

Family Governance and the role of the Family Office in the Middle East

Ewald J. Scherrer, Managing Director of Alpadis Switzerland, is a firm believer that the foundations of a family structure and a family office must be embedded in good governance. He addressed delegates at the Hubbis Middle East Wealth Management Forum to articulate how family governance is so essential for family cohesion and stability, across the generations. And to explain why good governance in the family office will help ensure well-managed wealth preservation and estate succession.

FAMILY GOVERNANCE, SCHERRER BEGAN, IS ESSENTIAL FOR ANY FAMILY THAT WANTS ITS ASSETS AND ITS SOLIDITY TO ENDURE.

Family governance is essentially a policy or etiquette that helps determine, communicate and execute how decisions are made related to the family business, their assets and also to help and to guide the family members for their future.

Good governance, he explained, can help circumvent many of the obvious challenges a family faces, including poor communication, divergent views leading to internal feuds and a lack of unity, as well as the inability to manage the family wealth transition between generations.

Be proactive

Families with the right practices and approaches can engage proactively, and before conflict arises, to articulate and codify family principles. They can help keep multiple generations and different family members unified, maintain financial and fiscal discipline, provide broad levels of support, and help preserve wealth and build upon it for the future

Scherrer explained that the family should create a family constitution to house the key principles of mission, vision and shared values, as well as articulating the individual and collective family goals. It should define the family assemblies,



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and committee, the family council and the role of the family office. It should lay out the policies and protocols for actioning any and all of these areas, as well as helping align the actions and views of the principals/decision-makers with the broadest elements of the family.

Each situation is unique

“It has been said that family governance is not only a policy, but is also primarily a process, a change process, keeping in mind that each family is different,” Scherrer observed. “I actually used to work for a successful family office, fifth-generation, with more than 150 family members living all over the world. Alternatively, another very different model might be a young IT entrepreneur we know who is married with two younger children, who sold his business, and he too needs governance for his much smaller family unit now that he has significant wealth.”

Scherrer added that he always advises clients to establish family governance well before conflicts arises. “And remember,” he said, “that there are many valid objectives behind the organisation of families, from wealth and asset preservation, the support of family members in their projects, tax op-

timisation, inheritance planning, privacy and confidentiality. On the investment side, risk diversification. With the right approach, these families can achieve unified objectives and a family that is unified for generations.”

Empathy required

Scherrer advised delegates that anyone seeking to achieve or maintain their role as trusted adviser must assess and understand the family clients and their broad situations. “You need a lot of empathy and much patience,” he remarked. “And you have to be sensitive as you will need to address issues such as death, divorce, the giving of power, and help integrate children into the family office and the family business. As we know, it is not always very easy for the families and the patriarch to address these issues, so sometimes you have to be more of a psychologist than a banker, lawyer or accountant.”

He explained that the process of establishing family governance usually begins with the assessment of the present situation, starting with ownership. “First understand who the current leaders or owners are, the decision-makers, how decisions are taken,

and whether the current legal ownership and decision-making process have taken the estate planning into consideration.”

Secondly, he advised looking into the legal structures, including the types of structures in which jurisdictions that best suit the client, the percentage ownership, and so forth. And understand who is delegated with power to execute the decisions, whether the trustees, or company directors, attorneys, accountants, or different family members. And of course, what authorisation policies are in place and who the signatories are.

Capital allocation must then be assessed to understand what information is used to decide where to allocate capital, what evaluation methods are used, how this relates to the consolidated family and business cash flows and budgets, and so forth. “And the next step,” he said, “is the strategic wealth allocations of the family, and how investments are managed, including risk assessment and risk management.”

The final stage is to review how investments are reported, how performance is measured, attributed and monitored, how cash flows are consolidated and how investments and cash transactions are monitored and reported.

SFO: a snapshot

Scherrer also looked briefly at the family office itself and how it can function, supported by the appropriate protocol of family governance.

He defined the single-family office (SFO) as a holistic, full-balance-sheet, wealth management solution for an affluent individual or family, with family members owning the entity, as well as managing and controlling the assets of their family, aided by professionals drafted in as experts in their respective fields.

“The family office model provides a much-needed structure for managing wealth and all of the important services that are used by exceptional affluent families,” Scherrer elucidated. “The SFO is focused, holistic and aligned to the family needs and expectations, and as each family is unique, the SFO’s services are highly tailored to take into account the holistic view of the many different generations of the family, their situations, their hopes and aims.”

Scherrer then very succinctly took the audience through the multiple valuable tasks the SFO can

perform for the family, from investment planning, asset allocation, due diligence, then through administration, accounting and reporting, including not just to the family, but tax authorities as well. Estate planning and wills, as well as the broad range of concierge services, which may include property, travel, accommodation, citizenship/residency planning, and even education for family members.

Swiss expertise

Scherrer also offered the delegates some brief background on Alpadis, reporting that the firm currently has over 65 employees across jurisdictions with cross-functional and jurisdictional experience; including certified public accountants, chartered company secretaries, lawyers and tax advisers.

The company provides corporate fiduciary services from company formation to HR & payroll, regulatory and tax services. The Group offers private client advisory and execution services including family office services, family governance, wealth planning services, trusts and private foundations, charities and philanthropy.

Alpadis has operations in Switzerland, Singapore, Hong Kong, Malaysia, and Labuan. The firm is regulated by the Accounting and Corporate Regulatory Authority (Singapore), the Trustee Ordinance (Hong Kong), the Companies Registry (Hong Kong), and the Labuan Finance Services Authority (Malaysia). Alpadis is a Member of the self-regulatory organisations VQF Zug in Switzerland.

Scherrer reported that Alpadis today has over 1,000 private and corporate clients from APAC and Europe and has been independently owned since its formation in Switzerland in 2005. Currently, the firm has some USD5 billion of assets under administration.

Don’t prevaricate

He closed his brief talk by reiterating the need to address these many issues before a crisis emerges. “My mantra is that each family is uniquely different,” he said, “so understand them and engage them in the concept of family governance to prevent challenges later on and to embrace the best practices today.” ■

