Outsourcing Your Family Office Services

The next step in simplifying your increasingly complex life.

HARRIS myCFO™

When we hear the term "outsourcing" in the media nowadays, it often has to do with jobs being lost to lower cost producers overseas. The term "outsourcing" has picked up a bit of a negative connotation, but that doesn't have to be the case. If you have a family office or are thinking of creating one, there are challenges to consider that may convince you that outsourcing to a corporate family office services provider could be one of the better decisions you'll make. Here are some of the reasons why.

WHAT IS A FAMILY OFFICE?

While there is no standard definition, a family office can be described as an entity that supports the complex financial needs of a specific family group and acts as their "chief advisor." A family office integrates the execution of investment strategy, tax strategy, philanthropic strategy and personal services.

THE MYTH OF CONTROL

Surveys show that the number one reason why wealthy families create their own single family offices is so that they can feel in control of their family's financial support team. However, this sense of control could be misleading. It also comes with the responsibility of starting and managing a sophisticated new business.

Establishing the legal structure is just the first step, and then the real work starts. When a family takes on the management of its own family office, it will be adding a new set of responsibilities that subject it to increased government regulations and reporting, governance requirements and employment laws. It must also put in place the sophisticated technology that not only ensures the financial integrity of the business, but also tracks assets held in complex, diversified, taxable portfolios.

Often families that create their own family office find that after a period of time the family office may begin to control the family. Family members may feel obligated to use their family office and thereby lose the leverage that an independent client has in a free market environment.

OUTSOURCING PROFESSIONAL SERVICES

Most of us have been outsourcing for years, but we don't think of it as such. If you have a Will or have created a trust, you probably outsourced the drafting of those documents to a lawyer rather than spending the time to acquire the legal knowledge necessary to create the documents yourself. If you have your tax returns prepared by an accounting firm, you're really outsourcing that task. We all regularly outsource our health care, as well as many other professional services.

If you haven't recently reviewed the family office services offerings available in the marketplace, now is a great time to do so as the sophistication and resources of many corporate family offices has greatly improved. If you are looking for the best outcomes, if you are looking for the greatest resources available, you may need to go outside of a family-owned entity.

TYPES OF FAMILY OFFICES

Single Family Office (SFO)

- Set up and owned by an individual family

Multifamily Office (MFO)

- Serves the needs of more than one family with similar values and investment philosophies
- Combines resources for efficiency
- Creates a single point of contact for planning and implementation
- Shares family office functions

Corporate Family Office (CFO)

- Provides the complete range of family office services to multiple families, customized to each family's needs

SIX REASONS TO CONSIDER OUTSOURCING

1. Attracting and retaining the best talent

Family offices generally provide tax planning, investment advisory, expense management, estate and trust services, risk management, philanthropic advice and personal services to the family.

The top talent in each of these disciplines may prefer to work with a wide variety of client issues and network with peers who share their passion for their particular area of practice.

As a single family office, you must compete in the marketplace against large firms to attract and retain these people. This can be an expensive and time-consuming proposition. That is why many families choose to spread the costs of hiring top talent across a multifamily office structure.

2. The complexity of today's regulations

If a family office is organized as a registered investment advisory firm, it will be regulated by the Securities and Exchange Commission (SEC). If it is organized as a private trust company, it will be regulated by a banking commission. In either case, the family office becomes an operating business subject to all state and federal regulations.

Operating in a regulated environment can be a good thing even though it puts an added burden on the family office. First of all, there is the family's financial well being at stake. Secondly, a family office should be operated to professional standards. What should be of concern to families is the risk of not performing perfectly under the regulations. Improper management could result in negative publicity and possible legal action.

Moreover, once a single family office hires staff, it takes on all the responsibilities of being an employer. This means dealing with employment laws, compensation agreements, anti-discrimination laws — the list goes on. When a family creates its own family office, it also takes on the responsibility of managing the family's assets and coping with complex inter-family personal relationships.

3. Wearing too many hats

Appointing a family member to lead the family office can create additional challenges when family dynamics are factored in.

Imagine a family member who decides to be all things to all people: wealth creator, spouse, brother, sister, father, mother, grandparent — and then head of the family office? You can predict the potential conflicts that may arise. These conflicts are not avoided if they decide to appoint their son or daughter to head the office.

Wearing too many hats drastically raises the risk that at any given time, someone within the family will be upset. There are complex dynamics within wealthy families that can make it difficult even for outside professionals to perform well. All of these issues affect the professionals who work in a captive, single family office. The family office can become part of the family drama.

4. The technology to make smart decisions

Having the right technology to support the complex financial structures of wealthy families is another serious challenge facing a single family office. You just can't go out and buy software for Family Office or manage a complex, intergenerational investment portfolio on a simple spreadsheet.

Multigeneration affluent families often have 20 or more brokerage and investment relationships. These run the gamut from traditional brokerage accounts to hedge funds to real estate and other alternative investments.

With multiple investment relationships, it's important to know how each of your accounts is performing, both individually and relative to your overall plan. For example, are the investment strategies of different managers complementing one another? Can you customize your reporting to fit the different assets you hold? Is all of this investment information at your fingertips–with multiple accounts, entities and even intergenerational trusts pulled together in one place in a meaningful and timely fashion?

In order to make prudent decisions, you need to see the whole picture to have productive discussions with advisors as to which strategies to pursue. Not every single family office can afford to spend hundreds of thousands or even millions of dollars on leading-edge technology to provide this kind of advanced, aggregated reporting.

SIX REASONS TO CONSIDER OUTSOURCING *(continued)*

5. Depth of intellectual talent — bench strength

Financial wherewithal and technology resources are only part of the story. Outsourcing to a corporate family office that serves many similar families also increases the likelihood that there will be a number of experts to draw upon for any given issue that your family may have.

For example, suppose a family is interested in investing in a new venture in India or some other growth market. It is unlikely that the single family office will have people on board with the experience in the range of strategies that may be pursued. On the other hand, a corporate family office serving a large number of similar families, some of whom may be pursuing the same type of investment, is likely to have the intellectual talent pool to draw upon to advise the family.

6. The right checks and balances

The job of a large corporate family office services provider with multiple clients is to keep those clients informed and prospering. They cannot risk losing millions of dollars in client business from not serving their clients well. They are more likely, therefore, to have careful review processes in place — regulatory audits, financial audits, procedural audits, managerial risk assessments, etc. It makes life more challenging for their staff, but it provides a higher level of service for clients.

Along with these checks and balances, a well managed corporate multifamily office will have a transparent fee structure. It will refuse referral fees or commissions for recommending outside services to avoid conflicts of interest or it will credit these commissions to the client's account. All agreements will be clearly detailed in writing in a service agreement and it may offer a 30-day cancellation clause in the event the client is not pleased with the level of service received. On the other hand, it is almost impossible to terminate a single family office in just 30 days.

CONSIDER OUTSOURCING

One final thing to keep in mind is that outsourcing is not necessarily an all or nothing proposition. Many families choose to outsource key functions of their family office, such as investment management or tax planning and compliance, while keeping other functions in-house. This hybrid solution may be right for your family and is an option that any sophisticated corporate family office should offer.

For all these reasons, you may find that outsourcing your family office to a corporate multifamily office gives you even greater control over the services provided to your family. It will also give you more time to focus on other priorities in your life, such as reinvesting in society through philanthropy or creating a lasting legacy for your family.

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