

The International Family Offices Journal

Editor: Nicola Saccardo

Editorial

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Iraj Ispahani and Charlie Bain

Perfect protectors

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Selection from STEP News Digests

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Welcome to the 30th issue of The International Family Offices Journal

Nicola Saccardo

Welcome to the 30th issue of *The International Family Offices Journal* – a milestone!

I am delighted to introduce another fascinating issue covering topics relevant to family offices and those they serve. As usual, there is a real breadth of articles included in this issue, which shows the great work being done in this area by practitioners and family office professionals.

Technology and the digital world continue as a recurring theme in this issue, echoing the focus for many family offices at the present time. The Journal opens with an edited transcript of a recent webinar conversation between Iraj Isphahani and Charlie Bain regarding all things social media as they relate to family offices and ultra-high-net-worth families. The discussion offers helpful insight into how to manage the challenges and advantages of social media. Charmaine Tang focuses on the significance of developing technology and encourages family offices to embrace the best of technology and how it can further their endeavours. This includes investment reporting, accounting and administrative matters. In this context she considers the future of the family office and two case studies provide food for thought.

Turning to trusts, Mark Hubbard examines the role of the trust protectors (as opposed to trustees) and considers what makes a perfect protector, looking at the powers given, and the person or persons chosen for this particular role. On the topic of perfection, Alexandra Morris Robson explores diamonds as an asset class in a great introduction to what makes a good diamond and what does not!

Engagement of and with the next generation is often a key consideration for family offices (and another regular theme in the Journal). Rhian-Anwen Hamill discusses the role of a family business coach as part of a successful succession plan. This includes how family business coaches can work with not only the next generation (the successors) but also principals who have been engaged with the family business for many years. More widely, Britta Pfister draws on her experience working with

multiple single-family offices to explore structures that work and strategies she has seen adopted to tackle key issues, including engagement with the next generation, engaging the digital and choosing professional teams to support the family office and the family itself.

While family offices and their advisers are there to support individual family members in the good times, they are often most important in times of uncertainty and change. This includes separation and divorce. Miranda Fisher of Charles Russell Speechlys LLP explores divorces in the international context as well as the use of nuptial agreements in order to provide certainty in the event of a divorce. Looking after vulnerable family members brings its own unique challenges for family offices. How to understand and manage these circumstances is the subject of the fascinating article by Susan L Bartels and Scott S Small. Their article looks at this matter from a primarily US perspective with lots of lessons for those operating in other jurisdictions as well.

Ultimate Beneficial Ownership (UBO) is certainly a buzz phrase globally and a key focus of AML regulation throughout the world. Paolo Panico explores a 2022 decision in the European Court of Justice regarding public accessibility of UBO registers under the 5th Anti-Money Laundering Directive in the European Union. His analysis will be of interest to those whose families and structures operate in the European Union but also provides a useful insight into wider trends in this area. Regulatory matters are also the focus of Christian von Oertzen and Michal Kühn in their article regarding the Common Reporting Standards in the context of the German tax authority.

Kevin Lee, Suzanne Johnston, Ross Davidson and Yi Lee explore another jurisdictional focus, looking at family offices in Asia, with a comparison of Hong Kong and Singapore covering an excellent introduction into the relevant considerations for each jurisdiction.

The Journal finishes with our usual round up of relevant highlights from the STEP News Digest.

Wishing you all the best for the New Year!

Multi-generational families and their family offices – is there unity in diversity?

Britta Pfister

Given the uniqueness of each single-family office (SFO),¹ reflective of the wealth owner and family it represents and serves, how do the family know they are on the right track, covering an appropriate set and level of services, adopting best-in-class processes, with a suitable team of people? And whether they are putting emphasis where it is warranted given our current fast-paced, ever-changing environment?

I have worked with many families and their family offices at different stages of development and professionalisation over the years. In this article I share general thoughts on an overarching structure that works, as well as strategies families are successfully adopting to tackle some current key issues, in the spirit of inspiration and validation.²

Aligning the WHY with the WHAT, the HOW and the with WHOM

In my experience, a clear structure is key to creating the backdrop and yardstick for orientation and development. By way of general definition, a family office is best described as a team of people who provide a certain set of services for a family, in view of addressing the family's needs to fulfil their overall purpose/ambition/goal/objective/mission,³ their general WHY. This WHY may represent a large ambition (eg, maintaining family harmony and keeping the family together far into the future) or a more modest one (eg, protecting wealth and creating a level of financial security for family members across current generations).⁴ Crucial, for starters, is that the respective WHY is clearly thought through and formulated and that there is buy-in by the concerned family members. This way, it can play its role properly and serve as the North Star for:

- any WHAT, ie the scope of services provided;⁵
- the HOW, ie its processes including oversight mechanisms and governance; and
- the with WHOM, ie its team/people including roles, responsibilities and job descriptions.

The aspiration is that, like a well-designed tea bag, the WHY should infuse throughout every family office function⁶ and find its expression in all elements of the above via measurable goals for the office and its team.

At the time of creating the structure⁷ (ie, in

connection with a liquidity event, need or desire to diversify, sale of business, etc) and rather than reinventing the wheel, it makes sense to turn to other families and use their example for inspiration and guidance. Key here is the identification of like-minded peers, eg a family of similar size, at a comparable stage of involved generations, with a business in a comparable industry, with a similar international outlook or with goals and ambitions that align.

Once the structure has existed for some time, families will want to revisit and reaffirm or amend the WHY with a certain regularity. A family office, just as the family it serves, is not static, but in constant evolution, requiring revalidation and/or adaption. This is crucial when there is a generational change on the horizon, but as a rule of thumb, revisiting to reconfirm or amend the WHY every five years seems to be a sensible time frame. Again, bringing in experiences of families who are further in their journey, for validation and inspiration, is of great benefit.

Turning to services, processes and the family office team, examples of what proactive families are currently focusing on are set out in the following.

Co-creating with the rising (next) generation (exemplary WHAT)

The services family offices provide fall into one or, more commonly, various of the following categories: finance, investments, lifestyle, risk management, philanthropy, (rising) next generation and governance.⁸ As set out above, aligning these services with the overall WHY is key to a coherent delivery of a family office's value proposition. Services provided and their level of depth will therefore inevitably vary. Having said that, the engagement of the family office with the rising (next) generation (and how different generations interact with each other) is not only a common topic faced by most family offices, but is also of key importance when it comes to informing and preparing the future shape of a family office.

Currently, there is an increasing divide in terms of background, education and outlook on the future between Generation Z (and younger) on the one hand and their parents and grandparents on the other.⁹ This divide may play out in many ways and areas but tends

to be most pronounced in view of ESG, sustainability (with climate change being of particular concern) and the related attitude towards these areas and activities provided by the family office. This can lead to miscommunication and some degree of frustration for the family members. Best practice here for both families and their family office teams include a keen awareness of the situation, of how it plays out in their respective family and a willingness to address matters head-on. I believe that emphasis needs to be put on age-appropriate engagement and collaboration with the rising (next) generation. Naturally, there is an element of learning for the younger family members on what the family office is and what it stands for, so that they get a basic understanding and are thus able to engage in the first place. I have found that gamifying content – individually or within an age cohort – by, for example, role playing to be of great benefit. Having younger family members step into the shoes of a family officer, trustee or other adviser can be eye-opening and provide deep and lasting insights. Individual learning and mentoring provided by family members other than the parents and/or external experts is another strategy successfully employed by families.¹⁰

Beyond this basic imparting of information, in my experience successful engagement across the generations depends on whether they (and the family office) collaborate with a shared vision and as true partners. This starts with genuine interest and deep respect for the other, active listening and truly hearing what each individual and generation have to say, especially about what drives and motivates them. The family office team, with their deep knowledge of the family on the one hand and the benefit of a healthy distance (ie, not being a family member), are in an ideal position to shape and bring about engagement and fruitful collaboration between the generations.

Another way to foster intergenerational co-creation is involving members of the rising (next) generation in shaping a relevant topic which the family or the family office faces. Generation Z may be given a task and asked to come up with solutions for a particular set of questions, topics or areas of concern,¹¹ thus generating early buy-in and taking important steps to future-proof the family office.

Fully embracing digital (exemplary HOW)

It is a known fact that family offices are a key target for cyber-attacks, with one in four family offices having experienced an actual or an attempted attack.¹² It is well known that careless handling of confidential information – even without any malicious intent – may compromise and damage the reputation of a family substantially and for a considerable time. Therefore, families will want to put special emphasis on the following two important dimensions: digital hygiene within the family office on the one hand, including internal communication and communication with family members and external parties, and online reputation management on the other.

Starting with digital hygiene, especially where the family office co-exists with other family entities (of a business or philanthropic nature), it is crucial to keep matters strictly separate and to not share or store information across entities and units. Highly confidential information regarding family members (eg, personal documents, information regarding a family member's assets, evidence of personal residence, tax status and documents relating to personal transactions, etc) need to be protected from illegal access and should be accessible only by the family office. The family and the family office will also want to make a conscious decision on which server and communication system they, or the service provider they engage with, use.¹³ Secondly, a set of clear rules around the secure use of a chosen and exclusive communication system when providing documents for various due diligence purposes and to family members themselves is indispensable. Information and training on these procedures for both family members and the family office team, as well as regular digital audits and stress tests, complete the picture.

Turning to online reputation management, this concerns the family as a whole and its various members individually and is intimately connected with and, in my experience, somewhat counterintuitive to most wealthy families' desire to stay as private as possible. Families who deal with this topic successfully, however, realise that the latter is best achieved by addressing their online presence and

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behaviour pro-actively. This will involve sensitising all family members and training them on how to handle social media in particular.¹⁴ A crucial element is that the family tell their own story (rather than having other, potentially less well-meaning individuals do it for them) and create their own online narrative. This process starts with collating all information on the family and individual family members publicly available to then present the history and key information on the family in their own words, format and style. Apart from controlling the narrative and pre-empting or preventing negative publicity, this is another kind of project that lends itself well to a cross-generational project for co-creation, especially given the generally much superior tech savviness of the rising (next) generation.

It is also an area where inspiration and guidance from other families may go a long way, with many families having built their online profile and narrative over the past few years.¹⁵

Choosing your team wisely – vital with WHOM

All threads of the WHY, WHAT and HOW are brought together by the family office team. It goes without saying that these professionals need to have suitable skillsets and experiences to carry out their specific roles. Having said that, and showcased in the above examples of how successful families focus on intergenerational dialogue and co-creation, as well as on navigating their online reputation, professional qualification can only be the starting point when looking for suitable candidates.¹⁶

The family office team are in close contact with family members of different generations who may have a multitude of current and potential issues. Family relationships and harmony are rarely stable at the best of times, and neither is the overall psychological wellbeing of wealthy and influential individuals.¹⁷ Identifying suitable candidates, in particular at leadership level,¹⁸ who are compatible with the family and sensitive to the overall changing family dynamics, is therefore as important as it is challenging in practice.¹⁹

Families who recruit suitable candidates successfully and for the long term have a clear picture of which type of person they want to work with. They

are also able to articulate this well and ensure that candidates are assessed accordingly during the recruitment process.²⁰ Some general characteristics they would look for are summarised in the following.

There are some individual qualities that will go a long way in any family office professional. Not surprisingly, these relate to the human and interpersonal side and encompass authenticity, emotional intelligence and empathy. More concretely, an ability to relate to others easily, to quickly inspire trust, to engage with ease across personal and professional topics, including under difficult circumstances, with genuine empathy and warmth cannot be placed high enough on the priority list. Self-awareness, curiosity, enthusiasm, maturity and, above all, unquestionable integrity are other important elements. While these characteristics would be selection criteria at leadership level, they also lend themselves well as aspirational and training areas for junior team members. In combination with a general spirit of patience and a long-term horizon, this is an important component of building a resilient overall team culture and thus contribute to future-proofing the family office.

Another important dimension is the type of professional adviser that a family would want to engage with. The area of financial, legal, tax and other advisory services, and thus the advisers in this field, is currently undergoing an interesting shift. We will have all read and heard the saying 'shirtsleeves to shirtsleeves in three generations' in its many manifestations, the stories about families falling apart, the dangers of failing to sensitise and train the rising (next) generation early and generally, and wealth and family relationships being destroyed if certain steps are not taken in time. This attitude has shaped advisory services for a significant amount of time. While there is undeniable truth to these risks and the need to make them part of the planning is real, we need to be aware that making them the underlying foundation and overarching mantra of our work with families and within family offices results in a fear-based and fear-inducing approach that is not only unnecessarily pessimistic, but also perpetuates stereotypes about wealth and the wealthy.²¹

Families need to ask themselves if this approach still suits them and whether it is a trait that they would like to see and cultivate in their family office professionals and other advisers they engage with. An alternative approach that I have seen working well for families and their family office teams is adopting a purposeful and a can-do attitude as their main driving force. Focusing on creating transparency, building trust and open, effective communication, as well as the increased integration of psychology, not based on a blithely optimistic, but cautiously positive, overall outlook, flanked by a clearly articulated risk framework, appear to be the developing key characteristics for thriving families and their family offices. Given the above-mentioned increasing generational divide and the need to consciously bridge it for both families and their family offices, choosing leaders and teams with a soberly positive outlook rather than a fear-inducing one would

therefore appear to be an important general choice to make in terms of a family office's team personalities.

Again, there are many families and family offices who have successfully refocused their selection criteria and expectations of professional advisers. Looking to them as a source for inspiration and guidance may prove worthwhile for others.

Conclusion

The topic of best practices and its context in family offices is vast and I am aware that the above, as it must be highly selective in the first place, only scratches the surface of the examples quoted. Having said that, the above insights are based on real-life experiences with families and hopefully serve to provide some reassurance that there is indeed unity in diversity and a lot of valuable insights and guidance that may be uncovered by families and their family offices to help them in their individual journey.

In her capacity as strategist, adviser and trustee, Dr iur Britta Pfister has over 20 years of experience in providing significant value-add to international families and their family offices. Britta has a proven track record in family governance and business succession, as well as family office design, development and implementation. She has been advising and transforming families around the globe, with an emphasis on Asia and Europe, developing longstanding relationships and continued collaboration with her clients. Most recently, Britta was managing director of Rothschild Trust Asia and senior strategist at Anthos Family Office. Britta is an expert on family governance and family office development at Ispahani Advisory Ltd, a Distinguished Fellow of INSEAD, under INSEAD's Global Private Equity Initiative, as well as a frequent lecturer at international conferences and author of various published articles.

- 1 This article focuses on single-family offices (SFOs) but some of the elements may be of interest to multi-family offices as well.
- 2 The examples are from a global mix of families and generally apply irrespective of cultural idiosyncrasies. How the strategies are delivered and communicated under varying individual and cultural circumstances may differ, however.
- 3 A lot has been written about these elements and why they are of key importance. This article deliberately simplifies this meta level into the more encompassing WHY.
- 4 The time horizon doesn't necessarily need to stretch beyond the current generation, in which case the WHY would be the execution of a carefully thought-through plan by the founder/current generation, with a clear and transparent time horizon and commensurate role for the family office. Having said this, the experiences referred to here refer to families with a longer, multi-generational time horizon.
- 5 Including which services are provided in-house and which are delivered via external providers, with the family office sourcing, co-ordinating and monitoring them.
- 6 Mark Somers, *Family Office Fundamentals* (2023), p156.
- 7 The starting point may also be, and often is, a *de-facto* family office or family office services that have started to be delivered in practice, without a specific plan, organisation or unit/entity, often carried out from within the family business.
- 8 For an overview of what this entails in more detail see Mark Somers, *Family Office Fundamentals* (2023), p37 ff.
- 9 Well explained in more detail by Jessica McGawley, "Effective mentoring for the next generation" in Iraj Ispahani (ed), *Family Business and Responsible Wealth Ownership – Preparing the Next Generation* (Globe Law and Business, 2021).
- 10 *Ibid.*
- 11 A recent project of mine was fine-tuning the services and processes for a nascent family office in view of the WHY with a group of Gen Z members, who not only came up with innovative and farsighted ideas, but also got early input and buy-in from

their siblings and cousins, and from the family office team before seeking the approval and go-ahead from the formal decision makers.

- 12 *Campden Wealth Asia-Pacific Family Office Report 2022.*
- 13 Equally important for the overall administrative hygiene and collaboration within a family office is the creation of a joint labelling convention and a clear set of rules for a folder structure and documents.
- 14 For more detail, see Charlie Bain, "Safeguarding the family's digital narrative: how to navigate the challenges of the social media revolution" in Iraj Ispahani (ed), *Family Business and Responsible Wealth Ownership – Preparing the Next Generation* (Globe Law and Business, 2021).
- 15 An excellent example is www.cofraholding.com which not only enlightens us about family history, but also gives great insight into the family's philosophy and philanthropic endeavours.
- 16 Mark Somers, *Family Office Fundamentals* (2023), p206 ff.
- 17 For further detail see Dr Paul L Hokemeyer's insightful book *Fragile Power: Why Having Everything is Never Enough* (2019).
- 18 Dr Paul L Hokemeyer describes this family office professional as the most trusted adviser in the family system, vested with the power and responsibility to ensure the family is receiving the best-in-class services that protect and repair a family's holistic health, "Addressing family entropy in the context of behavioural health challenges – a new paradigm of culturally competent and clinically excellent care" IFOJ Vol 7 [2023].
- 19 Mark Somers provides an insightful overview and in-depth analysis on working with different profiles, *Family Office Fundamentals* (2023), p248 ff.
- 20 Psychometric assessments and thorough referencing are key components of this process.
- 21 Dr James Grubman, Dr Dennis Jaffe and Kristin Keffeler, "Wealth 3.0: From Fear to Engagement for Families and Advisors", *Trusts and Estates*, February 2022, p18 ff.

This article 'Multi-generational families and their family offices – is there unity in diversity?', by Britta Pfister, is taken from the 30th issue of *The International Family Offices Journal*, published by Globe Law and Business, www.globelawandbusiness.com/journals/the-international-family-offices-journal.

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