

FAMILYWEALTHREPORT

Title: Risk: A Personal And Professional Perspective From A HNW Family Member

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Christine Walker, the chief risk officer of Farmers and Merchants Trust Company, knows more about risk management for high net worth families than your average trust company vice president. As a fifth-generation family member of the Walker family, she is both a professional and personal custodian of the family's wealth.

Farmer and Merchants Trust Company, which was founded in 1920, is one of the oldest state chartered trust companies in California. The trust company is affiliated with Farmers and Merchants Bank, which was founded in 1907 by her great-grandfather, Gus Walker.

Her decision to work in the family business occurred after an apprenticeship of sorts. Walker started working as a teller at the bank in high school and college, also serving in new accounts. But as her senior year in college neared, she started looking for a new challenge. Her father, Daniel Walker, suggested that she try working at the trust company.

That turned out to be a challenge she relished. "In my last year of college I started working for the trust company," she says. "I got my feet wet in the real estate department. We have a full-service property management department in addition to managing securities, mutual funds, trust administration, estate and probate. We also do IRAs and employee benefits, plus a big percentage of our business consists of helping and working with foundations and charities."

Walker found she loved the variety of work. "We do a whole gamut of services and I was excited because there is a lot of different knowledge you have to have to be in the trust environment," she adds. She was also able to learn more about how trusts are managed in the context of her own family's wealth.

Eventually, she settled on risk management and compliance as the areas she wanted to specialize in, which she enjoys because it touches on nearly every aspect of trust operations. Walker's job and position as one of the primary stewards of her family's wealth has given her a unique perspective on multi-generational risk management.

Because of that, she views risk in a broader sense than merely investment and financial risk. From the family perspective, one of the major risks is a lack of family unity and a failure to pass on family values and heritage.

"The values of the Walker family include truth, honesty, integrity, the home and service in the context of overall Christian values," she says. "By having these values at the core of what the family stood for allowed the first generation who created our family wealth to manage it and build it for future generations.

"It forms the basis of what the family stands for, what the family's values are and where the family comes from," she adds. "One of the biggest exposures that a multi-generational family has to risk is losing your heritage, losing the understanding and knowledge of where you came from. We see that a lot in the trust company, where some families don't do that so the children and grandchildren don't understand what the family stands for and where the wealth comes from."

Communication is increasingly important as the family grows, which is inevitable as time progresses. A family with a small number of members in the second generation can grow quite large and far-flung geographically by the fifth or sixth generation, she notes.

"Having a good line of communication open with all family members, remaining open to hearing various members' ideas – because everyone has a different thought process – is important, because not communicating is risky as far as the future of the family wealth goes," she continues.

Lack of education is another risk for generational family wealth. "We go through a process of continued education so we teach family members about what's happening with the money, what has happened, how laws and regulations have affected us," she says. "Obviously we provide accountability to all of them by providing regular statements."

If family members aren't educated, not only in how the family wealth is managed but also in basic financial issues, they won't have the understanding to take market volatility in their stride and realize the hard work it took to build and maintain the family wealth for many years. "Education is the number one thing that helps family members protect themselves against economic risk, against bad advice and helps them make good decisions," she says.

The advantage of communication and education is that "different generations can understand where the family's wealth came from, how we sustain it and how we all can plan for the future," she notes. "It allows the active and non-active family members to communicate and obtain an understanding of the work it takes to maintain, manage and grow family assets."

Another risk is that the family will fail to rebuild the asset base of the wealth and dissipate it to the point where it can't sustain the family. "As the family grows, you go from having four people who benefit from the assets to 24 people and more, so by the fourth or fifth generations, you have to rebuild that asset base again," she adds.

And even in families that have built, preserved and grown their wealth over multiple generations, there is the need for family members to earn a living to help continue to preserve those assets, she says. "Just because you have money, doesn't mean you don't have to work," she says. "With yields so low it's difficult to provide enough income to live off of even with a decent sized trust." Another risk is that the family wealth could be dissipated by members drawing it down to avoid working.

All in all, Walker believes that her experience as a risk manager has enhanced her understanding of her role as a custodian of the Walker family wealth. That has worked both ways – her standing as a family member has better informed her work as a trust officer, in understanding the trust's clients and how generational wealth works and what is needed to maintain, preserve and grow it.