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EXCLUSIVE INTELLIGENCE FOR THE FAMILY OFFICE COMMUNITY

Title: FEATURE: A Look At The Virtual Family Office Model

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As the family office industry grows and becomes more mainstream - cropping up more frequently in the mass media, for example - the concept of the "virtual family office" model has simultaneously gained ground.

There is no single definition of a VFO because every family is unique in terms of their needs and circumstances. However, the basic idea is that VFOs allow various experts to collaborate and provide "holistic" wealth management through a single platform - just not at the same physical location.

While family offices are not a new concept, VFOs are "very new," said Richard Gayton, chief executive of the newly-launched Lakeside Virtual Family Office in California (see here).

A VFO is essentially a "scaled down," more heavily outsourced-focused single family office, Richard Wilson, chief executive and founder of [tag|Family Offices Group|]Family Offices Group[/tag], told *Family Wealth Report*.

The VFO model relies on outsourced providers to perform various functions spanning - but certainly not limited to - reporting, accounting, investment management and philanthropy. Other services often sought after by wealthy families include, for example, philanthropy advice and life management.

Although VFOs are generally perceived as being suited to families at the lower end of the wealth spectrum, they can also work very well for larger families, said Wilson. "It's just more natural if you're a smaller net-worth family who might not be able to afford a full-time person at $500,000 a year, plus performance pay."

Likewise, Carol Pepper of [tag|Pepper International|]Pepper International[/tag], which is a VFO, said VFOs are suited to clients with under $300 million who want to "quickly assemble a team without incurring a large in-house payroll and cost." Larger families looking to outsource certain aspects of their business can also benefit from the model, as well as families who don't want to run a small business, she said.

Advantages and disadvantages of the model

Pepper cited a number of advantages of the VFO model, including that the family office can have a much "leaner" group of internal staff.

"There are many functions which the family office may not need full-time help with, and the VFO model works well to fill these gaps," Pepper, whose firm was set up in 2001, said.

Additionally, as Wilson pointed out, keeping the overhead low may reduce the likelihood of conflict among more internationally-dispersed families, as the services will be of equal value to all rather weighted toward those living local to the main operation.

There are disadvantages of the VFO model, however, such as loss of privacy (as the affairs being outsourced are shared with another firm.)

“There still needs to be a ‘brain’ or coordinator function to direct all of the various experts and outsourced professionals,” Pepper said. “There may be less sense of a connected, cohesive team working for the family, since the team is a mix of in-house and outsourced experts.”

Pepper said outsourcing as a percentage of family office activities is growing because doing so is typically lower cost and improves the performance of the family office. In an industry where client expectations and the regulatory landscape are constantly changing, Pepper has previously said she chose her business model for its agility and ability to “plug in and plug out” of different services.

The misconception, however, is that outsourcing can be “radically less expensive than internal hires,” which may not be true.

Technicalities

In terms of structure, Wilson said VFOs are not typically managed online per se due to the fear of “putting too much online.”

He noted however that there are some software companies pushing their solutions in this space and are doing “relatively well.” That said, in most cases, families simply have a shared data sever.

On the issue of fees, meanwhile, each service is paid for separately, with a specific contract for each professional being hired.

“The fees vary depending on the services rendered,” Pepper said. However, there would typically be a central person who would be in charge of this, among other responsibilities, such as sourcing specialists.

Tax attorneys and trust and estate professionals are very familiar with working in this “ad-hoc” manner, Wilson noted – “it’s actually very simple to do and it’s lower cost.”

Growing trend

[tag|Agreus|]Agreus[/tag], the global family office and wealth management recruitment firm, said it has found that the VFO concept is becoming more prevalent among “starter” families.

“By this, we mean families that are classed as HNWI (typically up to $20 million) but do not have the necessary wealth to create and manage their own single family office under one roof,” the firm told this publication.

Historically, the only option for these “starter families” was to join a multi-family office that deals with lower net-worth clients. But the VFO model is “fast becoming recognized as the preferred platform for cost-effective wealth management and tax efficiency,” Agreus said.