# The future of family offices

*Barbara R Hauser* asks whether there are any lessons to be learned from Dubai

Family offices are a hot topic. What does the future hold? I have four personal predictions. First, I predict an enormous increase in family offices. Second, I predict a return to single family offices (and a decline in multi-family offices). Third, I predict a global increase in forum-shopping among competing jurisdictions, including new ones like Dubai. Fourth, I predict the forming of creative cross-border alliances among single family offices.

## Definition of a family office

A family office is simply any number of staff who take care of the needs of a family. The services they provide are directly related to the needs of a particular family. A recent study of Swiss family offices defines one as 'high value wealth management by close advisors based on a relationship characterised by intimate knowledge and trust.' As I wrote in 'The Family Office: Insights into Their Development in the US, a Proposed Prototype, and Advice for Adaptation in Other Countries,' published in *The Journal of Wealth Management*, the definition of a family office is vague enough to cover 'everything from a one-person part-time assistant to a full-service private trust company with a staff of dozens'.

Family offices are often said to have begun in the United States, with the John D. Rockefeller office, created in 1882. But the Rothschilds in Europe had family staff in the 1700s. And in China, as early as 1600 BC servants were buried with the Shang dynasty family. In Japan, the tea-maker restricted access to the wealthy family. In ancient castles there were actual 'gate-keepers'.

Single family offices are very private. No one knows how many there are. Estimates range from 6,000 to 9,000 in the US alone.

## The development of multi-family offices

In the US, during the last 15 years there has been a growth in 'multi-family offices' (MFOs). Usually this has occurred because the original single family office (SFO) had increased costs and somewhat decreased resources. By adding other families, they hoped to share the overhead costs. In some cases they also hoped to increase the strength of their combined purchasing power as well as using the additional projected revenues to expand the breadth of their in-house advisors. A number of other financial or accounting firms saw the opportunity to create their own MFOs, hoping to make a commercial profit from providing these services. Indeed, by 2003 some USD170billion in assets were under advisory by MFOs in the US.

Currently the entire MFO industry is 'in disarray', according to leading consultants. What families see happening is that they are being pursued under the guise of MFO offerings when in fact the commercial MFO organisations are largely motivated by gathering additional assets, hoping that the investment fees will cover the other miscellaneous services they may offer.

## Prediction one: global increase in family offices

The numbers of the ultra-wealthy are projected to increase dramatically. Estimates are that over 10,000 individuals have more than USD100million, and that their combined assets will reach USD5.5trillion by 2010. The most recent Capgemini report states that worldwide there are more than 85,000 individuals who have more than USD30million.

The management of large amounts of wealth is complicated and time-consuming. Families will continue to look for ways in which their holdings can be properly organised. Wealthy families will continue to seek first-rate service. Bank mergers and staff changes are very disquieting. In my experience, long-term loyalty and privacy are valued more than being assured of the highest possible investment returns.

The historic roles filled by the family lawyer, the family notaire, and the small private bank – are largely gone. The commercialisation of the professions and the mergers of financial institutions have left a service gap for wealthy families. Thus my prediction that they will turn to the concept of family offices to satisfy their needs.

## Prediction two: return to single family concept

The traditional single family office (SFO) is created around the needs of the particular family. The ability to outsource can result in a minimal permanent staff. There is no expectation that the SFO will act as a revenue-producing profit centre. The family will be paying for all of the costs, and will hope to do so in an efficient manner. What the family gains from their SFO is having key advisors they can rely upon, who will organise their holdings and relay the related information. Privacy is assured.

To the extent that family MFOs were created with the hope of sharing overhead expenses, the ability of SFOs to outsource efficiently can eliminate that MFO advantage. Experienced family MFOs can offer a breadth that a new SFO would find difficult to create. To the extent that commercial MFOs were created for the purpose of generating a profit, they have been at odds with the service model of the SFO (and the family MFO). Whereas the SFO is viewed as being created to provide a wide array of services, at costs to be managed efficiently – the commercial MFO is viewed as needing to limit any non-investment services, to increase the investment fee profit.

As a given, an MFO is never as dedicated to an individual family and its needs as would be the family's own SFO. As families are faced with increased wealth, I predict that increasing numbers of wealthy families will prefer the model of an SFO.

## Prediction three: global forum-shopping for family office location

It used to be that members of a wealthy family lived within a fairly close range of each other. The location of the patriarch would determine the location of the family office.

Today a number of factors are changing that. An obvious factor is that families are themselves becoming more global. It is usually important to have a central location that is convenient to most members of the family.

When family members do not share an obvious single location, they will need to select a jurisdiction based on their own criteria. One family could not decide between Zürich and London; at the end they decided to use both jurisdictions: the general office administration will be in Zürich and the investment operation in London.

I proposed several years ago that Bermuda could become the family office jurisdiction for global families wanting a settled legal jurisdiction with an established financial infrastructure. As with choosing a jurisdiction for offshore trusts, tax treatment will be an important factor. Unlike choosing an offshore trust jurisdiction, however, the family would generally want its family office jurisdiction to have attractive attributes as a place where the family will meet.

If the family is global, there are increasing numbers of jurisdictions competing for the family office business. One of the latest is Dubai. In April 2006, the Dubai International Financial Centre (DIFC) created a family office. They announced that one of their objectives is to create the infrastructure for full wealth management services and, in late 2006, a conference was held in India that looked specifically at 'Family Office and the Dubai International Financial Centre.'

Singapore is also competing, and recently amended its trust law as part of its effort to become the leading investment jurisdiction.

We can expect a visible increase in jurisdictional competition. For Bermuda and other traditional jurisdictions, there are lessons to be learned from Dubai. In the family office world, the world is becoming flat.

## Prediction four: formation of cross-border alliances

One need of many SFOs is to be able to access information from and about their peers around the world. Due to the extreme privacy of family offices, attempts to create a public association meet with little success.

The Wharton Global Family Alliance is undertaking a global study of SFOs. They predict that family offices will increase their joint investment opportunities, on a global basis. For example, a family office in Country A might make a direct investment in a business owned by a family office in Country B.

While there is the occasional ad hoc relationship between a few family offices in different countries, I predict that this will become a major trend. As the interest in family offices increases globally, and as families continue to become more global, the need is already there for global alliances among family offices. It may even happen that an SFO will use a core service centre in a different jurisdiction for some of its services, or that SFOs will combine to share other core services in a variety of jurisdictions.

*Barbara R Hauser TEP is Director, Private Wealth Advisory Group Stanford Group (Suisse) AG*