EXCLUSIVE: What Keeps Family Offices Awake At Night?

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Outsourcing, succession planning and recruitment were hot topics during the third and final session of the Family Wealth Report Summit last month, as speakers discussed "what keeps family offices awake at night?"

Bruce Weatherill, chairman at ClearView Financial Media - publisher of *Family Wealth Report* - oversaw the panel, which featured: David Chong, chairman at Portcullis Group; Rebecca Meyer, managing director of client strategy at [tag|Pitcairn|]Pitcairn[/tag]; Carol Pepper, chief executive at Pepper International; Michael Woocher, head of client development at GenSpring Family Offices; and Michael Zeuner, managing partner at WE Family Offices.

The topic of outsourcing has gained momentum in the wealth management and family office space as firms look for cheaper ways to introduce new tools that will boost efficiencies and ultimately client satisfaction.

But the term "outsourcing" is broad and can relate to a range of functions. It has been claimed, for example, that the time-consuming and complex nature of financial reporting is likely to trigger a major exodus in family offices outsourcing this duty.

"Rather than say 'it's best to outsource this or that,' I think it is a very individual matter. I would say that, in general, consolidated reporting…is, for the most part, a good service to outsource because it's very expensive to reproduce internally – you do need some software and technology," said Pepper, whose firm [tag|Pepper International|]Pepper International[/tag] is a virtual family office and therefore "almost everything" is outsourced.

In an industry where client expectations and the regulatory landscape are constantly changing, Pepper chose her business model for its agility and ability to "plug in and plug out" of different services.

According to Zeuner of [tag|WE Family Offices|]WE Family Offices[/tag], family offices need to be able to "consider and evaluate different options," particularly given that that's what they do for clients daily. However, opting for an outsourced solution which isn't suitable or the "right fit" can be a big drain on resources.

"Sometimes it may be more expensive to use a consolidated reporting system than have two guys and an excel spreadsheet," Pepper said. "But it may give you more than what you have been getting previously."

She added: "The technical, heavy lifting of calculating returns being done on Excel isn't something that family members necessarily care about how it's done, they just want it done at a reasonable price."

Fees

While there are many “tangible” elements of service in a family office – like tax and investments - Meyer noted that much of the work is centered on succession issues and educating the next generation, for example. Indeed, the industry as a whole has sharpened its focus on the “softer” aspects of wealth management such as human and intellectual capital and governance.

“They are very important, high-value and time-consuming elements…you have to figure out how to charge for them and demonstrate the value you’re adding,” Meyer said. By contrast, the nature of fees in the asset management space is “very concrete,” as performance can be measured against a benchmark.

Zeuner said wealthy investors and families are not – by and large - used to paying explicit fees for advisory services, which is a “real challenge” for those in the family office and advisory space.

In particular, Chong, who works in Singapore at [tag|Portcullis Group|]Portcullis Group[/tag], has observed that wealthy families in Asia are “very averse to paying high fees.” The family office model is a “hard sell,” he said.

Conflicts of interest

Zeuner believes that the issue of conflicts of interest in wealth management is “very profound” and goes “way beyond” whether an advisor or firm is a fiduciary or not.

“It’s to do with your business model. Most investors just think of their wealth management provider as their advisor and they a put a broad label on it,” he said, noting that an advisor could sit within any one of three platforms.

They are: manufacturers, which create and sell financial products and are compensated with investment management fees paid by clients; distributors, which sell investment products and services, and source products from manufacturers; and fee-only, independent SEC-registered advisors, which have a legal obligation to put clients’ interests first and are independent from manufacturers or distributors.

“Investors have to be aware about which model they’re dealing with, what conflicts they should be aware of, and then manage those as best they can,” Zeuner said.

Many respondents to the 2013 *fi360-ThinkAdvisor Fiduciary Survey*, for example, said investors don’t have the information required to choose the type of advisor or sales relationship they would like or need, arguing that clarification regarding the roles of intermediaries - through titles, firm purpose and disclosure - is necessary.

Succession planning

Moving on to the subject of succession planning, Meyer believes one of the biggest challenges is that it requires talking about “unpleasant issues.” She also noted that the planning process is not static and should be considered over a timeframe spanning at least a decade.

Another issue is that advisors as a community are older. “We really need to think about…that process of helping the older generation find a way to stay connected while allowing younger advisors to move up the ladder and take on additional responsibilities,” she said.

Meanwhile, Zeuner is still educating families “to a very large extent” that issues around decision-making, governance and succession need to be tackled early. As most of his clients are entrepreneurs, he said it’s helpful to give them a tool they’re comfortable and familiar with to begin thinking about succession through an “enterprise lens.”

On a slightly different note, Pepper said she often hears the words “succession” and “next generation,” but believes “we need to start using the word mom.”

According to recent estimates from PricewaterhouseCoopers, some $41 trillion of wealth is currently moving down from the Baby Boomers to the millennium generation.

But going largely unnoticed is that this transfer of wealth is likely to go from husband to wife first, Pepper said. “Mom is going to be the decision-maker for a while…we need to think about bringing in the wives of these patriarchs and getting them ready to be the matriarch of the family.”

Family office recruitment

Having a well thought-out hiring strategy that takes into account the sourcing and training - as well as retention - of staff is essential in the family office space. After all, wealth management has long been perceived as a people’s business.

“Talent is the life blood of any family office, so it’s very important to make sure you have the right talent in your office,” said Woocher of [tag|GenSpring|]GenSpring[/tag].

In terms of the differences between working at single and multi-family offices, Woocher said there tends to be more roles and directions available at the latter due to there being a “broader set of daily activities.” It’s also often the case that MFOs typically have a more diverse client base, with greater flexibility in the work environment.

“Those are some of the decisions a candidate would evaluate when making a decision between an SFO and an MFO,” Woocher said.

While it may seem that there is larger scope for career progression at an MFO - primarily due to size - there are of course many reasons why the SFO sector is highly sought after.

For Zeuner, a candidate’s technical skills is the least important element when it comes to finding the right fit when recruiting. Assuming a candidate has all the necessary capabilities, he believes motivation is what truly counts.

“The thing that clears the air is compensation, which in an advisory-based business is typically going to be lower because it’s less lucrative than manufacturing or distributing,” he said.

And, of course, there is a "very big culture component," Meyer added. "The only time you get someone to stay a long time in a family office is when there is an incredible alignment of values and culture."

Speaking from experience working in Asia, Chong said the family office model is still developing there. There is also a lot of job-hopping in Asia, which he added families find disconcerting.

Summary

To conclude, Weatherill asked each of the panelists - as professionals in the family office sector - what keeps them awake at night.

"What keeps me awake is that investors don't…understand the business models or the conflicts, and about paying a fee for advice," said Zeuner.

Meyer believes the issue of succession planning should be keeping more families awake than it currently is, noting that there are more generations working together now than there ever have been.

Meanwhile, security and data protection is very much on Chong's mind, while Woocher emphasized "we're as good as the advisors we have working with our clients."

"What keeps me awake at night - sort of in a good way - is the world I see coming," Pepper said.

"I see a globalized world where families collaborate. Hopefully, that will lead to a better world for all of us because as families become less fearful about their money, for example, they become much more philanthropic," she said.