'My Fair Lady' of Means

"Why can't a woman be more like a man?" That was the question Professor Henry Higgins sang out to audiences in Lerner and Loewe's "My Fair Lady." Higgins Victorian-era chauvinism may no longer taint the thinking of the 21st-century man. But wealth managers – the overwhelming majority of whom are male –- still have much to learn about catering to the modern woman of means. First, though, they need to think more like her, especially in regard to understanding her (generally) lighter risk appetite and strong desire to actively participate in wealth-management and loss-control planning.

Emergence of the affluent woman
With 12% of adult women living in poverty, versus 8% of adult men, it's not hard to imagine affluent women being more spooked than men by the prospect of losing their wealth. The good news is that more American women now have a fortune worth their worry. From 1996 to 1998 alone, according to investment advisor Neuberger Bergman, the number of wealthy American women jumped 68%, compared with a 36% rise for men. The firm also found that nearly half of those with a net worth exceeding $600,000 are women, and that 51% of all private wealth in the United States is now in female hands.

Just as noteworthy are the independent paths by which women arrive at riches. In a 2007 global survey of "the fairer sex" by Barclays Wealth, four out of five reported their wealth was "largely driven from earnings and business ownership." Far fewer cited marriage (24.7%), inheritance (19.9%) or divorce (2.2%) as "important sources of wealth."

One female executive with whom I spoke to better understand the perspective observed, "Men tend to focus more on wealth acquisition and women on wealth protection." Admittedly, that's a sweeping generalization. Still, it's worth acknowledging, as the U.S. Bureau of Labor Statistics does, that two-thirds of insurance professionals are women while, according to National Association of Personal Financial Advisors, four-fifths of wealth managers are men. Professionally, at least, males gravitate toward building wealth, and females toward defending it. It's also worth noting that the Barclays survey found women were half as likely as men to invest in riskier private equity and derivatives instruments and more likely than men to choose pensions over stocks.

Men and women also tend to have dramatically different views of risk, as another female executive illustrated: "Say a husband and wife are discussing what coverage they need to insure their home against fire. Chances are the man would ask simply, 'Will we get enough money to return the house back to exactly the way it was?' The woman, by contrast, will think through the loss more in terms of its impact on the household – for which, survey after national survey shows, women assume more responsibility. She'll ask other questions a man may not, like, 'Where are we going to live while repairs are done?' or 'What would it cost to rent a house near the kids' school?' If the family car in the garage suffered fire damage, she may wonder, 'Will insurance give us a subcompact, or a comparable SUV?' Finally, she may ask, 'What sort of things can we do to ensure a fire never happens?'"

In this hypothetical scenario, the husband sets his sights on addressing that one threat he fears can inflict the most damaging pain. The wife mentally considers countless exposures that could potentially result in as much (or more) life pain.

Another factor shaping a woman's view of risk is her heightened awareness of the value of things. As still another female executive explained: "Women make 80% of household purchasing decisions. They know the cost of the area rugs, the commercial-grade kitchen appliances, the top-of-line clothes, jewelry and electronics. This understanding of what's at risk makes them ideally suited to decide, with expert help, the type and amount of insurance required to protect a home's entire contents."

Going it alone

In addition to being richer and possessing more self-made wealth, more than half of American women – 51% – are shouldering financial and risk management challenges without a husband's involvement. The U.S. Census Bureau reports that, as of 2005, a quarter of women have never been married, slightly more than one-tenth (11%) are divorced, and slightly less (9%) are widowed. Still another 5% are separated or living with an absent spouse. This trend has made women more directly accountable for building their wealth and managing their risk. It has also made them more receptive to finance and risk experts who patiently teach rather than patronizingly tell.

Men might be comfortable delegating to a wealth manager whom they implicitly trust, especially if he's part of an "old boy network." Women – being more active consumers and much more acutely aware of what they have to lose –- are more interested in a wealth advisor who strives to make them an informed partner and participant in the decision making.

Wealth managers and insurance experts who are tone deaf to this increased desire for education do both their female clients and themselves disservice. Women now hold a 57% to 43% edge over men in bachelor's degrees and a 59% to 41% edge in master's degrees that, collectively, fuel upward mobility. Government analysis further shows those with a bachelor's degree will earn $900,000 more over a lifetime than those without, while the holder of a master's degree will earn $1.3 million more. The point? Women aren't just more receptive to education-driven appeals for their business. Increasingly, their advanced degrees provide them with more investable assets to manage.

Effective communication

Any consultative financial planning approach used with female clients is probably best begun with a discussion of loss-control and wealth-conservation issues that are more likely to be top-of-mind. Also, a female client's tolerance for risk should drive her financial goals, never the reverse.

Throughout this process, wealth managers should remain mindful of the trust-but-verify attitude that often governs a female client. A recommendation from a respected member of her social circle may get you an audience, but little more. The self-made woman expects wealth, insurance and legal advisors to regularly prove themselves – and what they know – just as she's had to do professionally for decades. She expects annual risk assessments from competent, professional advisors.

Any yearly risk audit should encourage a client to share news about how her family life has changed in the past year, or what events are likely to bring change within the coming year. Be mindful that long-term financial goals must be altered in light of a change – a new job or home, a marriage or divorce, a family birth or death. These major changes can also redraw the risk profile. So can quieter rites of passage such as joining the board of a charity, installing a swimming pool, buying a motorbike or horse for a pre-teen or buying a car for a child headed to college where alcohol may flow freely.

Wealth managers have a role to play in helping affluent women recognize how all these events can affect the property and liability exposure of their household. Insurers – especially those who provide in-home risk management services – also can be a wonderful resource to the modern "lady of means."

The question we face now is not Professor Higgins' refrain of "why can't a woman be more like a man," but how can today's wealth management professional more effectively communicate with this growing wealth segment? Today's affluent woman doesn't wish to sit quietly as others attend to her or her family's business. She wants a seat at the table with a patient facilitator who will listen and engage her in an ongoing dialogue. What she needs is someone who will take the time and seek her input – year in and year out – to help build a dynamic wealth blueprint that is both prosperous and worry-free.

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