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Can Family Offices adjust to the New Norm without a Real-Time View of Risk?

As a myriad of macroeconomic and geopolitical factors continue to affect trading strategies, Will Lawton, Global Head of QUO at TradingScreen, looks at how Asian Family Offices have been managing risk while working from home.

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Anyone longing for a return to a more predictable economic era? A time when a rise in interest rates immediately triggered more overseas investment, leading to an inevitable strengthening of a country's currency? Well, get prepared for a rather long wait, as ultra-low rates, aggressive central bank monetary supply, not to mention the ongoing geopolitical uncertainty around the US election, signals anything but a move to more conventional times. It is not like we have not been here before. What we are currently living through draws parallels with the post-first world war period, which led to hyperinflation and a prolonged global recession. The difference this time, other than inflation currently being kept down due to ultra-low interest rates, is that this environment will likely be concentrated into a much shorter time period, as opposed to the decade of pain experienced post 1923.

If the macro was not enough to think about, there is also a particular global health pandemic fundamentally disrupting traditional working practices. This begs the question, with remote working looking likely to be here for some time and markets bracing themselves for a second wave of volatility, just how does a Family Office set in its ways manage their risk right now?

Traditionally, the vast majority of Family Offices have emailed or called orders into their banks. The trouble is that CEOs often want to see every trade that goes through. This is all well and good if everyone is in the same location. But with staff scattered across all parts of Asia, how does a CEO or a compliance officer harbour any hope of swiftly approving orders or checking for breaches? Wealth workflows tend to be more complex, with so many different stages involved from understanding the risk profile of the client to the role of the relationship manager. To better manage workflows, some Family Offices have migrated to the cloud in recent months. Previously, ongoing issues with cloud, such as concerns around the security of client data and where it is stored, were key factors behind decisions not to migrate over. However, Covid-19 has changed the financial industry's view of cloud and SaaS significantly, and the cloud is now perceived as not only the safer and easier solution, but a cheaper option to implement.

Not storing data in the cloud becomes an even greater risk if, as a case in point, a relationship manager is trying

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to get a sensitive trade approved by the c-level. If there are issues directly relating to the trade, such as the order, fill not being good, then trying to find a solution could start to get very complicated when sending emails from multiple different phones and tablet devices. What a relationship manager needs is a simple alert saying that the trade in question has been approved by the powers above before it progresses to the next stage. Only then can the Family Office have the safety net of a full audit trail in case anything goes wrong. This cannot be achieved unless real-time pre-trade risk and compliance checks are built into cloud-based technologies to manage orders.

Trying to work out the full effect of the latest monetary policy decisions or geopolitical responses to the pandemic is anyone's guess at this stage. Like all market participants, Family Offices will be seeking clarity. Until then, without full insight into daily market conditions, firms are left overly exposed to a risk that can negatively impact their bottom line. Preparing now to handle the impact of this next wave is precisely what is needed to ensure Family Offices are ahead of the curve whenever volatility decides to hit global markets again in the near future. One thing is for sure, as and when the second wave does come, those with sound pre-trade risk and compliance checks will be best placed to serve their investors. ■