The future of family offices

Precise data on the family office market remains elusive, but with entrants attracted by the growing number of very wealthy families worldwide it seems likely that current levels will be at least maintained. **Paul Golden** investigates current trends and why Asian UHNWs are taking more convincing over its merits

Simon Paul, director at SandAire, says more private offices will open as banks lose appeal

The emphasis placed by wealthy families on confidentiality is just one reason why it is hard to put an exact figure on the number of single- and multi-family offices operating around the world.

Market intelligence provider WealthInsight estimates there are more than 5000 family offices globally, the majority of which are based in the US and Europe with between 100 and 200 single-family offices in Asia. However, WealthInsight analyst Andrew Amoils admits that no one knows exactly how many there are.

Family Office Association president Joseph Reilly suggests there are between 2,500 and 3,000 single family offices managing $1.5trn to $2trn of assets worldwide and that numbers are rising significantly.

"Despite the slowing global economy there has been significant wealth creation in China, Australia, Singapore, Hong Kong and Canada and the tech mini-boom in the US is creating family office-size fortunes in the many dozens.

"There is more liquidity for family businesses than ever before, mostly from private equity funds, which means a family can sell all or part of the firm relatively easily, at which point they often form a family office to manage the proceeds."

There is also a significant amount of wealth transfer from the generation that made their money in technology or hedge funds to the second generation, which further spurs family office formation, according to Reilly.

"Many 'boomer' families are also finding that a family office is a great mechanism for managing the growing number of trusts and foundations a family develops as it moves into its third generation of wealth," he says.

No one-size-fits-all

Richard Wilson, managing director of the US-based Family Offices Group, says there could be as many as 15,000 family offices around the world. He has worked with offices with assets under management ranging from $30m to several billion dollars. But he is unable to put a figure on their cumulative wealth "because they are not tracked by any single group".

Another complicating factor is the absence of a standard business model, explains Simon Paul, director of wealth management at London-based family office SandAire. "Each of the businesses that profess to look after wealthy families in London has developed from a different starting point."

The third element of this market is the private investment office, which is established without the backing of a family by financial professionals who want to tap into demand for family office services. This model will become more prevalent over time, adds Paul, who is surprised that there have not been more new entrants over the last decade.

"As the private banks become a less compelling proposition, more private investment offices will open," says Paul.

Each office develops depending on the specific needs of the family – which can also include property management or concierge services, says Graham Reeve, managing director of Myer Family Office in Melbourne. "The test should be what the office can do better or at a lower cost than an outside adviser and there is a strong positive attitude towards single and multi-family offices from ultra high net worths."

Paul points out that if the family only wants an administrative function it probably needs a PA/secretarial unit of no more than three or four people.

"If you are trying to put together an office of investment professionals, that is a different proposition because the people you want to employ are relatively expensive," he says.

Clients are looking for services beyond banking, investment and finance, explains Reeve. "They want more philanthropic advice, education and succession planning services and family dispute resolution," he says.

"Private banks are trying to extend their offering into more of the soft services or establishing relationships with outside suppliers of these services, but their primary focus remains deposits and lending."

He says family offices have a competitive advantage over private banks because they offer a broader range of services, have a deeper understanding of each client, are independent and have experience with other families.

Founder of UK-based Clarmond Advisors Chris Andrew suggests that sentiment among members of wealthy families towards the family office model depends on what genera-

Christian Stewart, founder of Family Legacy Asia, says lack of talent is a problem

tion they belong to.

"If they have made the money they will probably want to do something more entrepreneurial, whereas if they are generations removed from the wealth creation the concept is more attractive," he adds.

Yogi Dewan, chief executive of wealth manager Hassium Asset Management, thinks wealthy families are becoming more receptive to the concept because they have lost trust in the banks.

"Banks are often conflicted with the families they advise and sell to. As listed institutions they have become too short-term focused and more interested in selling families investment products that generate revenue for the bank. There is also a staff continuity issue."

He says wealthy families have become more focused on independence, working in partnership with their adviser (not as employees or employers) and education in relation to financial markets, products and risks.

"There is also a focus on clearer reporting. Banks overcomplicate reporting, which makes it difficult for families to understand the range of risks they are exposed to and so make sensible investment decisions," says Dewan.

"In addition, families have become more sensitive to pricing – long term fee leakage equates to wealth destruction and there is a lack of openness and transparency with respect to the range of bank fees and hidden costs. For larger families there has been a real demand for investment consulting services."

Dewan says there is a migration from single-family offices to multi-family offices as client demands become more complex.

"Finding trusted and experienced individuals that understand financial markets, products and operational risk, who are prepared to be employees and often take a pay cut is challenging. A multi-family office with an experienced team is a sensible alternative," he says.

According to Paul, many wealthy families feel that the private banks have let them down. "We have seen a growing number of enquiries from wealthy families looking for alternatives – to either run in parallel in an oversight role or as a replacement for existing private banking arrangements."

He says there is little evidence that private banks are changing their business models in an attempt to attract clients from family offices. "The way many private banks are structured means the bank is merely a conduit for products and services created within the investment bank, which can be very remunerative for the group as a whole. Banks are reluctant to change a profitable model and there has not yet been a massive outflow of business.

Private banks eyeing up family clients

"Some private banks have tried to open up their platforms for use by family offices, giving them access to investments and treating the family office as the client, but this reduces the family office's ability to choose the best service providers."

This is a vital point of differentiation, says Paul. "If a service provider doesn't maintain its standards we can change at any time, whether it is a custodian or a provider of legal services. Independence is a key selling point and a compelling proposition in avoiding conflict of interest in areas such as trustee services where you are also doing investment management."

Christian Stewart, founder of Family Legacy Asia, explains that succession is getting a lot of coverage in the Asian media and in Hong Kong in particular, with stories of large, wealthy families fighting over inheritance or succession.

"This focus on succession has resulted in increased interest in formalised family governance. Single family offices are likely to go out and hire an independent adviser.

"However, I don't think the multi-family offices that do exist in Asia have figured out how to incorporate services like family governance and legacy planning, trustee services, including trust structuring, and philanthropy advice and administration into their business model. This segment is focused on investment management."

As the cost of running a single family office rises and returns from investments become harder to achieve, there has been a slow trend for single family offices to move into multi-family offices, concludes Reeve. "This has happened more in other locations than in Australia, but we are just starting to see it here."

Stewart reckons wealthy Asian families that do not yet have their own formal family office may be more reluctant to set one up because they are not going to be confident of achieving sufficiently high investment returns to cover their costs.

"In addition, finding the right senior talent to run a 'wealth preservation' operation is a significant restraining force on the growth of single family offices in Asia," he adds.

When asked whether private banks are changing their business models in an attempt to attract clients from family offices, he suggests that the small multi-family office segment in Asia is not providing serious competition for the private banks. "That is not to say the banks won't lose some business, but it won't be a significant issue for them. One change in recent years in Asia has been for some private banks to think about how they can allow independent asset managers to leverage their platform," he says.

Stewart says most private banks in Asia will have senior bankers with the skills and experience to deal with clients that have family offices. "But there don't seem to have been too many changes in recent years designed to better serve the family office as a client," he concludes. ■

Yogi Dewan, chief executive of Hassium