Blurred lines: multifamily offices and private banks

The definition of a family office is becoming ever more difficult to pin down. As multi family offices expand and private banks progressively enter the bespoke, family office services market, the lines are blurring between offerings from these different financial institutions. **John Schaffer** speaks to industry experts to get a clear picture

The traditional perception of a family office centres on a private office for a family of significant wealth, with a team of employees catering to the specific and often complex needs of an ultra wealthy family.

Conventionally, a family office provides structures around all areas of family wealth including portfolio management, tax, succession planning and philanthropy.

A report published by global wealth consultancy WealthInsight, in 2013 estimated the number of family offices globally at over 5,000, and accounting for $2.5trn worth of global HNW wealth. These numbers have grown strongly since.

In the 2013 report, WealthInsight broke the industry down into 2,700 single family offices (SFO), which work exclusively for one family and its members, and 2,300 multi-family offices (MFO). In some cases, MFOs can service hundreds or even thousands of families.

Typically, those ultra high net worth individuals (UHNWI) in $30m and above range begin to access MFOs, while those with $100m or above prefer SFOs.

However, many of the large international private banks have entered into the family office space, some even setting up separate subsidiaries that operate as family offices.

As the pool of choices expands for the UHNWIs, David Wilson, head of the strategic analysis group at Capgemini, says that the lines are blurring between the service offerings from MFOs, a private bank and a private bank that holds itself up to having a family office.

"The fundamental choice that faces a wealthy family is between the control, privacy and customisation that you get with a SFO or a two or three family MFO, moving towards the cost effectiveness of spreading investments and operational costs across a larger asset base as you move into the MFO space. As they get larger, they do indeed start to resemble a private bank in many ways," he says.

The US remains the centre of the family office universe. MFOs like Bessemer Trust and Rockefeller Financial make many private banks' propositions look like boutique offerings. US-based family offices, in fact, account for more than half of the top 20 family offices globally.

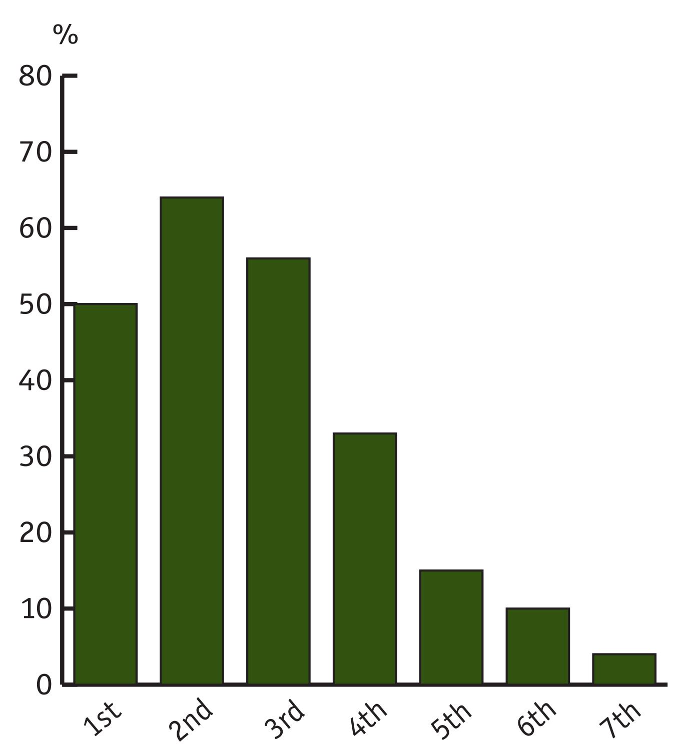
Northern Trust's family office proposition is aimed firmly at the ultra wealthy client segment. The private bank services 400 families internationally, each with a net worth of $200m or greater.

Dave Fox, head of the global family office group at Northern Trust, tells *PBI* how the bank differentiates its family office proposition:

"Northern Trust's business model differs from many large international financial services firms in that we are not a retail bank, nor are we in the investment banking and proprietary trading business."

Fox adds that the number of clients that an advisor will handle can vary greatly, depending on the innate complexity of each individual client. He says that it ranges from 4 – 12 clients per advisor but that, due to the scale of the wealth, clients are not involved in "single advisor relationships" and are supported by a team of experts in areas such as fiduciary, investments, banking and philanthropy.

GENERATION CURRENTLY SERVICED BY FAMILY OFFICE, IN %



Source: Campden Wealth and UBS, The Global Family Office Report 2014

Institutional Wealth

Where the wealth of individuals reaches such vast levels, their requirements can be akin to needs of an investment banking client. The scale and access factors can often become integral differentiators.

Fox, Northern Trust, tells *PBI* that family office clients, who require institutional expertise, have requirements that are "well beyond typical wealth management services".

"They are investing around the globe, often heavily in alternative assets, which require access to customised solutions as well as the technology platform and operational infrastructure to support this complexity."

Eileen Foley, managing director at BNY Mellon, further describes this demographic.

"Think about family offices servicing the "insta-vidual". These individuals' assets are generally the size of many institutional clients', and yet because they are ultimately individuals, they need all the wealth management capabilities, the inter-generational transfer

AVERAGE FAMILY OFFICE ASSETS UNDER MANAGEMENT

Region	Average AuM
Global	$890m
Europe	$890m
North America	$1180m
Asia Pacific	$480m

Source: Campden Wealth and UBS, The Global Family Office Report 2014

and the understanding of taxes," she says.

The independent advisory role

However, Michael Zeuner, managing partner at We Family Offices, tells *PBI* that many of the family office subsidiaries of private banks are not "true family offices".

He says that family offices should act in a purely advisory role and that they must serve wealthy families with "no other agenda".

"Basically, the family office is a buying role and a traditional financial institution is a selling role. Families need both but it's important to distinguish between the two."

We Family Offices adopts the advisory model. The Miami-headquartered multi family office advises 70 wealthy families, and the typical client base has wealth of over $100m.

Zeuner says that a family office is positioned to organise the whole suite of services that a wealthy family would need but that independence is the key differentiator from other financial service providers.

"The role of a family office is to help a family buy products and services, it is not to sell them products and services, and the compensation that family offices receive is for their advice in assembling, managing, negotiating and putting together all the different providers."

Zeuner says that the current trend for private banks to brand their services as family offices presents a conflict of interest, and is "disingenuous" to clients.

"When a private bank positions itself as a family office – I think its disingenuous to the client, because it's impossible given their business system.

"Their business system is that they make money from selling products and services. They don't charge an explicit fee for advice that's independent, objective and disconnected from the product, and so I think it's a marketing label in most cases."

However, Zeuner highlights that all of We Family Offices' clients work with private banks, and often numerous different ones, in order to diversify. He asserts that We Family Offices' place in the equation is to "buy correctly from the private banks".

Although private banks field the reputation of pushing products towards customers, Jack Ginter, senior managing director at Abbot Downing, the family office division of Wells Fargo, tells *PBI* that the company's proposition is entirely service oriented.

"Never will a client come into Abbot Downing and feel like they are being sold products, or feel like they're being sold something that's not in their best interests."

Abbot Downing concentrates its offering specifically towards the demands of multi-generational families. The Abbot Downing brand has recently celebrated its third year anniversary.

Ginter says that the Abbot Downing family office competes with the independent MFOs by offering a "customised and personalised service".

Abbot Downing's senior relationship advisors work with up to 15 families. Although this is a slightly greater number than Northern Trust's offering, the entry level for wealthy families is also lower. Firmly placed in the UHNWI category, families require $50m of liquid wealth or $100m of net worth to receive Abbot Downing's services.

Ginter adds that the fiduciary element plays a large part in the significance of Abbot Downing's service model which he sees as one of the differentiators to the average private banking service, where the family office provides personalised relationships with clients.

The trust factor

The financial crisis created an environment where many wealthy individuals lost their trust in big banks. The appeal of independent MFOs became apparent as the banks went through a litany of legal proceedings and controversies.

However Wilson, Capgemini, suggests that the impression of the wealth management sector overall has improved markedly in recent years and that the wealthy are less dubious of their interactions with banks:

"A service that is independent of a normal bank or financial services institution may still have some attraction, but the differentiating factor is far less than what it was in 2009/10 in the peak of the financial crisis," he says

Although the financial crisis presented a challenging environment, it has not been all doom and gloom for the family offices that are associated with private banks. Ginter suggests that Abbot Downing has performed well in the years following the financial crisis and there has been no faltering client base.

"Our experience is that clients are actively moving to us and frankly, seeking us out."

Phillip Higson, vice chairman of the multi family office group at UBS, suggests that the larger institutions that benefit from the "too big to fail" aspect, are, in fact, still favourable for the ultra high net worth individuals (UHNWIs) as these institutions can survive in the midst of a crisis.

"I think the trust has moved back in favour of the bigger players." Higson tells *PBI*.

A collaborative approach

Some private banks offer services to independent family offices and multi family offices with a collaborative approach rather than offering a distinct family office service themselves.

This is the case with BNY Mellon and Swiss banking giant UBS. Both banks provide services to independent family offices as well as individuals who are involved with family offices.

Banks can add to family offices by offering the banking services that wealthy individuals will no doubt require, as well as access to wealth management services that can allow the smaller institutions to compete on a global scale.

The relationships are often mutually beneficial as the private banks can benefit from the high-touch nature of the relationships that family offices have developed with a handful of families.

Higson, UBS, says: "We're not actually a competitor to a family office. We're a catalyst to make a family office more effective.

"Mostly we are providing the picks and shovels with the market access, technology systems and custody processes for the family office to do all the work themselves.

"When a multi family office needs borrowing services, UBS is there to provide a balance sheet."

Higson adds that a smaller institution will not have capabilities such as lending against a client's whole portfolio or will not have subsidiaries in international locations to make executions in local market bonds or equities. ■