Operational considerations

Services to be provided

Wealthy families have numerous options for obtaining personal and financial services. A key success factor in forming a family office is to engage the right people to do the right work. For long-term success it is important to establish and periodically reassess the optimal balance between services performed in house by competent family office employees and those outsourced to qualified service providers.

Figure 3. Scope of family office services

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

■ Most often done in house ■ Sometimes done in house ■ Most often outsourced

Many in-house services (see figure 3, items shown in dark gray) 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 compared to outsourcing.

Other services (see figure 3, 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 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 (see figure 3, items shown in green) typically require highly specialized skills or significant infrastructure. Few family offices have the appropriate structure or resources to provide these services in house from a risk–return perspective.

For those activities that the family office chooses to outsource, the family office executive must build the right 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.

Operational considerations

Governance

Establishing and operating a family office, or expanding the services of an existing family office, requires careful consideration and planning to properly manage and protect a family's wealth so it can flourish over time. As with any organization, the relative success or failure of a family office relies on effective governance (see figure 4).

Important considerations include:

Balanced 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.

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 organizes retreats, and family office leadership is often tasked with communicating certain messages to younger generations.

Board oversight

A leading practice among family offices 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.

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.

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 organization or newly formed—and whether executives have been in place for years or are newly appointed—stakeholders can benefit from a Family Office Lab. See page 22 for more information on Family Office Labs in the Deloitte Greenhouse® space.

Tip:

While death and taxes are inevitable, their consequences don't need to be a surprise. Family offices are in a unique position to prepare their organization and the families they serve to plan for the inevitable: the death of a principal. Preparedness exercises can put the family office, the family advisers, and most importantly, the family in a significantly better position to address the personal and business implications of the death of a principal.

Click the icon to learn more.

Figure 4. Attributes of effective family office governance

Family offices should create a governance infrastructure that encompasses all activities—from the operational to the strategic.

Operational considerations

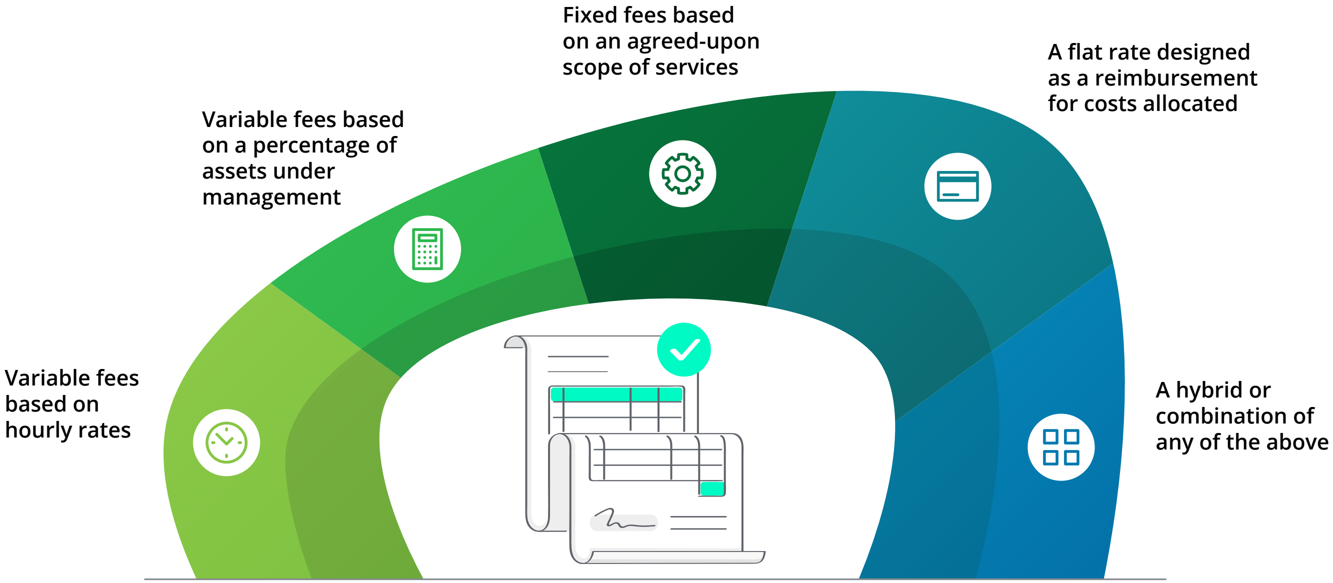
Cost structure

Family offices can provide significant benefits to the family, but not without an adequate annual operating budget. A general rule of thumb is for the annual operating costs to be less than 100 basis points (1 percent) of assets under management. However, the actual range can vary widely, from 30 to 120 basis points depending upon the amount and type of assets under management, the complexity of the family office operations, scope of services provided, and even whether external management fees are included in the calculation.

Once annual costs for the family office have been determined, an equally important decision is how the family office will charge the family for the services provided. The charges for services provided should be sufficient to cover the family office's operating costs and ensure that it can operate as a going concern. Although no industry standard for such charges exists, figure 5 shows some leading industry practices.

Whatever method is chosen, the charges should be fair and reasonable on a comparative basis, transparent to the family client incurring the charge, accounted for accurately, and documented contemporaneously.

Figure 5. Alternatives for charging the family for services



Tip:

Some family offices undertake a transfer pricing study to determine a comparable market rate for services. Market-rate pricing analyses can avert potential gift tax issues, mitigate self-dealing concerns when services are provided to family charitable entities, and provide comfort to fiduciaries that services are provided at a fair rate.

Click the icon to learn more.

Operational considerations

Talent

A significant factor in determining the success of a family office is the talent it employs. Attracting and retaining quality talent has long been an important pillar of strong and effective family offices. Today, this pillar alone may not be enough. Family offices also need to actively invest in the technical, professional, and leadership development of their employees. In this way, professionals can become multi-faceted, agile, and able to navigate complex interpersonal dynamics within the family office and the family they serve.

The changing mix of family office work puts a premium on these attributes as family offices consider changes to their sourcing models (see figure 6). For example, if a family office keeps services in house, it will likely require new education and experiences for the professionals who lead and deliver those services. Conversely, if services are outsourced, different leadership and oversight skills may be needed to manage external service provider(s) and lead family office staff as the focus shifts to activities that matter most to the family. In the latter scenario, the family office team may need more advisory, innovation, and visioning skills to capitalize on that gift of time.

Figure 6: Anticipated changes to service model over the next five years

A shift may be occurring in the balance of in-house vs. outsourced services, particularly in finance, investments, and strategic services which may impact the family office's talent model.

	More In-house	More Outsourced	No Change	N/A
Family services (i.e. concierge, property management)	11.5%	14.8%	62.3%	11.5%
Finance (i.e. book keeping, cash management)	23.0%	8.2%	65.6%	3.3%
Investments	24.6%	14.8%	59.0%	1.6%
Legal	14.8%	9.8%	70.5%	4.9%
Operations	11.5%	8.2%	78.74%	1.6%
Philanthropy	16.4%	4.9%	75.4%	3.3%
Risk management	9.8%	19.7%	63.9%	6.6%
Strategic services (i.e. family education, governance)	21.3%	32.8%	37.7%	8.2%
Tax and wealth planning	14.8%	19.7%	63.9%	1.6%
Technology	9.8%	49.2%	39.3%	1.6%

Source: Deloitte National Family Office Forum survey 2020

Did you know?

- Family office staff size can range from one or two employees to more than 100, depending on family size and type, the services provided, and relative financial holdings and activity.
- The most common family office leadership positions include a chief executive officer (CEO), chief financial officer (CFO), and chief investment officer (CIO). Recently, many family offices have added a chief technology officer (CTO) due to the expanded role and integration of technology.
- As the business demands of the family office change over time, so do the expectations of employees. It is important for family members and family office leaders to recognize these changes and respond to them to attract and retain talent (see figure 8 on the next page).

Operational considerations

Talent - cont.

Figure 7. Family office succession planning

Many family offices have taken action as a result of discussions about the continuation of the family office as the family experiences generational transitions.

Source: Deloitte National Family Office Forum survey 2020.

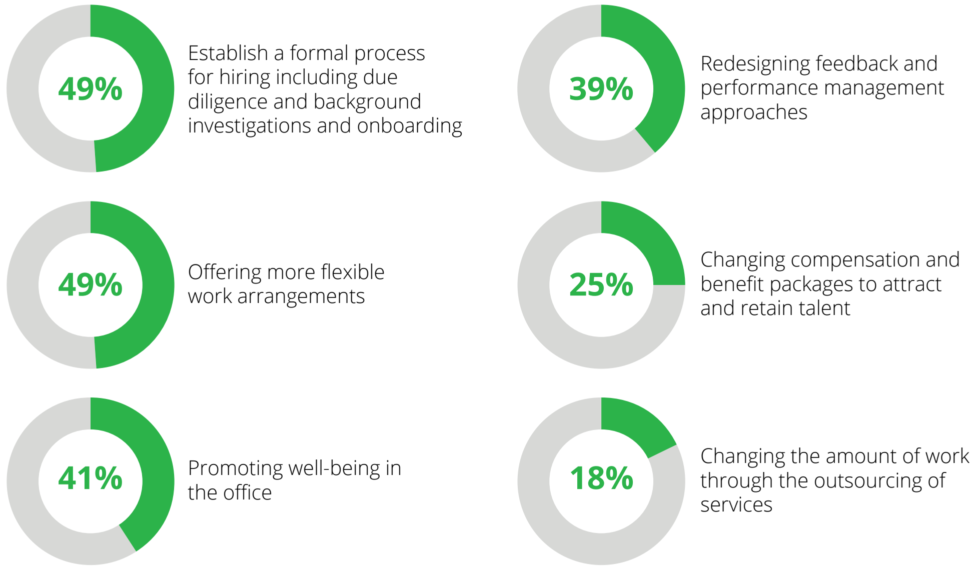
Leading practices for family office talent management:

- Identify near- and long-term talent and leadership requirements to meet the family office strategy and mission.
- Inventory talent and identify any high potential high performers and gaps in their capabilities.
- Decide how to fill gaps by building, recruiting, or borrowing talent.
- Establish a formal process for hiring including due diligence and background investigations and onboarding.
- Execute appropriate legal documents, such as employment agreements, confidentiality provisions, and privacy commitments.
- Define clear roles, responsibilities, and lines of reporting.
- Create long-term succession and development plans (see figure 7).
- Develop an employee handbook with policies and procedures for talent programs.
- Create a work environment that emphasizes employee well-being and provides flexibility.
- Establish employee goals that directly tie to the family office's short- and long-term objectives and tie rewards to those goals.
- Institute compensation arrangements that include long-term incentives to promote retention of key employees.
- Set up a formal performance review process that includes meaningful feedback.

Not surprisingly, compensation and benefits are by far a family office's largest annual cost, representing 50 to 75 percent of the annual budget. When the family office is established or undergoes modernization, the family should therefore invest significant time in attracting, incentivizing, and retaining its workforce and understanding how the talent market impacts these.

Figure 8. Family office talent strategies

Executives are using alternative strategies to ensure the family office has the right talent to meet changing employee and business needs.



Source: Deloitte National Family Office Forum survey 2020. Survey respondents could select more than one answer.

Operational considerations

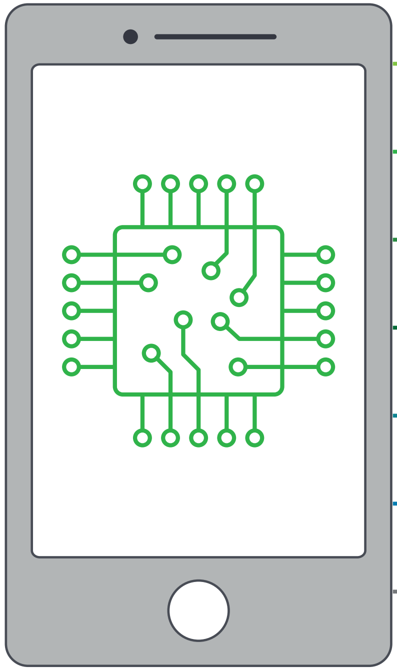
Technology

Around the world, technology continues to transform businesses and governments. As the pace of change accelerates, family offices have the opportunity to adopt and embrace technology to improve operational effectiveness, communication with clients, and data security. In fact, family office executives consider "enhancing operations" through technology and process changes as the most pressing challenge they face today (see figure 9).

Digital capabilities can help position family offices to capitalize on opportunities, address a variety of risks, retain talent, and provide transparency to key stakeholders. Cloud computing, mobile applications, robotic process automation (RPA), and other emerging technologies can significantly enhance the way the family office staff and stakeholders interact with each other, help contain information technology (IT) costs, and facilitate efficient operations.

At the same time, such technologies present risks and challenges that require specific skills and increased cybersecurity vigilance. For example, data aggregation—the ability to access, analyze, manipulate, consolidate, and report on data from multiple sources—is an important and growing challenge for family offices. Many families have moved to a global custodian to shift the burden of data aggregation away from the family office. In other cases, third-party expertise and data aggregation solutions may be warranted.

Figure 9. Most pressing challenges identified by family office executives



31%	Enhancing the operations of the office through process or technology changes
28%	Understanding the true expectations of the family
23%	Attracting, retaining, and motivating the right talent
8%	Managing the investment returns and opportunities the family wants to pursue
5%	Other
3%	Enhancing the security of confidential information
2%	Preparing for potential economic and political changes impacting the family financial position

Source: Deloitte National Family Office Forum survey 2020. Survey respondents could select more than one answer.

Operational considerations

Transforming your family office

Every family office has its own DNA, so the approach taken to modernize operations should be customizable and scaled to match the family's needs. The goal is to identify an operating model that makes the best use of family office resources and helps the family office better align with the family's goals and expectations.

Transformation efforts can range from minor incremental tweaks to more in-depth, involved process modernization, such as:

- Improvement of data-gathering processes
- Implementation of new technologies or tools
- Identification of resource models that refine the balance of internal and external support
- Modernization of an entire area of the family office, such as the tax function

Key elements of transformation

In a transformation project, it is important to understand the family office operating and talent models, including how executive and staff time is currently spent on tasks by activity across the organization. Surveys and interview tools can shed light on areas that are most time consuming and repetitive, as well as least value-additive.

Once the analysis of survey and interview results is completed, existing processes can be assessed, areas of improvement identified and prioritized, and a roadmap created to show what the family office can achieve in a realistic transformation time frame.

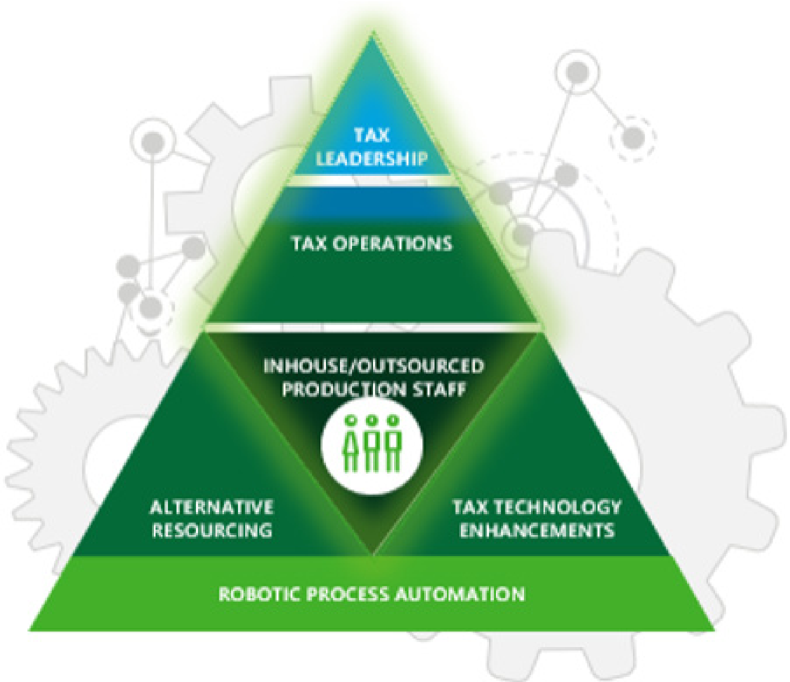
No matter the scope or duration, each transformation project should follow an actionable plan that helps the family office reshape operations and identify where time is spent so everyone involved can move in lockstep toward becoming a more strategic, efficient, automated, and modernized organization.

The role of a journey adviser

In our experience with family offices around the world, we have found that family offices can benefit from having an adviser help guide them through various parts of a transformation journey, such as in the tax department (see figure 10). For example:

- **A tax transformation adviser can help** transform the technology and processes of the family office tax department.
- **A tax planning adviser** can assist with general tax planning activities for the family.
- **A tax compliance delivery adviser** can help prepare certain tax returns for the family, including investment partnerships, trusts, and gift tax.
- **A tax reporting adviser** can help complete agreed upon procedures related to individual, trust, and partnership returns prepared by a family office's in-house tax department.

Figure 10: Family office tax operating model



A key goal of a journey adviser should be to help reshape selected areas of family office operations, such as the tax operating model, so they become more efficient, automated and cost-effective. This may include outsourcing some activities for a period of time as they are modernized, then taking them back in house at a later date. Ultimately, the objective is to achieve modernization at a lower total cost regardless of how it is sourced.