WEALTH MANAGEMENT

&

THE RISE OF THE FAMILY OFFICE

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Based on the latest version of the Wealth-X World Ultra Wealth Report (2015-2016), the number of affluent individuals — those with a net worth of $30 million or more — has grown to a total of 212,615. Collectively, this group has a total of $30 trillion in wealth. Wealth-X foresees 50 percent growth in the global affluent population through the year 2020, at which time 318,400 people are forecasted to mutually control more than $46.2 trillion.

As wealth increases worldwide, so too does interest in family offices as many families consider using this type of wealth management service. As this interest waxes, many more companies also start offering multi-family office services.

Defined as "privately controlled staff, employed within (or without) a dedicated structure that supports an affluent family with the organization, management and maintenance of all or some of their assets, needs and wishes," family offices are able to offer a wide range of services to clients — much more than simply managing bankable investments. These types of companies also provide lifestyle support, e.g. yacht management, and advise on everything from philanthropy to real estate advice to legal matters. The distinguishing factor between single-family offices (SFOs) and multi-family offices (MFOs) is that MFOs are commercially operated and offer services to more than one family.

As there are many family office options, it is impossible to state how wealthy one needs to be to use an MFO. Although there is no set minimum, the use of an MFO is mostly considered by families with wealth of more than $25 million. Most families considering the use of an SFO have wealth of at least $200 million dollars.

Establishing an SFO is very much a made-to-measure exercise. The family must develop its dedicated set up by itself. In which location do you establish it; what type of structure do you use; which services do you provide the family members with; at what cost? Professional advice is very useful to help answer all these questions.

It also is common that business families work for a considerable number of years with an "embedded" family office; family office services delivered by staff employed within the family business. Alternatively, some families opt to first cooperate with an MFO to gain experience before they make the step towards establishing an SFO.

What to consider when selecting a family office?
Because of the costs of an SFO, most families opt for an MFO. As a family's wealth and future wellbeing strongly depend on the choice of the right provider, the main challenge for those families is how to select the right provider.

Within the MFO universe there is no "one size fits all" solution. Most jurisdictions neither protect nor regulate the use of the title "family office." Therefore, any company can call itself a "multi-family office" without having any specific qualification or experience.

Most MFOs offer completely incomparable services. Some providers are specialized in philanthropic or wealth planning services, while others focus more on lifestyle management or administrative services. This different angle is often related to the origin of the family office and the experience of its founders. Even when MFOs offer mainly asset management services, significant differences

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may occur between the providers. The type of client focused on, the size of a family's wealth or the region out of which clients are serviced also vary widely from one provider to another.

Where should your family office be located?
The preservation and protection of wealth are often the main drivers behind the use of a family office. The location of the actual office should, therefore, be at the heart of the selection process. An MFO should preferably be located in a politically and financially stable jurisdiction such as Switzerland (a "safe haven") in order to safeguard the wealth and wellbeing of the family. A family office that is located in the home country of the family might turn out to be the Achilles' heel of the whole set up at exactly the moment when stability and protection are what the family needs. In practice, it is this kind of consideration that is often overseen or ignored by families, either because they have not been properly advised or because they simply consider a set-up in their home country as being more practical.

What and why?
The type of services sought by the family ("what") is another important factor to consider, as most MFOs tend to focus on a specific selection of services, rather than on a wide array of them. It also is important that the family stakeholders establish what goals they actually seek to fulfil by hiring a family office ("why"). A family office may focus on giving the family insight into its financial situation or act as the coordinator of external advisors, but it also may specialize in more practical support.

Taking the process seriously
Which questions to ask when visiting different providers, what type of MFOs exist and what type of services they offer are important information that can take time to gather. Experience shows that families often do not know their own needs (the "what" and "why"). They therefore struggle to find the "right fit," or the appropriate MFO that will offer them the best-suited services.

Families often start their search with referrals from friends to the MFO they use. Here it is often forgotten that different families have different goals and needs in terms of MFO services, and that the "one size fits all" approach does not exist in the MFO industry.

Finally, the personal connection one has with the MFO staff is extremely important as they become a part of the family's life and usually remain in place for more than one generation. It is therefore important for families to carry out a thorough selection process and to visit and assess several providers before choosing the right MFO.

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