

CREATING EFFECTIVE FAMILY OFFICES

Despite the different business and personal wealth objectives and dynamics of every family, panellists at the Hubbis Asian Family Wealth Forum 2014 in Singapore in November highlighted some important considerations when setting up a family office, deciding on the structure and individual to run it, and trying to make the best use of it.

PANEL MEMBERS

MARK SMALLWOOD

Deutsche Asset & Wealth Management

CAROL SEAH

WYNNES Family Office

NIGEL RIVERS

TMF Group

Family offices provide an effective option in terms of creating a structure to manage the various complexities and complications involved when there are multiple people and professionals looking after multiple assets in multiple geographies.

In addition, they can help address the challenges that exist with the need to

keep a close watch on investment and succession strategies.

This was according to speakers at the Hubbis Asian Family Wealth Forum 2014 in Singapore in November.

One of the main advantages of family offices in achieving their goals, explains

Nigel Rivers, global head of private clients at TMF Group, is their consistent knowledge of the history of the family, its goals and ambitions, and its approach to its wealth.

SETTING UP A FAMILY OFFICE

The look and feel of a family office, and how to set it up, depends on many factors.



PANEL DISCUSSION

According to Rivers, these include the nature of the family, the types of assets, the stage of transition of these assets, where they are located, and what the client wants to achieve out of it.

In most cases, adds Mark Smallwood, managing director, head of franchise development and strategic initiatives for Deutsche Asset & Wealth Management in Asia Pacific, the initial needs of the family are not investment related. "In most cases, they need to do structuring, along with creating the right family governance and family succession plan."

MARK SMALLWOOD

Deutsche Asset & Wealth Management



Carol Seah, founder and chief executive officer of WYNNES Family Office, says she first heard of the concept of family offices during the Asian financial crisis in 1998.

As the only member of her family exposed to financial services, she was in the best position to help by trying to find a way

Structurally, a family office needs to be an independent entity, as if it is an "asset" of the family, explains Rivers.

“ One of the main advantages of family offices in achieving their goals, is their consistent knowledge of the history of the family, its goals and ambitions, and its approach to its wealth ”

To formalise the family office, the decision-making process should be about how to run the assets within the structure.

But it is necessary to take a different approach depending on the purpose of the assets, adds Smallwood. So while it will be necessary to use trusts in some markets, wills might be more suitable in others.

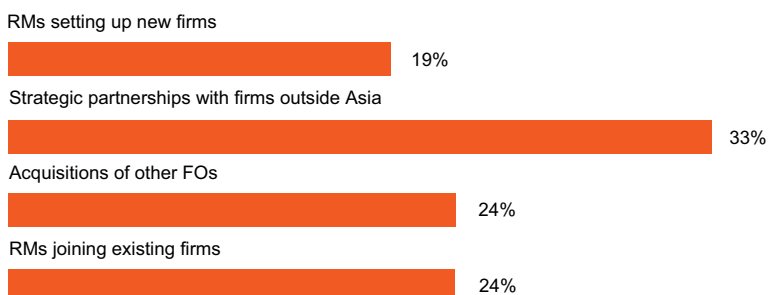
At that time, she was trying to help her father and grandfather manage their own business.

to resolve issues and concerns that were keeping her father and grandfather awake at night, she explains.

Then there is a need to incorporate the investment management aspect, and how this will work going forward.

In Asia, adds Rivers, some of the long-established family offices employ their own legal, tax, investment and trust professionals.

WHERE IS GROWTH OF MULTI-FAMILY OFFICES MOST LIKELY TO COME FROM?



For newer family offices, he says they are also likely to benefit from getting some strategic oversight over certain areas of their investments.

Inevitably, an important consideration relates to the various costs involved in setting up the infrastructure, and how these will be funded.

When it comes to fee structures, it is generally more difficult with family offices

Source: Hubbis Asian Family Wealth Forum 2014

CAROL SEAH

WYNNES Family Office



to determine what should be chargeable. For example says Seah, there is often a need to lend what she calls a “listening ear” to a family member, and act in the role of a psychologist. “Defining the services is therefore critical.”

CREATING A WIN-WIN

The relationship between private banks and family offices differs from one region – and one institution – to the next.

In some instances, there is competition for business, whereas in others there isn’t, says Smallwood.

For instance, at Deutsche in Germany, the bank has its own family office unit where families will come to the bank for assistance and to tap the expertise of its professionals, rather than setting up their own infrastructure.

In Asia, however, Deutsche has a different approach, says Smallwood, based on the culture and the stage of the wealth cycle.

While assets are on the cusp of transferring to the next generation, the entrepreneurial business owners in the region remain in control in many cases. “They don’t like their banks to know everything about their wealth,” says Smallwood. “Plus, they multi-bank for

to family offices, whether single family offices (SFOs) or multi-family offices (MFOs), rather than trying to compete with those organisations.

“The best thing for the family is to be deal primarily with an independent adviser,” adds Smallwood.

This structure then enables the family office to seek advice from and collaborate with third parties which are best placed to provide it.

Further, families need someone independent and close to them who can

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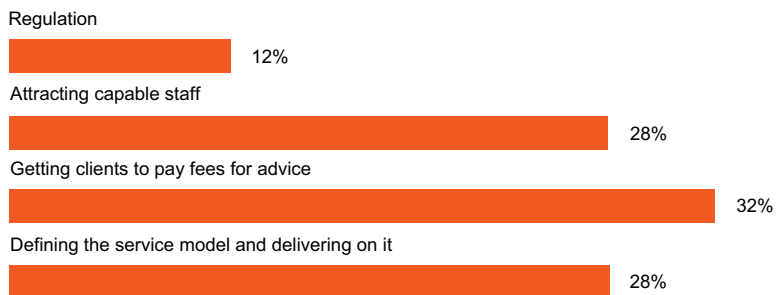
different aspects of their business and personal wealth.”

Indeed, adds Rivers, one of the challenges for family offices to date in Asia has been the segregation of client assets due in part to the clients’ desire for privacy.

In Smallwood’s view, banks in Asia should look to provide their platform and services

prepare individual family members for business interactions. “I have a lot of conversations which go directly from the living room to the boardroom,” explains Seah. “It is not possible for a banker to do that given existing business models.”

Plus, it isn’t really feasible for an individual private banker to give clients the strategic oversight across portfolios.

WHAT IS THE BIGGEST CHALLENGE FOR MULTI-FAMILY OFFICES TODAY?

Source: Hubbis Asian Family Wealth Forum 2014

NIGEL RIVERS

TMF Group

**RUNNING IT SMOOTHLY**

When it comes to finding someone to run the family office, a big challenge is identifying an individual with a diverse skill-set, given that they will need to be able to coordinate a lot of other third parties or in-house specialists.

Potentially, a successful RM might be among the most competent for such a role, says Smallwood. If they have been effective at utilising all the products and services available to them at their own bank, then they would have developed skills in coordinating and bringing together the services of others to deliver what the client needs, he explains. "They can then extend this skill-set to managing a family office."

Another misconception many clients have when looking at setting up a family office relates to the costs involved.

The key, however, is to contract out as much of the work as possible, by calling on third parties when required to reduce fixed overheads.

One area where Smallwood advises family offices to rethink strategic partnerships, for example, relates to custodians.

A family office doesn't necessarily need to custodise its assets with a bank, he says.

Plus, there is a danger for clients which use multiple banks of not having a clear overall picture of what assets they in fact have.

Another option, at the highest end of the market, is to operate in a similar way to an institution by having a global custodian. That involves a platform which holds title to the assets but trades off against prime brokers to actually trade.

At a minimum, Smallwood recommends that family offices reduce the number of custodians they use.

"If they can limit it to three [institutions], then this is a step in the right direction, as the consolidation process becomes more realistic," he explains. "Also, by having more assets with each custodian, it will improve negotiation powers in terms of pricing."

OUTLOOK FOR FAMILY OFFICES IN ASIA

For MFOs in Asia, they generally operate as independent boutiques, meaning stand-alone from the custodian and execution platforms they engage with.

But their growth has been gradual to date.

"They are struggling to find relationship managers (RMs) who are ready to move from the comfort of working as part of a big platform and a strong brand to a boutique," explains Smallwood. "It requires a real entrepreneurial spirit on the part of the part of the RM leaving a bank."

Growth might be more likely to come from the SFOs, or from those families who aspire to have an SFO but lack a sufficiently liquid asset base to justify the cost of setting one up and running it.

In line with this expectation, Smallwood adds that he would like to see more bankers in this space.

"This would be good for the development of the family office concept in Asia generally," he explains. "It creates more opportunities for clients, and the more solutions and options they have, the more they will engage with banking platforms." ■

DO FAMILY OFFICES NEED PRIVATE BANKS AS CUSTODIANS?

Yes, definitely



No



To some extent but not in all cases



Use of banks will reduce

0%

Source: Hubbis Asian Family Wealth Forum 2014