SMART PEOPLE
SUPERB TECHNOLOGY

# Five operational challenges facing the modern family office

WHITEPAPER

Advancing technology, cybersecurity threats, increased financial complexity, scaling staff resources and generational change make running a family office today particularly challenging. This paper explores how family offices can master these challenges and deliver high-quality service to family members.

The rapid growth of wealth worldwide has been accompanied by a proliferation of family offices, described by Bloomberg as "the vehicle of choice to protect and preserve assets for future generations." Precise numbers are hard to come by, given that privacy and confidentiality are among the chief reasons for forming a family office, but EY estimates that at least 10,000 single-family offices exist around the world, half of them formed in the last 15 years.

Much of the research on family offices has been devoted to the evolution of investment strategies and structures. Less attention has been paid to the increased operational complexity family offices face. While wealth management expertise has been their traditional focus, family offices must also keep pace with increasingly complex and ever-changing tax, regulatory and accounting requirements. Another major driver of complexity is simply the growth of the families themselves with each succeeding generation, creating a larger clientele with a wide diversity of expectations and demands.

Family office executives are aware they need to modernize their operations. As Bloomberg noted in its 2017 Future of Family Offices report, "Family offices are increasingly reorganizing to make their operations more efficient, keeping running costs low while continuing to focus on wealth management." The question is how to achieve greater efficiency and control internal costs while delivering a level of service family members expect and demand. To do so, family offices must reconcile five key operational challenges:

## 1. Increased accounting and reporting complexity

US family office's portfolios tend to be far more diversified than those of a typical wealth or asset manager. Family wealth owners are always looking to outperform today's markets and sustain the growth of their wealth over succeeding generations. Along with a variety of traditional equity and fixed-income instruments, offices are likely to invest in global markets, hedge funds, private equity and other partnership vehicles. Direct investments in businesses and ventures are increasingly popular. Assets also include real estate holdings and hard-to-value collectibles ranging from art to automobiles. Meanwhile, managers must always maintain sufficient liquidity to meet sudden and large demands for cash from family members for big-ticket purchases.

Moreover, family offices need to account for a profusion of investment entities, which increase in number as the family grows. According to the Family Office Exchange (FOX) 2017 survey, the growing number of separate entities and the complexity of services they entail are the chief drivers of a family office's internal costs.

Add to this the variety of tax and regulatory regimes around the world with which family wealth owners must comply, and you have an extremely complex environment for accounting and reporting. Unfortunately, many offices are stuck in the spreadsheet-and-calculator mode or have built proprietary systems that cannot easily adapt to the proliferation of investment types or entities. The good news is that technology exists today that can handle this level of complexity and deliver a holistic picture of each client's wealth. Acquiring, installing and maintaining it, however, is an expensive proposition.

The rapid growth of wealth worldwide has been accompanied by a proliferation of family offices, described by Bloomberg as "the vehicle of choice to protect and preserve assets for future generations."

## 2. Data security

Wealth owners place a premium on personal privacy. Family offices have a responsibility to protect not only their clients' assets, but also their confidential information. This is a major challenge in our increasingly interconnected world, in which virtually every endpoint is a potential target for cyber criminals. In the 2016 UBS/Campden Wealth Global Family Office Report, 15% of family offices surveyed reported that they had experienced a cyber-security breach.

Considering the amount of wealth family offices control, they are increasingly likely to be targets of hackers and thieves. While senior family members may have serious reservations about the internet or the cloud, it is practically impossible to exchange data or execute transactions without them these days. The challenge for family offices is compounded by a threat landscape that is constantly evolving. Are your security controls adequate to protect clients not only from existing threats, but from increasingly sophisticated and nefarious emerging schemes?

## 3. Generational change

In the FOX 2017 survey of 103 family offices, the average age of participating offices was 17 years, but they ranged in age to as old as 88 years. As offices age, the family wealth cascades over increasingly large and diverse generations. Besides creating more entities and increased accounting complexity, family office executives may find themselves caught between differing generational attitudes and expectations. The younger generations may be far removed from the founding generation that created the family wealth in the first place. Younger family members likely have very different ideas about wealth and money. Many are interested in steering their wealth to good works through "impact" and sustainable investment opportunities.

They certainly have different ideas about how they receive and consume information. Where older generations may prefer periodic paper or at most PDF reports, the younger generation has grown up accustomed to having real-time information and interactive capabilities at its fingertips on demand via the internet. Family offices must be equipped to satisfy this range of expectations and demands, with the flexibility to deliver reporting through the preferred channel of each family member.

This is especially important for younger family members who may be inclined to question the direction of the family office or leave the fold entirely and seek wealth management counsel elsewhere. To retain these clients and their assets, the office must be able to demonstrate that it is technologically up to date and can readily deliver the information younger members want in the way they want to receive it.

Given the pace at which technology advances, offices must constantly review their systems to ensure they are not at risk of falling behind or outgrowing their capacity.

## 4. Keeping pace with technology

For each of the challenges cited thus far, technology can play a key role in implementing a solution. However, technology decisions present their own set of challenges. A comprehensive portfolio management, accounting and reporting platform represents a substantial investment for a family – even more so if you add on solutions for trading, analytics, risk management, compliance and other functions in the investment process.

Given the pace at which technology advances, offices must constantly review their systems to ensure they are not at risk of falling behind or outgrowing their capacity. The variety of vendors and their offerings simply adds another layer of confusion. For all these reasons, family offices are increasingly asking themselves if it makes sense to own and maintain their own technology infrastructure, or if they should find an outsourcing partner to take on that burden so they can focus on the family financial objectives.

## 5. Scaling staff resources

A corollary to the technology question, family offices need to determine the different types of skills and expertise they need within their own walls. Pressure to keep headcount low compels offices to focus on their core mission of wealth management. Yet running a complex wealth environment frequently calls for specialized tax, accounting, compliance, systems and operational expertise, as well as in-depth knowledge of specific investment instruments and markets. In addition to their internal resources, family offices must have access to trusted professionals whose knowledge and capabilities complement and augment the strengths of the in-house team.

## The outsourcing option: What to look for

In the face of these challenges, it is not surprising that many family offices are choosing to outsource some or all of their core portfolio accounting and reporting technology, as well as their middle- and back-office operational activity. On the technology side, outsourcing can produce cost savings compared to traditional software licensing, implementation, training, maintenance and upgrading, while also reducing or eliminating the need for in-house IT staff. On the operations side, outsourcing can deliver significant efficiency gains, enabling you to accomplish more in less time without the need for additional back-office staff or specialized expertise in operational functions.

Not all outsourcing providers are the same, however. When evaluating providers, it's important to look beyond simply the services they offer and assess whether they have the resources and industry expertise to serve as an extension of your office, a true partner. Key characteristics to look for include:

### State-of-the-art technology

The systems and solutions the provider operates on your behalf should be of industry-leading caliber and reflect an in-depth understanding of your business.

### Commitment to continual innovation

A key reason for outsourcing is to relieve your office of the responsibility to keep current with technology – which assumes that your outsourcing provider can take on that responsibility. Does the provider have a track record of continual reinvestment in solution enhancements and improvements?

### Dedicated service and support

Be sure the provider offers 24x7 support with people who are thoroughly trained on the inner workings of the solutions you depend on.

### Comprehensive accounting and reporting

Can the provider handle all your calculations and information requirements, including tax, partnership allocations and performance, and deliver a complete, accurate picture of each family member's interrelated wealth?

### Flexible report delivery options

The provider should have both print and web-portal reporting capabilities to satisfy the reporting requirements of different family generations.

### Security

The provider should be able to demonstrate audited security controls that comply with the highest industry standards for protecting data at rest and in transit.

### Comprehensive operational services

Does the provider have the breadth of capabilities to take on any or all of your operational needs? Ideally you want to be able to outsource to a single provider.

### Customizable co-sourcing options

You may have reasons for wanting to control certain operational processes in-house. The provider should have a flexible, client-focused service model that can adapt easily to your preferences.

### Complementary expertise

Look for a provider that can augment your staff resources with experts in accounting, tax and compliance issues as well as operational best practices.

The good news for family office executives is they do not have to go it alone, and build out their operational infrastructures to satisfy the increasingly complex demands of multi-generational family wealth. The key is finding an outsourcing provider with the breadth of capabilities, depth of expertise and proven infrastructure to serve as your partner in delivering outstanding service to family clients.

## About SS&C Family Office

SS&C's Family Office Private Capital Group offers fully outsourced technology and operations as well as co-sourcing solutions for single and multi-family offices, endowments and foundations. Working in close collaboration with your office, our team delivers a comprehensive suite of technology-powered services, including portfolio accounting and reporting, full transaction support, partnership accounting, and tax accounting and reporting. Hundreds of family offices rely on our combination of technology and expertise to increase efficiency, ensure accuracy, reduce operating costs, and meet the diverse information needs of family members. SS&C offers a one-stop solution that reduces the cost, risk and time to integrate disparate systems. For more information, email **solution@sscinc.com**.