

Single-family offices – A Magic Solution?

As the world begins to come to terms with the realities of negotiating the consequences of the Covid-19 pandemic, Asia's ultra-high net worth (UHNW) individuals are looking to find the best option available to them to manage their expansive array of assets, and to best ensure the carrying out of their interests. UBP's Fan Choi and Faye Ong share their insights on the appeals of the Family Office as a structure, noting its advantages for families looking for succession planning, regulatory and asset management solutions, amongst other points of notoriety.



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Right across Asia, the Covid-19 crisis has been a devastating reminder of how important it is to carry out proper succession planning and prepare for the unexpected. At the same time, it has acted as a reality check for wealthy families regarding the way they organise their wealth. The assets and interests of UHNW families in Asia are often spread globally and managed by different parties. In times of crisis it is hard, if not impossible, to manage and control them. However, there is an understandable cultural sensitivity around the issue of what is to happen when prominent family members (often the wealth creators) reach the end of their lifetime. This can manifest itself in a reluctance even to talk about the subject and to plan appropriately. Although it is potentially uncomfortable to consider such things, it is so much better to do so well in advance.

Single-family offices have rapidly increased in number, but most have only been established in the last two decades and so their success in estate planning and preserving wealth over generations is far from proven. Indeed, a badly established or dysfunctional family office can provide a false sense of security and might actually endanger the family's wealth over the long term.

For most private-client advisors in Asia, Covid-19 has led to a sharp increase in client requests to draft wills and set up trusts. An increasing number of families are also thinking about establishing single-family offices. UHNW families in particular often regard setting up a single-family office as a magic solution for the challenges they face, as well as a succession planning instrument. It is worth considering, however,



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that the work involved is significant – proper preparation always leads to a more durable structure which the family will come to value.

Although a single-family office can play an important role in a family's estate and succession planning, it should not be regarded as the complete solution. Single-family offices have rapidly increased in number, but most have only been established in the last two decades and so their success in estate planning and preserving wealth over generations is far from proven. Indeed, a badly established or dysfunctional family office can provide a false sense of security and might actually endanger the family's wealth over the long term.

It is important to realise that the best vehicle for holding a family's assets for succession-planning purposes is not necessarily its family office. Legally, they are usually two completely different entities, and there is not even any need for them to belong to the same structure. As a result, there is no single best legal structure for a family office. The preferred structure, if any, depends heavily on each family's wealth situation and the jurisdictions in which its members live. Proper analysis is necessary.

Once established, a family office should act as a wealth control centre. This means having a thorough knowledge of where that wealth has come from and how the family wants to see it grow. It is important never to underestimate how critical the family business can be – it often sits right at the heart of everything and is associated with pride in its creation and success



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as well as a deep desire to see it survive and thrive to support future generations. Such family businesses are a key part of the broader Asian economy and a sign of its dynamism and success. Having a family office in place does not in any way mean that the family gives up control. Although the family office should help the family with any aspect of its wealth, it should not be expected to function autonomously but instead be subject to an appropriate governance and control framework. Closely defining the family's values and objectives and making them clear to the family office's staff is an important part of this. Specifying the family's own role and responsibilities is also key.

Not many families are able to establish a family office with all the necessary expertise in-house. In

practice, a family office usually focuses on investment management. Where that is the case, even if its staff members are highly supportive, this does not make them succession experts. At most, the family office will co-ordinate external advisors for wealth and estate planning. A family needs to ask whether the team has the ability to select reliable external experts, and more importantly, if they are able to analyse and judge the work done by those experts. If the answer is no, the arrangement creates risk and a false sense of control.

When families become wealthy, their world becomes more complex. With global regulation rapidly increasing, some advisors who a family has worked with for a long time will no longer be the best choice going forward. They may not, for example, be able to deliver the necessary cross-border expertise unless they are part of a multinational practice. In situations like this, the family office will need to take the initiative and seek out other professional advisors perhaps extending the search to outside Asia. This does not necessarily mean letting existing external experts go, but it may be advisable to define their responsibilities carefully or assign them new ones. While any advisor chosen or retained needs technical knowledge, they must also have the right "soft skills" to bring family members together and agree a set of ground rules. Time spent by an advisor on understanding and appreciating the family's culture, values and issues will yield long-term benefits.

Magic solutions do not exist. When establishing a single-family office, there is so much more to consider than just investments. Like a family business, it will not work properly without the family's guidance and control, and that work is never done. ■

