

Value-added Family Office Services beyond Asset Management: A World Awaits

Oliver Muggli, Managing Partner of 1291 Private Office, which is part of the Swiss boutique advisory firm 1291 Group, addressed delegates at the Hubbis Middle East Wealth Management Forum to highlight how a Family Office can add far more value to wealthy families than simply managing their assets and helping them invest. He advised delegates to help wealthy Middle Eastern families take a more holistic view, and consider the advantages such as succession planning, sophisticated wealth planning, and tailor-made financing solutions for illiquid assets ranging from blocks of listed stock to private jets and even historic Italian castles.

THE 1291 GROUP IS A SWISS WEALTH MANAGEMENT ADVISORY BOUTIQUE and a new name which firm insiders explain came about from the historic year in which Switzerland was founded. It was back in 1291 when three Swiss cantons combined to protect themselves against their enemies and became a more formidable defensive force, after which other cantons joined what is Switzerland today.

The 1291 Group offers private wealth solutions for families in today's newly transparent world. Clients have never needed wealth planning advice more than they do today, the firm's literature states, as traditional wealth planning tools are all facing challenges.

"I think we all know exactly what a family office is," Muggli began, "so what I want to do is to zero in on our experiences of the additional value-added services a family office could, and indeed should, provide to the wealthy and super-wealthy clients they are looking after."



OLIVER MUGGLI
1291 Group

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A rising tide of private wealth

He then offered an introduction to the Middle East private wealth market, noting that according to data from the CapGemini World Wealth Report 2019, there had been rapid growth in the past decade, and that continues today.

“This rising tide of wealth has led to a significant increase in the creation of family offices, with most of these purely concentrated on investment management, so perhaps often considered more like independent asset management firms. Yet we see there are considerably more services the family office can offer.”

An ideal vehicle

He observed that whatever the intentions, a family office is an ideal vehicle through which wealthy families can navigate the great and deepening complexities of today’s world. “We live in a complex world, and even more so for very wealthy families,” he said. “Passing on the family wealth to the next generation, regulatory constraints, a challenging investment universe, and a host of other challenges can be addressed through a family office and help the family coordinate many of the vital wealth matters that concern the family in a centralised and consistent way.”

Pointing to an informative slide presentation, he also remarked how an event relating to one family member, or assets, can impact all the other members of the family, such is the intertwined nature of the various elements involved in a family office. “That is why having a central point that looks after these different stakeholders, and all these aspects is so helpful,” he said. “And to be fully effective, the family office needs the widest view of the family wealth and situation, in order to take the right holistic approach.”

Take a holistic view

He explained that a holistic family office model in his view is a model that covers all elements of family wealth and in the most comprehensive way possible. The family office, he said, can look after wealth planning, estate planning, tax services, family governance, strategic asset allocation and so forth.

“Actually,” he added, “I would even say that ideally a typical family office should probably even delegate the asset management externally and focus on strategic asset allocation, on manager selection, managing those mandates and focus on risk management, consolidated reporting, and other key initiatives. No objective advice can be

given under the pressure to obtain investment performance.”

That frees the family office somewhat to also offer other help on areas such as entrepreneurial investments, real estate, art, philanthropy, and even the ‘concierge’ services that might include education for the family members, travel logistics and a host of other areas.

PPLI solves many issues

He then gave a few examples of additional family office services, which a family office can offer to its principal under such a holistic approach. In the key area of wealth planning, life insurance solutions could add a lot of value to wealthy families. He said that some of the traditional tools such as trusts and foundations might have lost a bit of appeal over the last 10 to 15 years, as the world’s regulators and authorities push for greater transparency.

“And that,” he said, “is why we are especially positive about Private Placement Life Insurance (PPLI), which is an attractive wealth planning structure that is effectively an alternative to a trust, as it is a holding structure for all kinds of assets, both bankable and non-bankable, but at the same time offering a lot of advantages compared to classic asset structuring tools, such as

confidentiality, asset protection and preservation of influence over the assets.”

He explained further that PPLI as a structure is completely tax compliant in almost all jurisdictions around the world, and therefore has great international portability. “It is so tax efficient,” he clarified, “because it offers a full tax deferral on all capital income generated by the assets held within the policy, so there is no ongoing taxation on capital gains, dividends, interest income during the lifetime of the insurance policy.”

Additionally, the PPLI solution realises a ‘true’ transfer of wealth from the clients to the insurance policy, and as such all the assets are held in the name of the insurance company. Accordingly, at the level of the assets and the investments there is no disclosure of the identity of the client.

And at the insurance company level, there is of course KYC required and identification of the client, but Muggli advised that the transfer of wealth that is effected has the additional advantage of asset protection because assets are held in the name of the insurance company.

“Perhaps the main advantage compared to other wealth planning tools,” Muggli elaborated, “is that the client does not actually lose the power of control, as he continues to have influence over the assets, thanks to this contractual relationship he has with the insurance company.”

Consolidated reporting

He also highlighted the value that PPLI offers in terms of consolidated reporting. “Most wealthy families,” he remarked, “bank with several banks, and consolidating these different accounts into one overview via the PPLI structure delivers a lot of advantage, giving a really global view of all types of financial assets, real estate, private equity, collectables, and so forth. This also greatly helps with risk management, which is another area the family office should be surveying and advising on for the family.”

Forward planning is also facilitated with this type of structure and the holistic view of family wealth afforded. “Perhaps the family might even consider alternative residence and citizenship due to wanting to manage other risks such as geopolitical instabilities or concerns,” he noted. “This can add a lot of flexibility and freedom, it can also open up opportunities for the offspring to study overseas. But be warned, you must seek professional advice in these matters and their tax implications.”

Adding yet more value

Switching back from PPLI directly to other areas in which the family office can add value. One such area is specialty financing solutions for more esoteric assets, for example, the family private jet, the ocean-going luxury yacht, all of which can provide liquidity if

used as collateral for funding other investments that perhaps offer high returns. Another area might be highly specialised property finance, for example for a historic palazzo in Tuscany, for which most banks would not lend, but also for which the family office can identify and work with the few specialty lenders in that market.

And Muggli closed his list of value-added ideas with financing for single stocks, for example where a wealthy family owns a significant position in a listed company but where they do not want to dispose of the stock, or indeed any of it. “Many banks are reluctant to lend against these share positions,” he remarked, “and if they do, they might only offer a very small LTV of 20% to 30%. So the family office can work with some specialty lenders that will be able to help the family redeploy this illiquid wealth for some other exciting projects.”

He closed his lively and insightful presentation by reiterating how the family office can add value in some many areas, including of course wealth planning through the preferred PPLI solution. “This type of holistic approach delivers a lot of benefit to all the parties involved,” he concluded, “so I strongly recommend you to extend these ideas to your wealthy clients, and of course work with the various experts to offer them the optimal solutions and expertise.” ■

