

The Gospel according to Philippe

An interview with Philippe J. Weil by Yoel Zafrir

The greatest problem in transferring assets between generations is the lack of communication, according to Philippe Weil. Philippe, a former investment banker, is a consultant to wealthy families and advises them in the planning of their family legacy. After having resolved a number of typical psychological problems in family dynamics, Philippe developed a method for an internal family dialog designed to expedite the transfer of wealth accrued by the initiating generation to the one following tasked, with its preservation.

Once every nine months a team of global family office experts meets in the United States. The closed meeting is composed of a select group of consultants, family office executives, wealthy family members, lawyers, financial analysts, psychologists and several bankers whose specialty is family wealth management. For three days, during which they are not permitted to exchange business cards, and share only non-commercial information they discuss relevant issues, exchange views and analyze real cases while formulating models of family wealth management in general and in today's post economic crisis in particular.

For the past few years Jay E. Hughes, a world renowned family office guru has been conducting this gathering. Hughes, who started his career as a tax attorney in his father's practice, made contacts with families who were dealing with inheritance issues and estates and came to realize how complex these issues could be. This realization led him to the study of philosophy and Kabbala and even to specialize in meditation, tools which came in handy when dealing with these families.

Philippe J. Weil is the only Israeli among this select team. Philippe, a former investment banker and presently a family office consultant dedicates much of his time to helping families with substantial assets, and manages their cross-generation dialogue. "This is a gathering of the most prominent names in the complex multi-disciplinary field of family wealth management", says Philippe. "Hughes realized early on in his career that no matter how well the contract is formulated it cannot provide the appropriate answer to the problems and challenges wealthy families face. An agreement is after all a legal and technical matter whereas family wealth management and needless to say, the transfer of wealth from one generation to the next, involves countless psychological and personal issues.

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Staying Wealthy

One of the main issues in the discussion is how to help wealthy families preserve their wealth. At first glance, it appears to be no more than a matter of clever investing, but closer perusal reveals a complicated, highly sensitive and surprisingly prevalent issue. According to Philippe the question of how to preserve fortune is not all that simple. There is a big difference between becoming rich and staying rich. The first generation, the generation of the founders, built their businesses on their own; they knew "how to make money". They were target-oriented who focused on one thing and one thing only making the business successful. That was the goal and the direction where all their efforts were channeled. The members of the second generation, and certainly those of the third, the ones born into money, face an entirely different problem, which is how to preserve all that family wealth. That is the major difference. It is also typical of this newer generation to have multiple players who need to work with one another, which is why they need an external entity – an advisor – to help navigate the family's wealth to safe haven.

According to Philippe, the younger generation is often uncomfortable and experiences frustration with regard to the family fortune. Members of that generation fail to find a place for themselves in society. Each struggles to define his/her own identity rather than being known as the son or daughter of so and so. They feel worthless in the sense that economically everything is available to them but in effect, they have no say in anything. This situation sometimes generates laziness and lack of motivation, which is why Philippe recommends that his clients allow their heirs to find their own way through trial and error and free choice.

In general, Philippe recommends letting children grow, spread their wings and realize their dreams, all the while insisting on excellence no matter what they do. For instance, an heir with a business idea should not be discouraged but should be supported by offering: to invest in their business as a sort of family loan. Should the initiative turn out to be a success, the family will benefit much like a venture capital investment and the heir will have learned how to run a business on a limited budget just like every other start-up. Should the initiative fail, however, not all the family's funds would have been risked and the young entrepreneur will have learned an important lesson in business while acquiring important skills for the future.

Another way to endow the younger generation with a positive attitude towards money is to encourage social responsibility and channel some of the family funds to a philanthropic project. In this way the heirs learn to appreciate the family's wealth and its positive effect, and attain satisfaction by doing things that benefit the society in which they live.

Sudden Wealth

An entirely different issue is "Sudden Wealth"; people who suddenly come into extreme wealth from business exits, inheritance and even the lottery. Assisting the suddenly-rich may seem opportunistic but in reality reveals a complexity and dynamic no less challenging than more traditional models of wealth generation. These people often lack the assets that other families have been able to accrue from previous generations. Since this wealth is often the product of

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limited resources, there is a high potential for loss as attested by the current financial crisis where some fortunes absorbed losses of 40%.

Timing

Another issue on which Philippe focuses is the timing of transferring family wealth. It used to be pretty straightforward that when the older generation passed on, the younger generation assumed full economic responsibility of the family fortune. Life expectancy was short then and meant that the younger generation assumed leadership in their thirties, if not before, while they were still vibrant, ambitious and creative.

Nowadays, with a longer life expectancy, the rules of the game need to change, Philippe says, "And one needs to generate cooperation between the generations at an early stage". He recalls the case of an elderly businessman, a founding president of a firm whose daughter was CEO of the company. When he turned 90 he wanted to appoint her president however, she was already 65 and wanted to retire.

A Family Constitution for Better Family Communication

Philippe insists that his main task is to facilitate the internal family dialog. Communication is the key word in the Code of Philippe. He feels that communication is paramount and often determines the success of an inter-generational transfer. "The already difficult transfer process, exacerbated by the generation gap can open a Pandora's Box of emotions, some readily apparent and others subconsciously repressed. Parents are compelled to bring up painful topics, such as aging, death and estate allocation, topics that frequently generate misunderstandings. Family relationships are by nature complicated and when the family fortune is added, become infinitely more complicated. The next generation is often incapable of understanding the terminology of the parent's generation. Frequently inflexible as business people, parents are not used to expressing their emotions. In such situations a consultant is needed to work with the family and to create the common language necessary to express what each family member is actually saying."

In the event that the family is unwilling to allow the consultant to participate, Philippe recommends that the parent(s) formulate a personal letter to attach to the will in which they express their love, and pride and values to their children and in which they convey the principles by which they conducted their lives. This letter can ease the confrontation when dealing with the loss and with the estate. This will also enable the parents to not only make mention of the financial inheritance, but to mention the legacy and values they wish to impart to the next generation.

The Family Constitution

In order to deal with the difficulties of wealth transfer Philippe primarily recommends formulating a family constitution. The constitution sets down clear, agreed-upon rules for assigning responsibility for the family's fortune.

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The formulation of the constitution and its implementation should be done by what Philippe calls a “family council”. This is the forum where all matters are addressed and where, through communication and learning, mutual decisions regarding inheritance, estate and assets management and resolution of family disputes are made.

The make-up of the family council varies from one family to another. Each family decides who will constitute that council, whether in-laws will participate and at what age family members are eligible to join.

Council meetings should be run by a chairperson (a family member or an external advisor) whose main role is to prevent negative discussions and ensure that meetings adhere to an agreed agenda.

The constitution is adapted to each family according to its legacy. For instance, if a family owns an active business the constitution can state that only those equipped with the appropriate academic education and experience Other families can make it a rule that all young people entering the business have to start at the bottom and work their way up to management positions. Family rules make life easier. All family members have to obey the council's decisions. If one of the family members wishes to change a certain rule the family council has to convene.

Again, the idea and principles of the family constitution are valid for every wealthy family, whether it has an active business or its wealth is derived from investments.

Formulating the Family Legacy

Philippe recommends that his clients acknowledge and agree upon their family tradition, which in turn, will be an anchor for the transmission of family values and planning for the future and how its money should be allocated. In this context every family has to ask itself what is the primary goal for its possessions; is it for present-day pleasures or for safeguarding for the generations to come? Is it to preserve or add to its wealth? How much should a family give back to society through philanthropy? All answers to these questions, Philippe clarifies, lead to a single starting point from which the family can formulate its goals, its strategy and how the money should be allocated. One family may decide that its unity should not be compromised by its business and will choose an independent manager. Another may choose to seed a fund that will permit members of future generations to pursue their initiative while preserving the family fortune.

The combination of communication, constitution and values steer the family from emotional conflict to cooperation, preservation of wealth and ensure smooth transition of the family's business management from one generation to the next.

“In the end, it all comes down to communication. All these issues form an emotional entanglement whose resolution is totally dependant on the ability to create open internal family communication”. Philippe's message to his clients is to free themselves from the past and to look toward the future: “I tell them that family may be their biggest concern but it is also their most important asset”.

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From Switzerland with Love

I am amazed whenever Philippe candidly describes his immigration from Switzerland to Israel since the average Israeli dreams of just the opposite. Philippe is accustomed to such cynical reactions which he dismisses with an amused smile. "Switzerland is a postcard, a pretty one indeed, but still a postcard. It's a cold country in every respect... and to be honest, whatever is good over there is bad here and vice versa. But after weighing both, the overall balance is in favor of Israel".

Today at the age of 44, Philippe, a descendent of a prominent Jewish family in Zurich married and father of three children looks back at the successful career he built from the bottom up. He launched his career as a apprentice at Julius Baer while successfully pursuing his studies at the commercial school of Zurich. During the 3 year program he was holding responsible positions in no less than 21 departments of the bank, that gave him the valuable experience necessary for portfolio management. He then moved on to client investments at a private Swiss bank before accepting a position at JP Morgan in New York. Wall Street also gave him the opportunity for advanced studies in financial management. He then moved on to the Republic National Bank owned at the time by Edmond Safra.

1995, was a turning point in his life. It was a year that started with great hopes for peace and expectations for a new Middle East and ended with the traumatic assassination of Prime Minister Rabin. Philippe, who was then studying Hebrew at the Ulpan of the Hebrew University in Jerusalem made lasting friendships, fell in love with the country and decided to stay.

"The assassination of Rabin deeply affected me", he admits. "Before the assassination I was certain we would live to see peace become a reality, however, this event changed everything. I, nevertheless, decided to make aliyah in order to make an impact on the way of life here."

Upon immigrating he considered making a career change and devote himself to public affairs. Avrum Burg, then chairman of the Jewish Agency, whom Philippe had known when serving as president of the Keren Hayesod in Zurich prior to his move to Israel, was discouraging. "He simply told me that I could best contribute by pursuing my field of expertise".

Philippe took on a position at Union Bank to help develop their international private banking effort. Working there introduced him to the Israeli banking environment and to some important aspects of Israeli society.

In 2001 he launched his own financial consultancy and was quickly joined by a former colleague from Union Bank who specialized in investment management. As part of the broad range of financial consultancy services offered by the firm, Philippe developed a more personal and stronger relationship with his wealthy clients and began offering additional services to meet their specific needs. He helped them to determine whether their investments conformed to their risk profiles, organized their stock portfolios and represented them vis-à-vis their

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banks. In short, he understood that that his many clients (whether Jewish foreign residents or local Israelis) really needed a “private secretary” on whom they could trust to manage the logistics of their financial affairs.

Why did you switch from investment management to the family office business?

“When people talk about investments they often bring up issues related to concern for their family, to pride and to misunderstanding. Issues related to inheritance and management of the family business, for example, can be an important concern when the progeny prefers to pursue interests different from those of the family. I soon found myself absorbed in these and other significant issues and came to understand their complexity and the emotions involved. These are by no means simple technical matters. I discovered I had profound interest in analyzing these types of issues and helping families to plan the best way in which their wealth could be passed from one generation to the next”.

Philippe believes managing the family’s wealth involves diverse and varied tasks, from managing the family art collection and philanthropic interests, to the acquisition of a vacation apartment and essentially imbuing the younger generation with proven financial principles.

“The secret,” says Philippe “is to find the most suitable way for each family to manage its resources and prevent the notorious “blue collar to blue collar in three generations” axiom from being realized with the resulting liquidation of the family fortune in the third generation, so common to many families.