STONEHAGE FLEMING

KNOW HOW BULLETIN

RETURN OF THE HOMME D'AFFAIRES

Thirty years ago the term 'Homme d'Affaires' was well understood, describing a true adviser with real wisdom drawn from deep and broad experience of the world. The trend towards specialisation has caused us to forget the supreme importance of an individual who is able to look at the whole picture and pull together the advice of all the specialists.

Wealthy families are rediscovering the need for such individuals and in an increasingly complex world, they are not always easy to find.

It is not quite clear why the English had to borrow an expression from French to describe the role of a trusted adviser to the wealthy, but until thirty years ago, the term 'Homme d'Affaires' was well understood and in common usage. It is strange that there was no equivalent in the English language the closest being the Italian word Consilieri.

The essence was that such a person was a true adviser with real wisdom drawn from deep and broad experience of the world, including business, investment, families, the law and even philanthropy. The Homme d'Affaires was thus a reliable and impartial sounding board for nearly every major decision his client had to take. This might range from business acquisitions and investment to succession and inheritance, from personal relationships to dealing with awkward situations such as divorces within the family, where the parties involved are directors and shareholders in family businesses.

This does not mean that he would advise on the technical detail of every issue, but he would know enough to apply his experience, wisdom and common sense to ensure the decisions made were not only based on sound technical advice and on a proper understanding of the overall context.

Over the last 30 years, the term Homme d'Affaires has pretty well disappeared from our vocabulary, as the remorseless trend towards specialisation has caused us to overlook the generalist. This generalist is someone who pulls it all together, is able to look across all aspects of a situation and make judgments and recommendations which bring together the advice of all the specialists.

It can indeed be argued that the focus of the specialists has become so narrow that they are less able to appreciate the broader context in which they operate or the relevance of their advice to the overall picture. By their nature, specialists tend to complicate their own fields of activity to the point where they create barriers to entry for newcomers, thus increasing their own market value. This makes it more and more difficult for their advice or their contribution to be evaluated by others.

It is therefore argued that the trend to specialisation has gone far enough. In the words of the late Kenneth Williams specialists “know more and more about less and less and eventually someone will earn their living from knowing everything about nothing!”

This is indeed one of the many lessons of the banking crisis, where the boards of great banking groups have allowed armies of specialists to develop huge areas of business which are far beyond the understanding and control of the board itself. In the past, the boards of banks had some direct understanding and appreciation of ALL the major risks to their business, but this can never be the case again.

To some extent, the same applies to wealthy individuals and families. Their affairs are complex by nature, because they frequently mix the highly sensitive issue of family relationships, succession and inheritance with the ownership of one or more businesses, the management of investment portfolios, property and leisure assets, all overlaid with tax planning and efficient holding structures.

Complexity is increasing as tax authorities become more aggressive and we live in an increasingly regulated and litigious society. The cost of professional advisers is thus rising at a rate which is simply unsustainable. The complexity of risk means all major decisions are inter-related and it is almost impossible to give sensible advice about one part of a client’s assets, without considering the knock on impact elsewhere.

In other words, it is now not just desirable, but increasingly essential that all advice on major issues is channelled through someone who really understands the whole picture. Not only is this essential for proper coordination and risk management, it can also help reduce costs as the sophisticated generalist can much better commission, coordinate and evaluate the more detailed advice required from specialists.

Take, for example, the case of a family which owns a substantial family business, where the cash flow has been under pressure and bank finance hard to come by during the recent crisis. Do they sell investments in a bad market to finance the business or are those investments intended precisely as a nest egg for a rainy day when the company ran into trouble? Furthermore, if you use family investments to support the business, how do you protect the interests of family members not involved in the business?

Of course, ideally, the wise man and his advisers will anticipate these problems and have put in place structures and governance designed to achieve the right balance of risk and ensure all family members are treated fairly. The wise man will also have looked at the detailed risk correlations between the family business and the investment portfolio, to ensure that the market risks in the business are not replicated in the portfolio and that the potential liquidity needs in a downturn are fully assessed and anticipated, before committing to long-term equity investments.

There are however many other types of risk. Some are ongoing, such as monitoring the success and direction of the business, the performance and calibre of family directors and keeping an eye on family relationships, looking for potential sources of friction which might turn into major disputes, with catastrophic consequences. Then there are the one off occurrences, such as an acquisition of a new business, perhaps financed by significant debt, or a divorce where the ‘in-law’ is chief executive of a family company.

Increasingly the management of risk means looking at the interrelationship between all aspects of the family finances and of the family itself – segregating risk into different compartments each overseen by a specialist is no longer enough.

Then there is the matter of 'strategic vision'. Who helps the family decide where it is heading, what the purpose of the wealth is and what their broad objectives are over the next generation. And again, how to pass on the baton from one generation to the next, ensuring that healthy rivalries in the business or other family concerns (such as a philanthropic foundation) do not spill over into family relationships, or vice versa.

The notion of resurrecting the Homme d'Affaires is not entirely new. Very rich businessmen have usually found an individual from among their advisers or employees who steps up to the role. Lower down the market, private banks and wealth managers have for a long time been marketing the concept of a trusted adviser (often using the medical analogy of general practitioner), but they have too often undermined their own promotional literature by fielding relationship managers who lack the experience or gravitas for the trusted adviser role and are clearly trained and motivated as salespeople rather than advisers.

It is one thing to articulate a need and another to meet it. Partly because of the product sales approach of many private banks and wealth managers, there is a massive shortage of people who genuinely merit the Homme d'Affaires title. It is not just a case of re-inventing a role that existed 30 years ago – in a much more complex world, the knowledge and experience requirements to fit this role have expanded dramatically, so they are likely to be outstanding individuals who command a very high price.

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