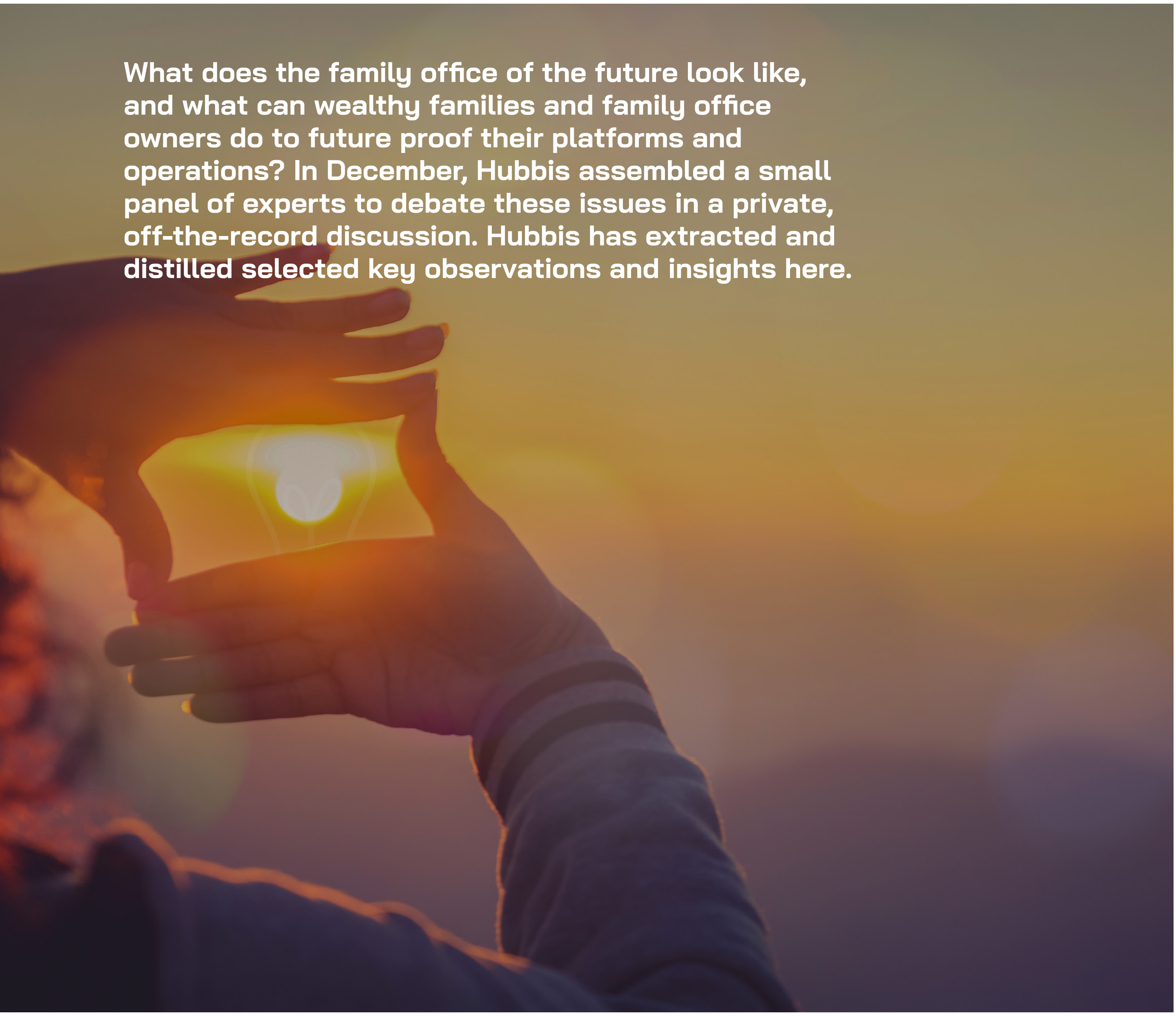
The Family Office of the Future - How Asian Family Offices Can Future Proof their Businesses



What does the family office of the future look like, and what can wealthy families and family office owners do to future proof their platforms and operations? In December, Hubbis assembled a small panel of experts to debate these issues in a private, off-the-record discussion. Hubbis has extracted and distilled selected key observations and insights here.

THESE ARE SOME OF THE TOPICS THE EXPERTS DEBATED:

- The outlook is rosy, things have been going well, but what does the multifamily office business sector in Asia need to further boost their success?
- Are Asia's multifamily offices leveraging the right technologies and approaches?
- How can they use technologies to boost their automation of processes throughout their operations?
- Information, reporting, and client data aggregation are vital to the proposition, so how do the family offices manage the delivery of that data from custodians and ensure they incorporate enhanced data management protocols?
- Can the right technologies and start-of-the-art operational processes produce the proper infrastructure for family offices to expand rapidly at scale without majorly ratcheting up their cost bases?
- What does the family office of the future look like, what technology platforms and enhancements will be needed, and how do you upgrade your proposition?

Family offices are far more complex than many think, and getting it all right is far from easy

An expert highlighted that having conducted a process decomposition chart for the family office, they had found that there were some 280 business processes that must run effectively in a single-family office or multifamily office. And of those, close to 100 are front office and centred on client relationship management, tax and estate planning, investments, investment due diligence, asset allocation and planning. The other processes cover areas such as all the vital middle and back-office services.

"People increasingly realise that trying to figure out all the middle and back-office challenges on your own, and engineering all that by themselves is very expensive, challenging and often very tedious, so many are therefore looking for a system that can help them automate many or all of those functions and processes. If they can have another party do that work for them but still retain control of the final approvals, this allows them to focus on their core strengths, on what they do well and what their family clients are expecting them to do."

Upgraded technology and infrastructure offers family offices a much more comprehensive view

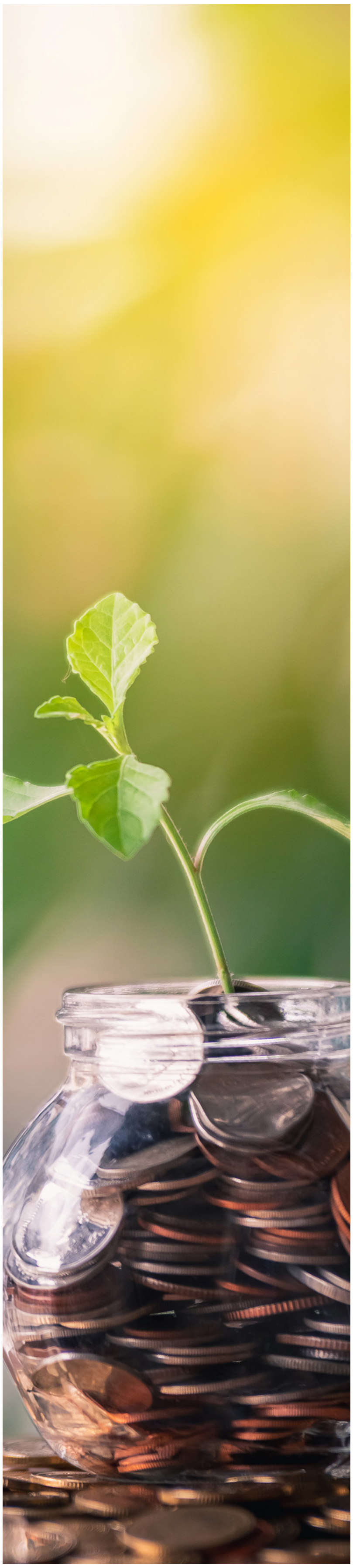
Family offices need a fully comprehensive view of their situations, with everything in one place in a way that is accessible on a daily basis, and monthly or quarterly reports are simply not enough. Access to data and information needs to move into the 21st century, to support more efficient decision-making and to boost automation and stop wasting the time of key individuals. Information needs to be deliverable and accessible in a virtual way so that the key people can function remotely and perform tasks and processes from wherever they happen to be in the world.

The evolution from basic and manual to automated and highly efficient is a vital journey for ambitious family offices

The head of a significant multifamily office in Asia highlighted their transition from largely manual, disjointed and rather basic from the outset when they were much smaller to a much more sophisticated infrastructure, with significant investment in IT and technology, including in aggregators as they work with many different custodian banks across various jurisdictions. "Clients value ease of understanding, being able to easily see their portfolios across different banks, and they value our ability to then actually give a more analytical assessment of what they have and could do," he explained.

As the range of assets and investor diversification both increase, systems and processes must expand, while remote means security must also improve

The same expert observed that portfolio curation and then assessment and analysis is no longer confined to the traditional financial and banking products but also to many other alternative assets, including private invest-



ments and also digital assets. He explained that also means they have to invest in additional technology and upgrade systems and processes, especially in the time of the pandemic, when remote access and processing must take place. “Given that, and especially in a remote working world, the backup of data, cybersecurity, and ensuring business continuity and seamless activity that remains fully compliant are all vital challenges to overcome,” he observed.

There is no escaping the realities of administrative burden and compliance, wherever you are

Another guest remarked that anyone such as a Relationship Manager (RM) leaving a private bank to move to a family office or more generally an independent firm should not expect to bypass any of the more mundane necessities of the role. “Quite a lot of RMs leave their bank with the wrong perception, that they will join a multifamily office or an independent asset manager to get away from compliance and paperwork, but you can’t run away from a proper approach to KYC, AML, due diligence. Moreover, family office work is not really scalable, as every family is different, every family has different needs and requirements and reporting requirements and different custodian banks and so forth. This means you need technology to support the entire infrastructure.”

He explained that his firm had in 2019/202 made what they hope is a wise decision year to move to a new platform that allows them to integrate portfolio management reporting, consolidation of assets, including non-bankable assets, to handle KYC and digital onboarding, AML monitoring, and client reporting. “That was a major step for us, nothing is perfect, but it did help us get to the next level,” he reported. “However, one reality is the data quality we obtain from the banks is weak. Another issue, certainly here in Singapore, is finding the right people with an entrepreneurial spirit and the right skills to join our multifamily office.”

Tax reporting is a global issue for which all family offices need to upgrade their capabilities and protocols

The same guest highlighted how tax reporting of clients would become indispensable. “That is not yet the case in most of the Asian countries, but in many jurisdictions, for example for clients from the UK or Germany, you have to be able to produce a certain tax report, and if you cannot do that, you will not secure the client, it is as simple as that. Right now, there are actually very few banks that can offer that for more than a few countries at a time, and it would be the exception for a bank to be able to do more than five countries properly for tax reporting. In general, this is not yet a big thing for us in Asia because most of our clients are based in Asia, but it will happen. There’s no question in my view that in five or 10 years, we need to be able to tax reporting for the major countries. There is really no way around that.”

Consolidation of information and data across the custodian banks is far from simple and certainly not homogenised

Another panel member highlighted how in the US, the banks all use a similar or same type of platform when it comes to consolidation, whereas in Europe and the US, they all use different platforms, meaning a whole other level of complexity for the consolidation of client assets. "We have also been trying for quite a while to find a good solution to assemble all this, but it is not easy and after 12 year of operations, we are also still looking for that do-it-all type of platform, even if we are getting closer to real progress."

Ironing out the tedious wrinkles in the back office is tough and needs constant attention

The same expert observed that one of the more tedious aspects is at the back office, when the required interfaces don't work properly all of the time. "In a bank, or in a very large operation, where you have a few 100 people in the back crunching numbers and making sure irregularities don't happen, that may seem less challenging," he remarked. "But if you only have one or two or three people in the back office to assess what fell through the cracks of an automated process, that is extremely tedious. And like it or not, it will happen with every platform or with every provider, and that means there is still a lot of manual work to be done, both in terms of rectification of what went wrong, but in finding out what went wrong and why. It is something you have to cater for no matter how automated your processes are."

Aggregation and consolidation of data are most definitely vital challenges to overcome

Another guest agreed with the consistent theme expressed by panel members that the aggregation of data and the acquisition of data are central to the challenges ahead and must be overcome. "We are reasonably fortunate in the US to have most of the banks through the custody networks, and most of the brokers fairly well aligned to produce consistent daily information," he commented. "The challenge of any jurisdiction is to move to a digital platform capable of producing that information in a consistent format on a daily basis, as it is not a month-end mission; it is day in and day out. With the number of legal entities and transactions we process on a daily basis, there are, of course, exceptions to be resolved manually, but over time hopefully learn from the exceptions, improve the system, improve the processes."

Data aggregation is advanced in the US but somewhat less so in other markets, including Asia

The same panellist observed that the advances in data aggregation in the US will gradually make further progress in other markets such as Asia. "There are a number of companies that take and enrich data from the banks to allow you to aggregate your data, and the key theme here is that from a regulatory standpoint and from a jurisdiction viewpoint, there needs to be heavy emphasis on how to secure the data on a daily basis, how to be publish that data, and then to allow the investment management community and the family office community to be able to aggregate that data on a consistent basis," he commented. "That's a challenge. But it has been solved to a large extent in other jurisdictions."

He added that it is also essential to be able to capture transactions at source and be able to link documentation so that it is all accessible easily to many different counterparts, whether tax experts, accountants or regulators. "And for the family office itself, this data is all about facilitating them, giving them information, identifying what their risks are, and allowing them to plan," he explained. "If you are doing this on a daily basis, then your cadence can actually improve, and your risk management can improve."

Beware of bad data and do not take anything for granted - additional layers of verification are vital

A fellow expert added that it was erroneous to assume that banks supply good data. "Everyone on the panel will likely agree that is hardly ever the case," he stated. "Once they get it all the way down to your statement, it might be good, but when you're getting daily data feeds, the quality of that data is often not great. And it can vary dramatically in terms of quality across the custodians, and we actually rate our custodians in terms of their quality of data. Some 10 years ago, we used to sit there and go through all these reams of data to figure out what transactions were properly reported. But where we are now, and what you will see more of, is we built a business rule engine so that every night when those thousands of transactions come in, they're run through an algorithm, and it says for this type of transaction, this transaction should be structured in a certain way."

He expanded on this, noting that there are today some 1000 business rules they had constructed over the years that evaluate those transactions. "The system can say, perhaps 25 of each 1000 transactions are in shape but the other 25 have a problem, they are set aside and people can then review them."

Remember that the bigger you are, the harder you can fall, so get it right from the outset and as growth accelerates

The leader of another family office agreed with the comments and observed that as they scale up their own business for the coming years, there are more and more issues to deal with, including handling the many custodians, the inconsistency of data, aligning data feeds, aggregating and consolidating data, getting the necessary consistency of human skills as more people are hired, making sure that the various processes from onboarding and KYC through the middle and the back offices in terms of the onboarding of clients, in terms of the KYC processes are accelerated and made more efficient, and so forth. "We have to invest in infrastructure and technology as we scale up," he stated. "And this is especially important in relation to cross-border issues and making sure that there is privacy and the right level of cyber-security.

You are in business to appeal to families and for that, competence, consistency and trust are vital ingredients

Another family office head said that from his perspective, running a multifamily office is a question of position yourself appropriately, running the business well, being consistent and ensuring that people can trust you. "All our clients come from word of mouth

from existing clients," he explained. "We are not trying to be the flavour of the month in anything we do, but we instead try to be an assuringy hand, and we tell people when they come to us that our task is to make sure they stay rich. We are not creating wealth for them; we preserve it for them and their family and the next generations. Humility and discipline are essential for curating investments, and clients in Asia are now more sophisticated, and they appreciate that, and they can certainly see product push. We prefer it this way, and we like the more discerning clients of today."

Size does matter in order to encompass the different skills and obligations required

The same expert remarked that a certain scale these days is also essential. "You need a minimum AUM because it is an expensive business to run, you need a smart (and expensive) CIO, you need a system, you need an analyst probably, you need Bloombergs and data, so I would argue that below perhaps USD300 million in AUM you should not even consider going alone. And that means the benefits of joining someone that has the resources and the infrastructure are probably a lot more than the pain you will incur when try to go it alone with a relatively small amount of AUM." And by definition therefore without the necessary infrastructure and depth, there are significant risks to all parties.

Quality of service is also absolutely essential, and that in many ways means not behaving like a private bank

"The quality of the service you provide not just in terms of investments, also in terms of reporting is critical," this expert added. "The big question really for a multifamily office is how much do you really want to grow, because too small is a problem, but there's also a risk if one grows too far too fast you start to behave more like a private bank, and that we really do not want. Why? Because we differentiate ourselves from the banks by being sometimes brutally honest with the client. After all, we do not need to sell a single product to any of our clients; that does not change our bottom line with our structure. We don't have any product push; we have no misalignment of interest or intent. We have no behind the scenes payments from arrangements such as retrocessions."

He expanded on these comments, noting that their motto is that they want to do more for less clients. "We do not want to have RMs with 80 clients, we do not believe that more than 20 to 40 clients per RM is viable. If you can do a lot for them, it's more rewarding for the client, but it's also more rewarding for relationship manager."

Being lean and independent does not mean being half-hearted and being professional does not mean emulating the banks

Another family office head concurred, adding that they do not want to behave like the banks or carry such overhead, they want to retain their lean type of operation and keep control of their managerial abilities. "And like the other panellist said, we want to be totally aligned with our clients' interests, and for the time being we must leverage the capabilities of the banks for those clients. The banks for us are service providers, they provide us with the platform, they provide us with the whole access to markets for now, even if that might well change for us in the next 10 years, but today we need the banks as custodians and for our execution. We therefore represent the client and their interests to those custodians and whomever else we deal with on their behalf, be that for tax, trust, foundations, estate planning, and so forth. Finally, we get paid by the client and that is a huge, huge advantage, as whatever else might change, we will remain entirely on the side of the client."

Getting your future business succession plans in order is also a vital part of the equation, as continuity counts

"I think [business] succession planning is very critical for [family office] firms like ours," this guest commented. "We have no urgency right now, due to our age, but with a robust platform in place, succession is something we have in the back of our minds."

The final word – things can get better, your problems can gradually be solved and the right approaches lie ahead

The final word was a comment that the issues faced by family offices of all types and sizes are similar in the US and Asia, and that understanding the challenges is the first step, and those major hurdles can be encapsulated in two word – accuracy and transparency. "We have heard really today how these family offices face certain challenges around better information, better data, better sources of data, and so forth, and it is clear that it is information accuracy and transparency that we all sort of strive for, because it is in our interest to curate that for the best interest of our clients. There is much work to be done in Asia and we have no doubt that considerable progress can be made in all these areas, with the right approaches." ■