a positive impact with their wealth.

Percentage of those who agree their children have taken the lead on ethical and social investment matters



Source: Barclays Private Bank and Savanta survey. Q27_5. Please select how strongly you agree with the following statements - Base: All participants who are 40-60 year olds (158) and over 60s (93)

"I think that the young are prepared to insist on sustainable investing to their parents, the parents are prepared to listen and do something about it. Before, they would have just said it's all nonsense. So over time it will change."

Barclays Private Banker

Even if responsible investing hasn't been employed, the majority of HNW individuals say that they have now adapted their investments to be more ethical: 80 per cent of under 40 year-olds, 78 per cent of 40-60 year-olds and 73 per cent of over 60 year-olds.

"My aim is to create a positive impact on the environment through my investments."

Over 60 year-old HNWI

HNW families in markets such as the UK (83 per cent) and the Middle East (82 per cent) are leading the way when it comes to ethical investing. Meanwhile, their counterparts in other countries like India are making progress towards sustainable portfolios, fewer have already made the shift to taking a more ethical view on their portfolios (62 per cent).

To build trust across generations, many parents and grandparents encourage younger generations to gain experience in decision-making and management of family finances. It is seen as a key area that helps prepare younger generations for the responsibilities they face.

By taking the lead on at least a portion of their family portfolios and demonstrating their decision-making skills, investing this way can provide a key learning opportunity that older generations give to their successors. Simultaneously, sustainable investing can help close the current gaps around trust and shared interests that are often at the root of family conflict between generations.

Covid-19 is accelerating the shift towards sustainable investing

What has brought the use of wealth into sharp relief for some families has been the effect of the Covid-19 pandemic. The crisis is driving HNWIs to reassess the value of their time and longevity. In the short term, it has made them realise the importance of community and the need to focus on social and environmental issues.

As a result, the pandemic and lockdowns across the world have created a greater sense of urgency for charitable giving and accelerated the growing interest in sustainable investing. So, despite the apparent business impact on many HNWIs, they are following their children and reevaluating their investment habits in a way that ensures that they are supporting their local community and giving back, with some explicitly highlighting that as a result of COVID-19, they intend to switch to sustainable investments.

"As a result of the pandemic, I'm making more ethical investments and diversifying my portfolio."

Over 60 year-old HNWI

During this turbulent time, it is especially important that HNW families coming together around positive impact carefully manage the risks and communicate the investment options. Without doing so, continuing with traditional investing may jeopardise wealth transfer and family unity. The youngest generation is already having a major impact on their families' portfolios through sustainable and impact investing and the pandemic will likely accelerate this in the short term.

Final thoughts

With the emotion often attached to wealth and its transfer, family members across the different generations will naturally feel tension or not always understood.

Transcending generational differences though, there is a desire to give back to society and to make a positive impact on the world. Today, it seems that the younger generations are driving that into how their families are investing. As well, in the wake of the pandemic, the impetus to address our global challenges and invest sustainably has been furthered for many.

In the end, using sustainable investing to both guide portfolios and unify the family, can enable smarter succession so that family wealth can meet the needs of all generations.

Visit our 'Smarter Succession' content series to find out more: https://privatebank.barclays.com/smarter-succession

Research summary

This research, 'Smarter Succession: The Challenges and Opportunities of Intergenerational Wealth Transfer', was conducted by Savanta on behalf of Barclays Private Bank and included both qualitative interviewing and a quantitative survey.

Qualitative in-depth interviews were conducted with Barclays Private Bank bankers, intermediaries to ultra-high net worth families and Barclays Private Bank clients themselves. In total, 20 interviews were conducted: banker and intermediary interviews taking place in March 2020, and client interviews in June 2020.

In addition, a quantitative survey was conducted with individuals from very-high net worth families (total net worth of more than £5 million). A total of 402 interviews took place across three generations of HNW family members including under 40s (151), 41-60 year olds (158) and over 60s (93). 290 were male and 112 female. Participants are primarily living in France, Germany, Hong Kong, India, Italy, Qatar, Saudi Arabia, Switzerland, Singapore, the UAE and the UK.

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