

**2019 Family Office Trends**  
What's next for single family offices?

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## Foreword



Family offices, like all organisations, are facing some interesting times. Change, always a constant, seems to be both accelerating and growing in magnitude as technological advances and market disruption redefine what is possible, both in terms of opportunity and threat. At the same time, global instability, the evolving story of Brexit and other political developments are calling into question accepted norms and challenging family offices to re-examine their purpose and the strategies that will best enable them to achieve their goals both now and into the future.

The evolving themes that are shaping family office practice and the concerns of family office executives came strongly to the surface at the Deloitte Family Office Symposium in October 2018 where more than 75 executives of single family offices gathered to discuss what's on the horizon and how to best prepare. In advance of the Symposium, we surveyed delegates on a number of areas including their opinions on the key issues impacting them. Their responses, as well as feedback at the event itself, provided useful insight into the prevailing worries and concerns of family office executives based in Europe and beyond.

With family offices varying so widely in size, scope, purpose and operation, it's impossible to be definitive about the action family offices should take but it's certainly possible to highlight the key themes and challenges that we think are going to shape the future and to offer some insight into possible approaches.

So, what follows is not so much a reflection of our Symposium but more a distillation of our thoughts since the event and of our observations more generally as we marry up what we're hearing from family offices with what our own global networks are telling us. One clear message is that the world is changing and we must all learn to move with it. In fact, delegates at our Symposium heard from Deloitte's Scott Campbell, director of Deloitte Ventures, that the most useful skill any organisation can develop is the ability to adapt and learn. Alongside conventional strategies for improvement, the key advice here is that organisations of all kinds should allocate a proportion of their effort to experimentation, not with a view to breakthrough discoveries but to support the process of learning – to become better at what they do by adapting.

I hope you find this document thought provoking and that it assists your thinking around the challenges that lie ahead for your family office organisation, as well as how you can prepare to meet them head-on and adapt to a fast-changing environment. I would also encourage you to follow and participate in our Family Office Community programme where you'll have access to regular updates and invitations to networking events planned for the forthcoming year, including our next Symposium, scheduled for autumn 2019. Please don't hesitate to get in touch if you would like to know more.

**Paula Higgleton**

Vice chairman Deloitte LLP

# What is keeping family office executives awake at night



Running a family office is a complex, multi-faceted job and the challenges for family office executives range from issues requiring financial and legal expertise to the delivery of concierge-style services to family members. But while some challenges are familiar and, arguably, an essential part of the role of the family office executive, others are either new or evolving.

## Generational change

For many family offices, the greatest challenge is, and always will be, generational change. How do you prepare for and then manage through the handover from one principal, especially the original wealth creator, to the succeeding generation? After the efficient management of family enterprises, the issue of educating and motivating the next generation was highlighted as the single greatest strategic concern for UK family office executives in our pre-symposium survey, while their European peers place its significance even higher than running the family businesses (see fig. 1). Within this broad topic, a number of overlapping challenges may surface and family office executives need to be alert to issues of perception as well as reality. Do the next generation of family leaders regard you as being too close to the outgoing principal? Do they really understand the role of the family office and how it adds value to the overall family enterprises? Do they understand why it costs what it does? If the incoming generation have different plans and expectations, is the family office able to adapt? How are the objectives and ideals of an incoming generation going to affect the running of the office?

## What do you feel is the most important and strategic challenge facing the family you serve?

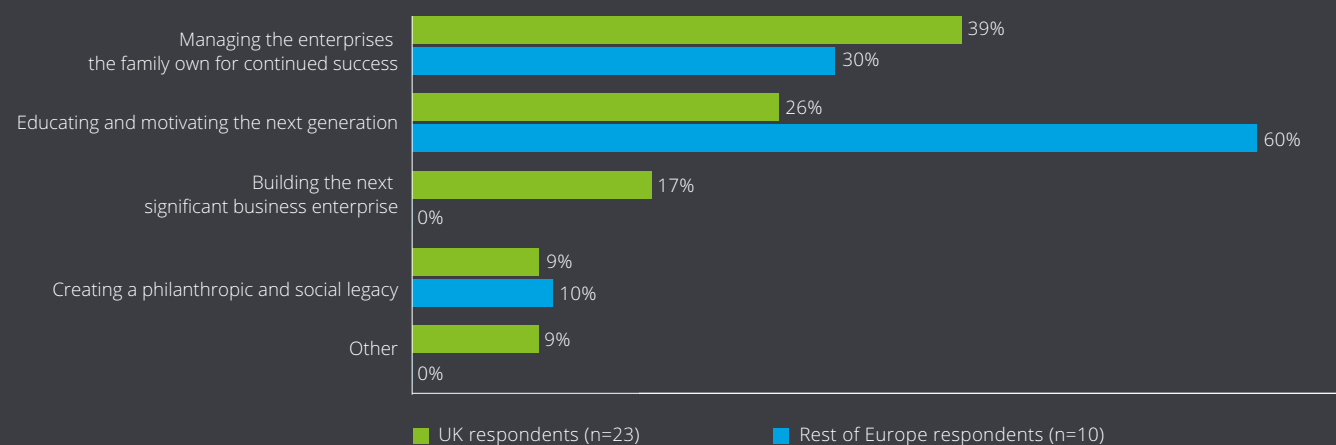


Fig. 1. Source: Deloitte 2018 Family Office Symposium delegate survey

## Professionalising the family office

Most, if not all, family offices are born out of the need to formalise the management of the family's wealth and to separate it from the day-to-day running of the family enterprise. Whether or not this is achieved through a formal governance structure, family office executives, particularly those running larger or more complex offices, increasingly recognise the need for specialist skills and expertise in specific disciplines, particularly in areas such as IT and HR. Identifying, attracting and retaining the right talent to support the family's changing needs is a growing concern for family office executives. However, at the same time, family office executives who have themselves been recruited for their 'hard' skills in business, finance or law are highlighting the need for a range of 'softer' skills to address the often very personal nature of their employers' issues – particularly with regards to the relationships between different family members. They are also having to adjust to the changing requirements of their principals: where the founding principal may have delegated wholesale the administration of household affairs as well as business matters to the family office, incoming tech-savvy next generation stakeholders may find the provision of concierge-like services to be intrusive and/or infantilising. They may not want the family office scrutinising their phone bill or organising their travel itinerary. Family office executives have to get the balance right and to focus on the quality of the executive team while simultaneously adjusting to a changing balance of needs.

## Competing priorities and blurred lines

Family offices are unusual in that they often have multiple centres of power and decision making – the family members, the family office executives and the executive management of the operating companies. This may be further complicated as the family office executive(s) may sit on the board of the operating companies, and members of the family, especially the principal, may have roles in the family office and the operating companies. In these circumstances, family office executives are understandably concerned about the potential for challenges with governance and effective communication, especially where the families' business interests extend over multiple jurisdictions or revolve around globally recognised brands.

## Global mobility

The accelerating pace of change, combined with political tensions and the potential for significant rebalancing in some previously settled jurisdictions and economies, is leading family enterprises, and the families themselves, to re-examine where they would be most optimally located.

## Technology

Technological advance and its pervasive influence on all aspects of business and life is the other major concern for family office executives: how do you stay up to date and how do you stay secure? This challenge was addressed expertly and at length during our symposium and family office executives are right to be concerned – the risks and threats are multiplying and many families, anecdotally at least, seem insufficiently aware of the vulnerabilities created by, for example, the online and social media behaviours of the next generation of family members



## Emerging trends in family offices

**Recruitment, retention and reward** – family offices are increasingly concerned with and focusing on the challenge of building the right team to deliver on the family's objectives. While the personal 'fit' of key individuals will always take priority, family office executives need to be able to draw on specialist expertise in recruitment and, perhaps more acutely, remuneration. Family offices, however unique their circumstances, do not exist in a bubble. Securing the best talent demands an awareness of the market rate for such skills and, increasingly, an understanding of more flexible reward structures including those employed in other sectors such as private equity and real estate.

**External audit assurance** – family offices are increasingly seeking the comfort of an expert external audit of their performance and assets, for benchmarking purposes and also for reassurance that their systems and structures are fit for purpose to protect the family and its assets in a fast-changing environment.

**Family office executive succession** – while succession-planning for the principal has long been a focus for family office executives, planning for their own succession is a relatively new but no less vital concern. Family office executives tend to be long in post – our survey revealed that 57% of our family office executives had been in office for six years or more while 34% had been in post for more than 10 years (see fig. 2). When compared with an average CEO tenure of around five years, the scope for loss of institutional memory and the potential for disruption on the appointment of a successor are significant but also predictable and manageable.



**Offshore tax and transparency** – the global tax landscape has undergone dramatic change in recent years, and wealthy families, just like major corporations, are now under closer scrutiny than before, including from media, which poses new or greater reputational risks than previously. These changes provide a backdrop for the increasing focus by families of wealth with complex affairs spanning multiple jurisdictions, to review their current structures to ensure that they are fit for purpose in the new environment, and that compliance obligations are fully and properly met.

**Adapting to change** – in what is perhaps the most volatile political and economic climate for a generation, we are seeing a wave of contingency planning among families concerned about a dramatic change of government and an increase in applications for second citizenships.

**Co-investment** – we are seeing a steady increase in interest in co-investment as vendors seek investment from new sources and family offices either establish their own fund structures or seek to partner with private equity or with other family offices to by-pass traditional investment pathways and invest directly, particularly in areas such as hotels, real estate and entrepreneurial businesses. The challenge, as ever, is finding the right fit, both in terms of investment and partner and, in this area particularly, family office executives need to understand the importance of cultural compatibility and their exposure to reputational risk through the activities of the family.

**Real estate** – real estate around the world remains an important and popular investment focus for family offices though supply may become an issue. Investors into the UK, particularly in London, also should be aware of the new tax rules coming into effect in respect of commercial property investments just eight days after Brexit. This is likely to have an impact on how families and their family offices plan their commercial property investments going forward.

How long have you worked with the single family office you are with now? (n=35)

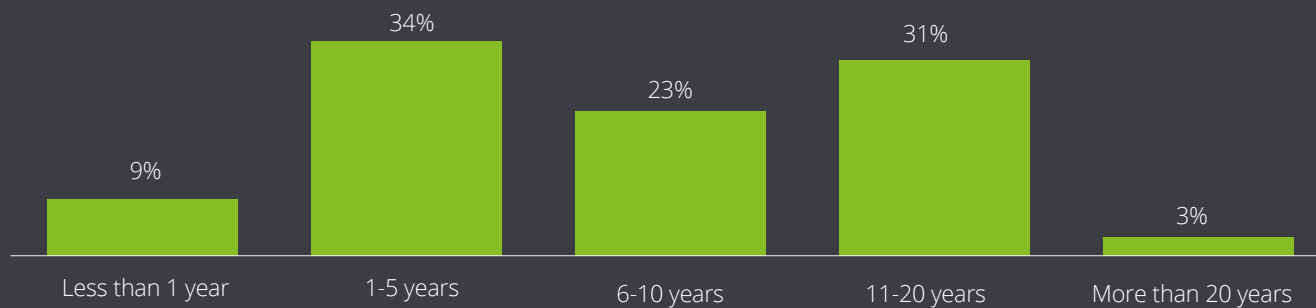


Fig. 2. Source: Deloitte 2018 Family Office Symposium delegate survey



Our recommendations for focus in 2019



Based on experience and awareness of the concerns and threats facing family office executives, Deloitte's Family Office team recommends focusing on three key themes for the year ahead, plus a fourth more insidious risk to which all family offices, irrespective of size, should be alert.

**Succession**

Succession, both in terms of the transition from one generation of principal(s) to the next and from one family office executive to the next, ought to be high on every family office's agenda. The potential for disruption to the smooth running of the family office and to progress towards the family's objectives is enormous so it is concerning to find that over 70% of respondents to our survey have either had no discussion at all about succession, or have taken no action despite discussions (see fig. 3).

Have there been discussions about the continuation of the family office as the family experiences generational transitions? (n=34)

- Yes, and a family office succession plan has been developed
- Yes, but no significant actions have been taken
- No
- Don't know

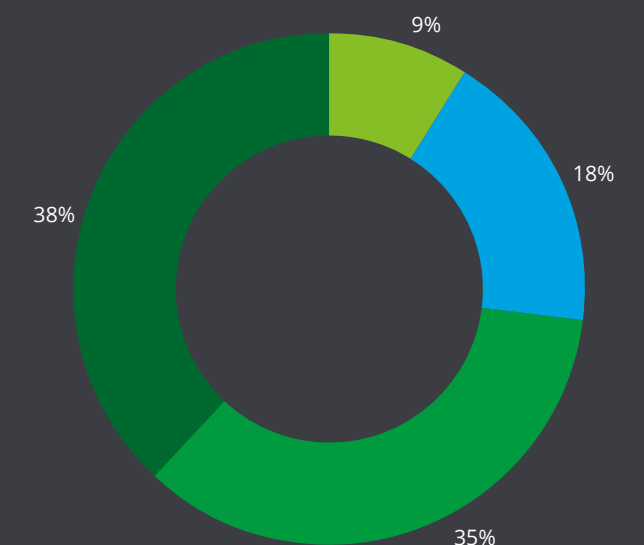


Fig. 3. Source: Deloitte 2018 Family Office Symposium delegate survey

In the absence of proactive leadership from the principal – and in some cases, in spite of it – family office executives themselves need to be proactive here, initiating conversations with the principal and then reaching out to the likely successors. Helping them to understand the role of the family office, and the family office executive, and building strong relationships with the next generation is the surest way to ensure a smooth transition when the time comes. But transitions almost always mean change so it's not just about letting them know what you do but also about understanding what they want, how they want to work and, most fundamentally, how the vision for the family enterprise – its purpose – may evolve.

With regard to the handover from one family office executive to another, this is more about establishing and documenting responsibilities and processes, and capturing those aspects of family office management that may historically have been conducted on an informal basis and which might easily be overlooked during transition.

**Alignment**

While family offices vary in scope enormously, they are all fundamentally about helping the family to achieve its goals in terms of income and assets, dynasty and legacy. However, experience shows that there is huge variation in the degree to which those goals are discussed and articulated – both among the family members themselves and between the family and the family office. Without that clarity of purpose, all but the most exceptional family offices are likely to fail in some regard, leading to disenchantment in the family and frustration among the family office team.

With this in mind, we recommend taking a structured approach to engaging family members and drawing out their priorities in order to articulate a 'purpose' for the family's wealth. The family office structure should then be designed to deliver these goals. This is what we mean by 'alignment' – ensuring that the family office, its governance framework, operating processes, team and advisors are set up to realise a clearly articulated and accepted vision and set of values – in line with that of the family.

**Simplification**

This one is simple: streamline. Concentrate on answering the question, 'What are we trying to achieve?' Focus on core skills, do what you do well and then control the delivery of additional specialist services from external advisors. There is often significant pressure on family office executives to be experts in everything, not least to justify their own cost. However, an effective family office executive should have the confidence and authority to recognise where specialist advice will be beneficial, particularly where priorities and budgets demand more than a general level of knowledge. By outsourcing complexity and introducing and co-ordinating the input of specialist experts, it becomes possible to concentrate on the roles and functions that are essential to the purpose of the family office.

**Cyber risk – familiar yet unknown**

It's already an established alarm call – cyber security, the great threat to all organisations – and yet vulnerability is rising rather than falling. Already, organisations and individuals are in danger of cyber-risk fatigue as they wrestle with concerns about a problem they don't fully comprehend, or of complacency as they presume that their family enterprise is either too small or too low-profile to attract malign attention. Deloitte's Cyber Risk team estimates that around 20% of employees without cyber security training will open potentially dangerous links and emails, exposing their employers to all manner of viruses, malwares and data thefts.

The volume and complexity of cyber-attacks is rising and family offices are as vulnerable, if not more so than major corporates – not least because they often lack the expertise to fully assess the risk and the resources to protect themselves. The use of unsecured networks, social media, the mixing of corporate and private data – especially when travelling – and insufficient security around financial and confidential data all put the family's assets and reputation at risk.


Cyber awareness should focus on four areas – security, vigilance, resilience, strategy – but the essential first step is to identify and protect your 'crown jewels'. For many family offices this will include financial information, details of investments and co-investors and creditors but also more prosaic but equally fundamental information such as an inventory of valuable assets and their locations, and the private diaries, email accounts and contacts of family members who may attract attention from criminals. Having done so, develop a crisis response plan – where back-up information is stored and who needs to be contacted immediately in the event of an attack. It also makes sense to have a media plan prepared to help cater with any adverse publicity associated with data breaches.


# Our family office team




Deloitte has an experienced team dedicated to supporting the specialised needs of the ultra affluent, including families with multi-generational wealth and family offices. We provide the expertise and guidance to assist family offices through critical conversations while helping to preserve and enhance the family's legacy. Our advice spans a wide range of specialised areas – from tax technical to cyber risk management— with access to a global network and emerging markets


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