Dynamism with dynasties

In an ever-changing and demanding environment, family office advisors play an important role in supporting their clients’ global enterprises. A recent *STEP Journal* roundtable, sponsored by Highvern, explored how advisors can provide first-rate guidance from inception to succession.

WORDS: BLATHAIN IQBAL

**PARTICIPANTS (L-R)**

**FRONT ROW**

+ JON CONDER TEP
  Partner, Macfarlanes

+ CATHERINE GRUM TEP
  Head of Family Office Services, KPMG

+ MARTIN HALL
  Managing Director, Highvern

+ PIERS MASTER TEP
  Partner, CRS

**BACK ROW**

+ DAWN GOODMAN TEP (CHAIR)
  Partner, Withers

+ NAOMI RIVE TEP
  Group Director and Head of Family Office, Highvern

+ ROSS COLLINS
  Associate Director, Highvern

+ NIC ARNOLD
  International Private Client Tax Director and Head of Luxury Asset Advisory, PwC

+ TANVI DAYDA
  Managing Partner, Saranac Partners
In March 2019, nine professional family advisors met at KPMG Number Twenty in London to discuss what the professional family advisor brings to the family office (FO) table. Attendees included lawyers, trust advisors, accountants, tax advisors, investment managers and trustees who provided an all-round view of what FOs and the families they serve are looking for now and what they might look for in the future.

THE OUTLOOK FOR FOs
FOs continue to generate a lot of interest in the industry, and this is not without good reason; many families are 'professionalising' their arrangements and installing more comprehensive governance frameworks.

Roundtable Chair Naomi Rive TEP, Group Director and Head of Family Office at Highvern, began the discussion by asking what issues and challenges single-family offices are facing now and expecting to encounter over the next five years that they may require professional advisors to support them with.

Catherine Grum TEP, Head of Family Office Services at KPMG, spoke of one issue that is particularly prevalent now for both newly and well-established FOs, and that is the longevity of the older generation. She has seen an increase in instances where younger generations are eager to get involved much sooner than was the case with previous generations, and this overlap can sometimes lead to conflict. ‘For the senior generation to make way for the younger, the idea of doing nothing can feel alien to them.’

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Identifying a new role for them within the FO can help allay that feeling, while giving space for the new generation to flourish.’

Rive agreed that ‘future proofing’ is clearly a real issue for many FOs, but with multiple generations within one family enterprise now more common, she asked the table who is triggering that exercise and engaging external advisors. Grum responded that the first generation are generally happy with the status quo; it is the second generation, who have been educated with the idea of eventually joining the FO, who start the conversation. ‘Many are very entrepreneurial, and want to know how the FO is set up, what their role will be and how they can gain access to information. You need to involve both generations at that stage, as nothing decided in isolation can be resolved.’

Moving on to consider other challenges on the horizon, Jon Conder TEP, Partner at Macfarlanes, is seeing different challenges that advisors can help with, and these include access to private equity cooperative investment when FOs are not large enough to access this themselves.

Other participants recognised this as a growing trend. On the other side of the investment coin, Conder highlighted a longer-term concern around regulation. ‘Many larger FOs that pool funds for a single family are increasingly looking to take advantage of sophisticated investment products and behaving like institutional investors. These FOs are investing into regulated markets, but are themselves unregulated. With more families putting control of their money under their own roof, regulators are certain to take a closer look at these FOs in the future, as they have the firepower to destabilise the financial services industry.’

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— Ross Collins

and its structures, resulting in the need to go back to the beginning and work out what they are trying to achieve. ‘One of the problems that we’re continuing to see is that the older generation is not willing to look forward, in terms of a modern-day succession to the next generation, combined with not appreciating the pace of change happening all around them.’

Piers Master TEP, Partner at CRS, from his experience working with clients from the Middle East, added that, because the first generation creates the wealth, they see it as ‘their’ money, with the right to do whatever they wish with it. ‘Therefore, they can be incredibly resistant to allowing the inherited generation to take over. It is part of our role to try and reassure them that others do this, and they can do it too.’

DELIVERING COMPREHENSIVE ADVICE

While encouraging FOs to engage all generations in the business is important, family enterprises still need to know when to outsource. Conder felt that every FO, no matter how well resourced, should outsource selectively for external resources: ‘No one is a master of everything. The wise family is adaptable and will use external resources when they’ve made a collective decision to do that.’ Conder also commented that ‘it is important to bear in mind that objectives change over time as the next generation comes on board, and flexibility is key’. Recognising that an FO may need to adapt as it moves through the generations is another way advisors apply their expertise.

Ross Collins, Associate Director at Highvern, pointed out that ‘knowing where we can add value and encouraging good communication are key to successfully supporting the families we work with. As trustees, we are tax and legal aware, but we also know when to bring into those professionals who are really specialist in a particular area. I think that’s where we come into our own, we have an extensive network of intermediary advisors that we work with and use those contacts to get the family the best advice from professionals we know who will understand their needs’. Grenn agreed that recognising where advisors can connect families to those more specialised in a particular area is paramount to providing a good service to clients. An example is in relation to environmental, social and governance (ESG), which is still a relatively young discipline and may require more specialist advice.

The value of communicating with clients and constantly re-evaluating strategy was a common thread throughout the discussion. Checking in regularly to see what is and isn’t working allows a review of those processes, and can help rediscover the core objectives, brushing away unnecessary actions and serving clients’ needs more closely.

INVESTING IN THE FUTURE

Martin Hall, Managing Director at Highvern, described a number of progressive technology trends that move at such pace that it must feel somewhat like the ‘wild west’ for some clients. Some FOs are more traditional in their thinking and, whether through monitoring, modelling or just security risk, can not only fail behind, but also potentially increase risk for their assets. It is often up to the advisor to demonstrate to clients how much new technology can help them.

Hall explained how solutions already in use among advisory firms, such as...
FEATURES
ROUND TABLE

consolidated reporting, can be of benefit to
FOs and how proper use of technology's
capability can be some of the best money
spent, whether that is through enhancing
information flows, mitigating costs,
 improving security or simplifying
processes. 'An exciting recent arrival are
"bots" that can cost as little as USD3,000
and which can be programmed to analyse,
report or eliminate the more repetitive, but
no less essential, tasks within their offices,
and even for us advisors. I think these will
change the whole way this industry looks
and feels over the next ten years.'

A good trusted advisor needs
humility. If the trusted advisor tries
to do too much, their core advice starts
to devalue'
- Piers Master

Hall referenced estimates of one-third
of FOs having already been victims of
cyberattacks; it is clear that not having
a long-term IT investment strategy
increases risk. Many around the table
shared stories of how their firms are
investing in IT and creating client/advisor
portals and data rooms for their clients
to show them how they can share
information and take advantage of
developments in technology. Hall also
drew attention to the fact that, as the
younger generations are typically more
familiar with technology, it can be used
as a great enabler, especially with the
succession generations. Davda agreed:
'Technology is an enabler to be used
in facilitating communication, and
enhancing transparency, documentation
and decision-making.'

'KEY-MAN' RISK MANAGEMENT
Rive pointed out that having one 'go-to
person' might not be the best model for
the family.'We all aspire to be the trusted
advisor to the family, but does this create a

advisor, constantly, this signals that the
balance is not quite right. Arnold drew
attention to bottlenecks that can occur
within an FO. 'You can have one-man-
band FOs – a key person in whose trust
the principal has placed all their private, and
sometimes business, dealings – but in an
ever-increasing world of regulation and
reporting there can be material pressure
on these smaller FOs, not to mention
key-man risk. Although we are seeing
increasingly proactive larger FOs seeking
to develop global tax strategies to support
the international footprint of their
families, for those smaller, reactive FOs it
is often up to the advisor to be proactive
and drive change.'

Arnold also stressed the need for a
balance between in-house and outside
advice: 'Even the most learned in-house
specialist on luxury assets will need
external advice for tax issues arising
across the globe. Sooner or later, reaching
out is a must to reduce risk.'

Master concurred: 'A good trusted
advisor needs humility. If the trusted
advisor tries to do too much, their core
advice starts to devalue, and they may
be trying to bolster their credentials by
freezing out other members of the family
advisory circle. It always ends in tears.'

'The consensus around the table was
that a virtual office comprising a variety
of trusted advisors is a better model than
a single trusted advisor. The role of the
professional advisor in the future is bound
to change, and it is in the best interests
of the conscientious advisor to adapt
their approach going forwards, be aware
of trends and ensure they can continue
to help FOs serve the best interests
of their families.'