

Family Offices - An Attempt to Grow Together

by *Rajmohan Krishnan, 3rd May, 2017*

■ Family Office

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The Family Office revolves around the welfare of the family. This statement is at once ridiculously obvious and deeper than it appears at first glance.

The need for a Family Office becomes apparent around the time a person's wealth experiences breakneck growth. At this juncture, even the most committed UHNI feels overwhelmed by the task of managing their wealth. So they seek expert help. A partner who can execute their specific plans to safeguard, preserve and invest wealth on their behalf and on behalf of their loved ones. Enter the Family Office (FO).

From the very beginning, the FO takes into account the needs of every individual of the UHNI's family. The spouse of the UHNI is usually the second person to be co-opted into discussions regarding the family's financial plans. Soon after that, the needs of the family's previous and succeeding generations are profiled. Many of the UHNI families also involve a trusted counsel to bring more objectivity and depth to the discussions.

The family-centricity of the FO model is reflected in four ways:

1. The intergenerational approach

FOs focus on the next quarter century, not the next quarter. Therefore, instead of obsessing over ROI, the FO takes a strong stance against wealth depletion. In many families, wealth gets squandered by the second or the third generation. This will not happen in the FO's watch.

In fact, the FO creates a model wherein every member of the family gets to use profits generated by the corpus while the corpus itself remains untouched. Different family members might have unique lifestyle needs and spending patterns. Irrespective of which phase of life the family member is in, they will have enough money for prudent spending, but not enough to introduce a streak of recklessness in their thinking.

Of course, an intergenerational approach must necessarily integrate those members who are entering the family via marriage. As soon as possible, these new members must be welcomed into the family's inner circle of wealth. Many families

invite them into the circle by putting them in charge of all or some of their philanthropic ventures. This gives them the opportunity to get comfortable managing large sums of money. Over time, they learn the financial skills required while also internalizing the family's culture. At that point, they are given more responsibilities.

2. Reputation over returns

No investment, however lucrative, is more important than the reputation of the family or any of its members. UHNI families can withstand some financial losses. But recovering from a loss in stature is a different story altogether. Hence every law will be complied with and every investment opportunity will be studied with a fine tooth comb.

3. Multiple assets for multiple personalities

The wealth portfolio of UHNIs extends far beyond off-the-shelf financial products. In fact, many UHNIs find deep emotional or spiritual meaning in the ownership of certain wealth totems. That's why they collect priceless art and artefacts. The FO will ensure that these items are insured, maintained in their pristine conditions by hired experts and restored if damaged. Then comes the bigger problem: will the next generation be as passionate about these assets? If not, what must become of them? Should they be donated to a noble cause, gifted to a worthy connoisseur or converted into liquid cash?

The next generation might feel a similar disconnect with other asset classes belonging to the family. For instance, the parents' holiday home located in, say, their childhood setting. In such cases, the family either decides not to acquire the asset in the first place or agrees upon an exit plan.

4. Values choices

The FO model acknowledges that a family's wealth cannot be dissociated from its shared moral outlook. Some families take pride in being environment-friendly while others might identify themselves as staunch vegetarians/vegans. The FO does due diligence to ensure that the family's investments reflect this ethos.

The same goes for the family's philanthropic ventures. The family will have a shared corpus to cater to grand long-term social causes while giving each family member the flexibility to work on their own favourite causes using smaller corpuses.

To summarize

While the word "office" in the term "Family Office" suggests professionalism and expertise, the word "family" brings specificity and soul to the model. The cookie cutter approach does not work in the FO model because no two UHNI families are alike. Therefore, our job begins by studying the family album and understanding the origin of each smile therein.