

Family Offices A History and Definition

By Jan van Bueren

*Senior Wealth Planner at Union Bancaire Privée (UBP SA)
and co-founder FOSS Family Office Services, Switzerland*

It is often assumed that the acclaimed American family, the Rockefellers, pioneered the family office in the late 19th century. However, history suggests otherwise. While today's family offices are a modern phenomenon, they have always existed in various shapes and forms since ancient times.



It is often assumed that the acclaimed American family, the Rockefellers, pioneered the family office in the late 19th century. However, history suggests otherwise. While today's family offices are a modern phenomenon, they have always existed in various shapes and forms since ancient times.

Jan van Bueren, Senior Wealth Planner at Union Bancaire Privée (UBP SA) and co-founder of UBP's award-winning multi-family office selection service, FOSS Family Office Services Switzerland, explores the historical variants of family offices and reveals the delicate task of formulating a single definition of the institution.

The discussion around family offices has intensified over the last decade as an increasing number of affluent families take a structured approach to their wealth management. Yet, we are not likely to ever find a uniform definition that encompasses everyone's notions of what these offices should do or entail. To gain a better understanding of the variety of services that exist and are likely to emerge in the coming years, we must first examine the earliest manifestations of family offices.

In History

In the distant past, wealth and possession were almost always connected to rulers and the ruling class



In modern terms, these arrangements could be referred to as 'embedded single-family offices,' in which family business staff members also help to manage the private wealth of the family.

because they were the only ones with the power and means to amass vast wealth. But what is often forgotten is that their fortunes needed the kind of management and stewardship that we can see today.

A good example of this is Emperor August Caesar, who ruled the Roman Empire from 27 BC-14 AD. Considered to be one of the wealthiest people that ever lived, he ruled an empire that generated approximately 25% of the global GDP. A great portion of the empire's assets was directly owned by Caesar or by members of his inner circle, including Marcus Licinius Crassus, one of Rome's leading politicians at that time.

But Caesar is just one of a long list of extremely wealthy rulers that include Emperor Shenzong (1048-1085) of China's Song Dynasty, Alan Rufus (1040-1093) the first Lord of Richmond, Mansa Musa (1280-1337) the king of Timbuktu who became unbelievably rich from the gold production in Mali, and Akbar I (1542-1605) the greatest emperor of India's Mughal dynasty.

Though these figures hail from different times and lands, they are united by one common trait – they shared their wealth with a trusted inner circle comprised of high-ranking officials and local representatives, who took on roles that are reminiscent of family office staff members today. This inner circle managed his estate, industries and businesses within his jurisdiction, the military, as well as the ruler's lifestyle through a well-organised group of appointees.

Due to their position of power, most of these close confidants were also able to amass great wealth for themselves, and they in turn employed a number of people to care for their family and possessions. The head of such a team was often referred to as a 'majordomo', the highest (major) person of a household (domūs) staff.

In modern terms, these arrangements could be referred to as 'embedded single-family offices', in which family business staff members also help to manage the private wealth of the family. While these set-up's are clearly not exactly comparable to today's modern single-family office, the structures and motives are not dissimilar. The differences chiefly exist in what made people wealthy and the strategic allocation of their assets.

The Turn of the 19th Century

American industrialist, philanthropist, and private entrepreneur, John D. Rockefeller Sr., is often referred to as a crucial figure in the history of family offices. As co-founder of the Standard Oil Company, he controlled approximately 80% to 90% of the worldwide oil industry by the end of the 19th century. His fortune stood at \$1.4 billion at his death in 1937, accounting for more than 1.5% of the US economy. Equivalent to approximately \$255 billion today, Rockefeller's wealth is considered to be one of the greatest in history.

In 1882, Rockefeller established an office of professionals to organize his complex business operations and manage his family's growing investment

needs. This office would manage his wealth as an investment portfolio instead of singular business entities, and his assets were consolidated under the Standard Oil Trust. This institutionalised set-up is generally considered to be the first modern single-family office, although at the time it was never referred to as a 'family office'.

Generational planning formed an essential part of Rockefeller's wealth management, as did his enormous engagement in philanthropic causes. Most of the family assets were organised under trusts over time, most of which still exist today.

Although other well-known names in U.S. history soon followed his example, it was only in the late 20th century that single-family offices grew in number and multi-family offices began taking shape. It was also around this time that the institutionalised single-family office concept crossed the Atlantic and appeared in Western Europe. Today, the spread of family offices have reached developing markets throughout Asia, Russia, and the Middle East.

The Problem with a Uniform Definition

As the interest in both single- and multi-family offices increases, the importance of understanding what they are and what added-value they bring are naturally on the rise. Surprisingly, a great number of affluent families and financial services providers alike struggle to define what a family office is and what type of services it offers. The global financial services industry has also yet to provide a uniform and comprehensive designation.

There are basic definitions of the family office that are commonly used but oversimplify the complex reality of the industry, such as:

- A structure that manages the investments of an affluent family.
- An entity that supports affluent families with everything.

In reality, family offices and the families they serve are much more multifaceted and diverse in their typology. There are also considerable differences between single- and multi-family offices, which further complicate the possibility of one overarching definition.

What is a Single-Family Office?

Single-family office activities are, in most cases, much broader or considerably different from the two basic definitions mentioned above. They generally develop over time in response to the unique and particular needs of the founding family. Their support can stretch far beyond just managing the investments of the family, but, due to the costs involved, there are almost no single-family offices that support their founding family with all their needs. Quite a number of family offices support the family only with their non-financial needs, such as tax and legal services, philanthropy or lifestyle management.

Interestingly, single-family offices often do not carry the title of 'family office' and it is not uncommon that a family does not realise that the services they have lined-up fall under the umbrella of family office services. This includes business-owning families that require one or more members of their corporate staff to support them with a wide range of personal matters. Such an 'embedded single-family office', without a dedicated structure, one especially finds in emerging markets.

It is just as difficult to assess the total number of single-family offices as it is to define what they are. Most global statistics do not account for embedded

In reality, family offices and the families they serve are much more multifaceted and diverse in their typology. There are also considerable differences between single- and multi-family offices, which further complicate the possibility of one overarching definition.



Single- and multi-family offices will continue to grow in number, not only because there will be more affluent families, but because families now want to exert more control over their wealth.



single-family offices nor do they count single-family offices that operate without an investment license, resulting in wildly different estimates that range from the thousands to over ten thousand.

With so many interpretations and types in existence, the only inclusive definition of a single-family office is the following:

- A single-family office is a privately controlled (group of) staff employed within or outside a dedicated structure that supports an affluent family with the organisation, management, and maintenance of all or parts of their assets, needs, and wishes.

What is a Multi-Family Office?

A strong multi-family office trend exists today, with new providers opening up almost weekly around the globe. One would think that the services offered by a multi-family office would be similar to those provided by a single-family office, with the exception being that the same services are offered to a number of families as opposed to one. However, the more important difference is that multi-family offices are almost always commercially operated companies that aim to generate profit for themselves in addition to the families they work with.

Today most jurisdictions neither protect nor regulate the use of the title 'family office'. Any company can call itself a multi-family office and offer multi-family office services without having any specific qualification or experience. In most cases, services offered by multi-family offices are strongly tied to the backgrounds and expertise of the founding partners. A former tax lawyer setting up a multi-family office will most likely focus on structuring assets, while a multi-family office established by former bankers will probably provide investment services. And although these two are drastically different, both can call themselves a multi-family office.

Taking these variations into consideration, we can propose the following definition of the multi-family office:

- A multi-family office is a privately controlled and commercially operated organisation that employs staff to support a number of affluent families with the organisation, management, and maintenance of parts of their assets, needs, and wishes.

The Future

Now that we have a better understanding of how family offices are classified, what developments in this industry can we expect in the coming years? All wealth reports predict that global wealth and the number of Ultra High Net Worth individuals will increase considerably in the coming decade. Single- and multi-family offices will continue to grow in number, not only because there will be more affluent families, but because families now want to exert more control over their wealth. Succession and next generation planning will also become important topics of discussion, especially in emerging markets, meaning that also those families will begin to look for a holistic approach to wealth management.

Although many service providers might start calling themselves private investment offices or family business advisories, they will ultimately be offering the typical family office services outlined above. As a result of the growing popularity of the concept, a number of jurisdictions will begin to introduce regulations. Those will probably only be covering financial consulting and trust services.

Just like the family-owned business that they serve, family offices are unique organisations that are distinct from one another. At the same time, they all aim to deliver similar types of services to the same type of clientele. They may develop over time and maybe even adopt different names, but they are and will continue to support affluent families with managing and maintaining their wealth for future generations.