FAMILY OFFICE FLAVOURS

A look at the increasing diversity of multi-family office providers in the market, and the potential pitfalls that come with them for wealthy families

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The growing number of wealthy families has had, over the past few years, a strong effect on demand for wealth management services. Ever more wealthy business owners and families that have sold their businesses are considering a family office to support them with their wealth management, instead of standard wealth management services.

As demand for MFO services increases, it could easily be concluded that the growth of the industry is the automatic result of that; however, the supply side of this development should not be underestimated. Due to, among other factors, regulatory developments, the consolidation of the private banking industry, overall cost pressures on wealth managers and the general 'hype' around MFO services over the past few years, quite a few providers are entering or have already entered the MFO market with the aim of getting in on the action.

While a large number of providers is generally considered a good thing in a free-market economy, given that this generates a variety of benefits — such as decreasing prices and a more competitive choice for consumers — the same does not automatically apply to the MFO industry.

There is no industry standard for what range of services an MFO should offer, and most MFOs tend to operate discreetly, off the high street, without giving an insight into their activities and what they actually offer clients. Moreover, the use of the term 'family office' is, in almost all jurisdictions, neither regulated nor supervised, and even when it is, only lightly.

Lastly, MFOs originate from very diverse backgrounds and tend to offer completely different ranges of services as a result. Most MFOs only provide a small core in-house and coordinate a small number of other services on your behalf. Almost no family offices provide a wide range of services. For these reasons, the MFO industry is opaque, which is problematic for families. Or, as it is also sometimes put, 'If you've seen one family office, you've only seen one family office.'

COMPARE AND CONTRAST

It is therefore important for families who are considering using an MFO to compare providers carefully. A starting point in this process is the origin of the MFO and its founders. When the needs of the family are as closely related as possible to the main competencies of the MFO's founders, the chances of a successful relationship are at its highest.

In this respect, several main types of providers can be defined:

- **Former wealth managers.** This type of MFO focuses primarily on asset management, asset allocation, consolidated reporting, risk management and managing relationships with banks. These are often established by a small number of former bankers, and more recently there have even been smaller private banks repositioning themselves as MFOs.
- **Lawyers.** Generally, these focus on estate planning, succession planning, family governance and a wide range of legal issues. Their services are often also related to the structure of the family business. Asset management is mostly outsourced, but monitoring of banks and provision of consolidated financial statements are regularly provided in-house.
- **Tax consultants/tax lawyers/accountancy firms.** These focus on tax-efficient structuring, establishing and managing international structures for family businesses and real estate, international relocation, estate and succession planning, and audit and administration. Asset management is mostly outsourced, but monitoring of banks and provision of consolidated financial statements are mostly provided in-house.
- **Private banks or MFOs owned by private banks.** These have a strong focus on asset allocation and asset management.
- **Trust providers/trustees.** These focus primarily on setting up and administering structures such as trusts, foundations and holding companies, and providing audit and administrative services; some of these MFOs also focus on issues related to yachts and aircraft. Asset management is mostly outsourced, but the monitoring of banks and provision of consolidated financial statements are almost always provided in-house.
- **A single-family office opening up for other clients.** This is a difficult category to define, as the services offered are often closely related to the original needs of the founding family. Most of them have a focus on asset management, consolidated reporting and risk management, combined with a limited number of other activities, such as real estate or private equity investments.
- **Others.** This small but broad category includes MFOs founded by real-estate or private-equity experts, asset-allocation experts, former investment bankers or, for example, people with a focus on lifestyle management.

As every wealthy family has distinct needs, families should carry out proper research on the providers they visit and ask the right questions to get the necessary insight into what they are offering.

Otherwise there is a significant chance that, further down the line, they will not be satisfied with the services their MFO of choice is providing them with.

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