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Family offices
Preserve, protect and grow your legacy

Contents

Introduction

The creation of significant wealth provides exciting opportunities, in addition to new challenges for families. One important decision, in managing the increased complexities of wealth may be whether the family considers establishing a family office to preserve, protect and grow the family wealth which it has worked hard to generate, and to continue to foster the family values and ethos underpinning the family's success to date.

Wealthy families have been taking more control over investment policy decisions as a result of continued turmoil on the financial markets and their desire to commit resources to making a lasting impact in the world. In addition, in this era of banking and business failures, investment fraud, cybercrime and global tax disclosure and transparency, more families have been adopting an institutional approach to family risk management and an improved policy on governance.

Given the current environment, establishing and operating a family office, or expanding the services of an existing family office, requires careful planning to properly manage, protect, and grow a family's wealth. Deloitte can help each step of the way, so the legacy a family has built sustains its interests in the future.

This publication has been designed to help start a conversation on governance within a family. It aims to help families build on their current understanding of what a family office is, consider factors that have contributed to the success of other family offices, and formulate a plan that leads to the creation or expansion of their own family office. Deloitte would be delighted to assist families in designing a bespoke family office to suit the unique requirements of their family or advise existing family offices where support is required from our team of specialists across our global network.

What constitutes a family office is difficult to define, as each will be unique to the individual circumstances of a family. In general a family office will be an organisation established by a family, or a trusted advisor employed by the family to oversee the management and governance of the family wealth. It will provide tailored services to suit the individual requirements of the family and will often work exclusively for the family.

Characteristics of a family office

While each family office is as unique as the individual family members it serves, most family offices will:

- provide a structure for the management and governance of the family's wealth;
- promote the family's legacy, vision, ethos, and values;
- coordinate, integrate, and consolidate customised services for the family;
- manage risks for the family, for example, economic, personal;
- benefit from economies of scale by consolidated family wealth capitalising on preferential investment access and fee reductions; and
- maintain confidentiality and privacy of family affairs.

The requirement to establish a family office will often result from a number of scenarios.

Scenario 1

Managing intra-generational wealth

The founder of the family business has managed the family wealth for a number of years and the wealth is now transitioning to the next generation, a family office is established as part of a governance structure to manage the succession process initially and going forward to manage the interests of the current and successive generations of the family.

Scenario 2

Liquidity event

A liquidity event arises and a successful family business is sold. A family office is established to provide a formal structure to promote family governance and decision making around the resulting wealth.

Scenario 3

Separation

A successful family business has grown significantly and profits from the business have been diversified into new investments. The management and administration of those investments has become increasingly demanding for family business personnel. To mitigate conflicts of interest and other risks, the family's non-business operations are separated from the family business and managed by a newly established family office.

When is it time?

A cost benefit analysis is required to be performed to ensure having regard to the level of wealth and the cost of putting in place a family office with dedicated resources, favorable economies of scale from both a time and money perspective can be achieved.

There are a number of factors that should be considered. As more of the factors become relevant, so does the value proposition for the formation of a family office.

This due diligence process is an important step in assessing when and how to initiate the establishment of a family office. With the guidance of trusted advisers, the diligence process provides a structure for weighing these important factors, which will help a family determine whether and when a family office makes sense.

Services to be provided

Wealthy families have a number of options for obtaining personal and financial services. A key success factor in establishing a family office is to engage the right people to do the right work. For long-term success it is, therefore, important to establish and reassess on a regular basis the optimal balance between services performed in house by the family office and those outsourced to appropriate service providers.

For those activities that are outsourced, the family office must build the optimal advisory team and choose the right third-party providers to deliver those services. Developing a network of resources who are specialists in the respective service offerings is key to putting an effective team in place.

Scope of family office services

- Most often done in house
- Sometimes done in house
- Most often outsourced

Strategic services	Family education	Governance	Succession planning			
Technology	Social media	Technology platform and controls	Cloud computing	Family and business information continuity		
Tax and wealth planning	Tax compliance	Tax planning	Wealth transfer planning	Investment structure design		
Investments	Investment policy	Asset allocation	Manager selection	Benchmarking	Performance reporting	
Risk Management	Insurance	Reputational risk	Fraud prevention and detection	Physical security	Cyber risk	Financial controls
Philanthropy	Philanthropic mission	Family foundation and operations	Family foundation oversight	Charitable benchmarking	Due diligence	Miscellaneous philanthropic activities
Legal	Monitoring and oversight of outside counsel	Document preparation	Contractual review	Contract oversight	Litigation oversight	Regulatory compliance
Family	Concierge services	Household help	Property management	Collections management	Travel	
Finance	Bookkeeping and reporting	Cash management	Budgeting and forecasting analysis			
Operations	Talent	Office policies and procedures				

- Many in-house services (items shown in dark grey) address daily activities at a granular level. Keeping these services in house provides immediate access to and control over the information. It is also likely to be more cost-efficient and expedient than outsourcing.
- Other services (items shown in blue) may be performed by family office staff and at other times by outside providers or some combination of the two. This will largely depend on the size and expertise within the family office. This can offer the best of both worlds: cost savings on work that involves lower risk or is less complicated, and cutting-edge planning and quality assurance for more complicated work.
- The most frequently outsourced services (items shown in green) typically require highly specialised skills or significant infrastructure. Few family offices have the appropriate structure or resources to provide these services in house.

Governance

Balanced between leadership and delegation

Although family offices often are established by the family's senior generation, effective governance hinges on both the experienced leadership of those senior family members and selective delegation to others. Vision and strategy should be set by the family, with tactical decisions and execution left to capable family office personnel and supported by outside advisers.

Continuous operational improvement

Faced with continually evolving operational challenges, successful family offices and the families they serve thrive on continuous process improvement and innovation. Whether it is an existing organisation or newly formed—and whether executives have been in place for years or are newly appointed.

Succession and contingency planning

Another leading practice is to safeguard the long-term prospects of the family and family office through succession and contingency planning. For example, developing a plan and educating family members on what will happen after the family patriarch or matriarch passes is an important factor in reducing confusion and averting disagreements over the direction of the family collective.

Effective communications

The family office often serves as the centerpiece for communications to and among family members. The family office often hosts family meetings and organises events, and family office leadership is often tasked with communicating certain messages to younger generations.

Board oversight

A leading practice among family offices with sufficient scale, is to establish a board of directors to provide oversight and direction. Careful consideration of board composition is imperative. In most cases, the board should include both senior family members and objective outsiders who can offer contrasting perspectives.

Talent

The key to the success of any family office is the talent it employs. Attracting and retaining effective talent enables a family office to create the appropriate culture, maintain high morale and retention, and adeptly evolve as family needs and dynamics change.

Not surprisingly, compensation and benefits are by far the family office's largest annual costs, representing between 50 and 75 percent of the annual budget. This is why the family should invest significant time in attracting, retaining, and incentivising its workforce.

Did you know?

- Family office staff size can range from as few as 1 person or up to 7 or 8 people in Ireland; globally, in some cases a much greater number of up to 100 people, depending upon the size of the family, the type and extent of services provided, and relative financial holdings and activity.
- As the business demands of the family office have changed over time, so have the expectations of new generations of employees. It is important for family members and family office employers to recognise these changes and consider how they will respond to them to attract and retain talent.
- While families may plan for the transition of family members' participation in the family office, many family offices have not created a succession plan for their leaders, 65% have not had discussions with the family about their successor and only 5% have identified and groomed an internal successor.

Leading practices for family office talent management:

- Identify near and long-term talent and leadership requirements to meet the family office strategy and mission.
- Inventory talent and identify any high potentials, high performers, and gaps in capabilities.
- Decide how to fill gaps by building, buying, or borrowing.
- Establish a formal process for hiring—including due diligence and background investigations—and onboarding.
- Execute appropriate legal documents, such as employment agreements, nondisclosures, and privacy commitments.
- Define clear roles, responsibilities, and lines of reporting.
- Create long-term succession and development plans.
- Develop an employee handbook with policies and procedures.
- Create a work environment that emphasises employee well-being and provides flexibility.
- Encourage employees to establish goals that directly tie to the family office's short and long-term objectives, then tie rewards directly to those goals.
- Institute compensation arrangements that include long-term incentives to promote retention of key employees.
- Set up a formal performance and review process that includes meaningful feedback.

Risk management and controls

For family offices and the families they serve, the global risk environment is constantly changing. However, several risk areas continue to be top of mind:

- *Cyber risk.* Areas of exposure include personal identities, reputations, public and private schedules, business and personal travel, investment accounts and business dealings.
- *Fraud risk.* This is an infrequent, but important area of exposure due to family office proximity to cash and assets and the significant control a single employee may have over financial activities and family communications.
- *Organisational and operational risk.* This includes family office employees, processes, systems, and external parties, as well as the physical security of family members themselves.

The family office is in a better position than any individual family member, adviser, or service provider to monitor and manage such risks for the family. A family office's approach to risk management depends on many factors, including the size of the office, the experience of its personnel, and the office's state of development. For family offices of all sizes, though, a sound risk management framework with effective internal controls is essential.

Many family offices are beginning to reframe how they think about risk management. The resulting projects are not viewed as necessary expenses, but rather as investments in the future of the family's reputation and well-being, as well as preservation of the family's assets. Family offices with strong risk management frameworks are often better prepared to withstand market disruptions, cyber attacks, internal fraud, and other relevant threats.

Risk management as investment vs. expense

Families may perform a risk assessment and develop controls to mitigate the risks identified, with the ultimate goal of preserving the family's wealth.

Common risks facing family offices

Financial → **Technology** → **Employment**

Financial
- Improper trade authorisation
- Deviation from investment policy

Technology
- Cybersecurity
- Data confidentiality/privacy
- Business continuity

Employment
- Payroll fraud
- Internal data theft

Controls and risk mitigations

Authorisation / limits / access
- Dual signatures for transactions
- Stringent assignment of access

Bookkeeping / reconciliations
- Strong internal audit function
- Robust exception-processing procedures

Segregation of duties
- Up-to-date segregation policies with periodic spot checks

IT controls
- Stringent remove-access policy
- Comprehensive data encryption
- Enforcement of password policies

Legal, tax and regulatory

The legal, tax and regulatory framework for family offices can be complicated, requiring the expertise of competent advisers. The following are common focus areas:

Legal considerations

- How should the family office be structured?
- Who will own and control the family office?
- What other legal agreements are necessary, such as employment agreements and service agreements?

Tax considerations

- For tax purposes, should the family office be structured as a flow-through entity (like a partnership), or a stand-alone entity (like company)?
- Will the family office activities rise to the level of a trade or business?
- Are there gift and inheritance tax issues concerning family office ownership and succession?

Regulatory considerations

- The large cases division of the Irish Revenue commissioners have increasing focused on high net worth individuals and their families, this had lead to an increase in the number and complexity of audits.
- Family offices should work with their tax advisers to proactively assess and address risks, including preparing for tax audits along with preparation for any tax controversies that may arise from such audits.
- Depending on the nature of the family operations, it may also be subject to oversight by a number of regulatory bodies to include:
  - Central Bank;
  - Director of Corporate Enforcement;
  - Data Protection Commissioner; and
  - Charities Regulatory Authority.

Investing and managing family wealth

How the family wealth is invested typically defines the family office. Investment services provided by or coordinated through family offices often include:

- developing investment objectives for each family office client, including drafting of investment policy statements, assessments of risk tolerance, and creation of appropriate target asset allocations;
- selecting appropriate investments based on the family office clients' short and long-term needs, and periodically rebalancing or making adjustments to the portfolio;
- selecting, engaging, and managing relationships with investment advisers;
- reviewing asset holdings and investment performance;
- managing cash and liquidity;
- overseeing investment due diligence; and
- providing periodic investment account statements and performance reporting.

Common themes and trends for family office investing:

- a long-term investment horizon, perhaps spanning generations;
- unencumbered by regulatory constraints placed on institutional investors;
- diverse and nontraditional asset allocations;
- significant interest in private equity direct-invest and co-invest opportunities;
- focus on wealth preservation vs. growth, the more generations served, the stronger the focus on preservation;
- liquidity preferences driven by the relative cash needs for the family;
- use of family pooled investment vehicles to promote co-investment; and
- a more recent emphasis on social impact investing and venture philanthropy.

Philanthropy

Philanthropy often unifies a family behind a purpose, encouraging effective governance and collaboration while giving the family an opportunity to create a meaningful impact on social and environmental issues in their communities and around the world. It also engages younger generations in the family vision and succession.

The family office executives coordinate with expert philanthropic advisers to assist the family in understanding issues and effective practices, establish clear charitable goals, and align those objectives with the strategies and tactics that can more effectively achieve the family's philanthropic vision.

For the family who desires to create a legacy and have greater control over its charitable giving, a private foundation may be an appropriate charitable giving vehicle.

The impact of global reach

Advancements in technology and better access to information, resources, and markets continue to expand global opportunities. Wealthy families are at the forefront of this shift. Whether through geographic dispersion of family members, property ownership in foreign jurisdictions, or investments made in foreign companies, wealthy families are increasing their global footprint. A family office can provide the necessary support to address the wide variety of issues that can arise from the increased global reach of the family.

Global communication

The ability to connect in person becomes more limited when family members reside in different jurisdictions across the globe. Having a secure communication platform to share information among the family, family office, and trusted advisers in real time is critical. The family office can assess the appropriate technology to meet family members' needs, regardless of where they are and when they want to access information.

Global families

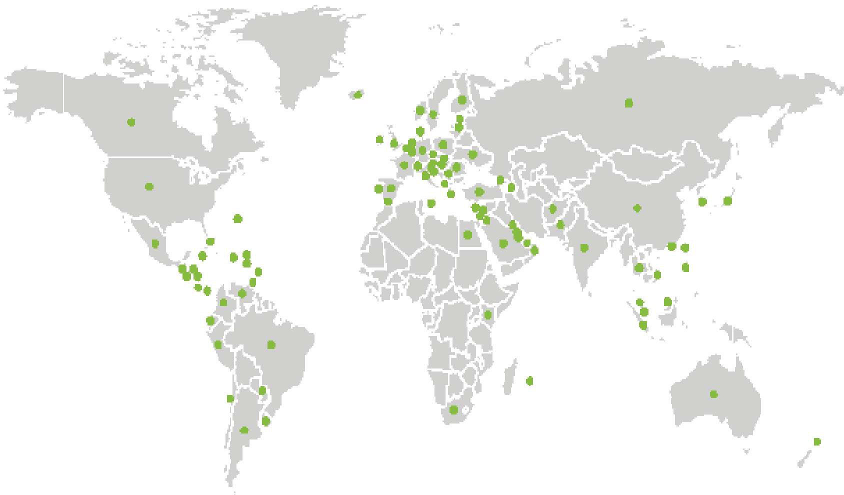
When family members marry individuals from foreign jurisdictions, have children who may be dual citizens, or establish residency in foreign countries, many new issues can arise. These considerations include:

- What are the implications to existing family trusts or to the investments held by those trusts when trust beneficiaries include spouses and descendants with foreign status?
- If a foreign spouse has his or her own assets and makes gifts to children, or forms foreign trusts for the benefit of children, what are the reporting requirements?
- If the family resides in a foreign jurisdiction for all or a portion of the year, what are the financial, tax, and legal implications?

Global investing and informational reporting

Countries are demanding greater transparency regarding investments and their owners, and the family office can assist with addressing the rules, registration, and reporting requirements related to the family's foreign investments. For example, one far-reaching impact relates to investments in pass through entities. These investments frequently generate detailed amounts of information that can prompt significant tax return disclosures. The penalties for noncompliance can be onerous, and the family office, working with its tax adviser, can assist the family with meeting these requirements. Understanding the costs associated with the incremental reporting and disclosures attributable to foreign investments is essential for taxpayers to evaluate their after-tax investment returns. In addition, families must consider the implications of holding these foreign investments because personal information regarding the family members may be required to be shared with foreign authorities.

Countries with professionals serving private wealth clients



Looking ahead

Family offices created today have many similarities to the family offices created over the past 150 years. However, several emerging trends are reshaping how family offices will operate and identify talent and resources in the future, including:

- *Tax and governance.* With a global focus on transparency and advent of automatic exchange of tax information and advanced analytics being used by global tax authorities, there is an increased focus on family tax strategy. It will be increasingly important for family offices to have a clear tax governance and policy in place, to deal with tougher audits and increasing tax compliance burden.

- *Direct private equity.* As more families consider investing in direct private equity, family offices are tasked with evaluating how this will impact the family's overall investment allocations. In addition, families must evaluate whether they will acquire talent with a private equity background to source transactions aligned with the family's investment strategy. Direct private equity often requires more active involvement with respect to ongoing business decisions. Accordingly, it will be important for families to agree on the governance with respect to these business investments and whether family members will be allowed to actively participate in the acquired companies.

- *Technology.* The adoption of new technologies is impacting the skills required of family office personnel. Many repetitive tasks that previously required hours of an individual's attention, can now be completed by new technologies. Rather than hiring individuals to input large amounts of data, family offices can seek to hire individuals with enhanced data analytics skills and experience implementing and effectively leveraging technology.

- *Philanthropy.* For decades, family offices have been created to oversee the financial affairs of the family and to implement planning to sustain and pass on wealth to future generations. Many families created family offices after a sale of a business that had been in their family for generations with the intent that future generations would be cared for financially. Today, an increasing number of individuals desire to pass a portion of the wealth generated by the sale of their businesses to philanthropic pursuits. This trend may necessitate different skills and experience among family office employees as the family's goals shift.

Contact us

Deloitte can field a world-class team to guide family offices through these critical conversations and clear a path forward. We have a global team of 1,800 professionals across the Deloitte Touche Tohmatsu Limited network of member firms who focus solely on the specialised needs of wealthy families, including families with multigenerational wealth, entrepreneurs, family offices, and fiduciaries. Our professionals provide advice and deep experience in a wide range of specialised areas—from tax technical to cyber risk management—and have access to a global network and emerging markets.

Please contact us to learn more about how Deloitte can help family offices from formation throughout the life cycle of its operations.

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