

# FOMC - Special

Briefing note – 11 May 2011

As a result of the increasing demand for information in the family office market, Family Office Management Consulting publishes its quarterly newsletter as well as ad-hoc briefing notes on various subjects relating to the family office theme. The selection of topics results from the experience in working with families, entrepreneurs and family offices on a daily basis, current developments in local and international markets as well as on requests by clients.

## **A new role for banks in today's family office market?**

As many of the players in today's UHNW markets, also banks, amidst all the post-crisis restructuring, are reconsidering not only their product and service offerings, but particularly their positioning – and this in a market that could not be more challenging in regard to its variety of clients and increasing competition.

Global UHNW markets are changing: With wealthy clients setting up their own operations, and this increasingly professionally, as well as relying more than ever on their networks of advisors, the focus remains “independency”, alongside the development of state-of-the-art family office structures.

### A segment within the segment

Family offices are widely considered as a separate market segment not only within private banking, but also receiving increasingly attention from the investment banking and asset management units. With the distinction between an investment company and a family office being purely based on the fact that there stands a single owner or business family behind it and with family offices becoming more sophisticated in regard to investment style, platforms and resources as well as global operational management, not to mention their institutional size in terms of asset under management, competition is fierce for newly-emerging market opportunities.

In the same way, today's family offices, operating in many cases just like professional hedge funds or private equity firms, are expecting much more than the traditional private banking approach; although the latter remains important in regard to personalized

services and confidentiality. So which role do banks play in today's family office market? Which “family office services” are essential in order to distinguish oneself from the competition - in addition to core asset management as well as increasingly important offerings such as consolidation and reporting, trading and prime brokerage? And even more importantly from a bank's perspective, which are the revenue models that work in practice?

### Global clients – global platforms

In the same way as family office structures could not be more diverse, their owners are to the greatest extent individual. However, there is one aspect that is common to all of them: internationality. Family offices operate under global set-ups and invest on an international basis, driven by their global-thinking owners. Banks are therefore not only expected to excel in their products and services, but also in respect to their international platforms. However, as international as the banking world may seem, and this certainly in regard to the large players, providing truly global offerings and platforms still remains one of the greatest challenges for banks across the board; the reason being not only increasingly complex regulatory hurdles, but first and foremost, complex or inefficient internal organizations and corporate structures. Investments in state-of-the-art products, services and platforms combined with global implementation, does not necessarily lead to a successful “one (global) bank” strategy in practice – solid revenue sharing models across business units, strong incentive systems combined with the respective education and training programs, are on the list of implementation measures that make the difference.

## “Family Office” versus “Family Office Services”

While the set-up of global service and product platforms is certainly a priority, business opportunities are also emerging in respect to the actual product family office. It is indeed not only the international family office desks, set up by almost all top market players in recent months, that have a competitive advantage, but also separate business units, (multi-) family offices within the bank, are generating revenues. While the first are given the mandate to service the very high end of single family office clients, the latter are focusing on clients without own operations, but in search or need of family office services. Both business models rely on dedicated teams, staffed with experienced investment bankers, private equity and real estate specialists as well as the very top private bankers; however, revenue models differ.

One considers for instance the fact that core revenue streams are on the asset management side with clients traditionally not being willing to pay for advisory services. So how can banks act in the role of a strategic advisor - a family office - and moreover and more importantly from a revenue perspective charge for such services in an efficient way? Family Office Management Consulting's experience has shown that it is particularly in regard to stand-alone multi-family offices as well as family office set-ups within banks where not only a clearly-defined service offering is important, but that success comes in combination with the “right” revenue models and has therefore developed a series of best-practice concepts as part of the consulting approach.

## The importance of “entrepreneurial investing”

A handful of multi-family offices, including banks, has been able to excel in the set-up of platforms for “entrepreneurial investing”, and therefore the very heart of family office operations, through the facilitation of roundtable discussions, match-making and by providing access to co-investment opportunities and selected investors circles. With UHNW individuals nowadays not only being business

owners, but global investors, international investment opportunities are as interesting as is learning from each other and more precisely, like-minded investors and entrepreneurs – and this, for instance, in terms of new investment classes and regions as well as due diligence processes and deal sourcing. Banks and multi-family offices are uniquely positioned to provide such access via their international client base and networks.

While such are clearly not the business activities where revenues are the strongest, they may well be the distinguishing offerings and therefore make the difference to getting one step closer to becoming the client's strategic (family office) advisor. One always has to remember that in the same way as fluctuations are not wanted in a single family office, strategic partners are selected for the long run.

The business model of banks in the future will therefore most likely be a combination of the private banking model, in regard to confidentiality and individualized services, combined with state-of-the-art international investment platforms. However, in order to excel in the family office market, internal organization, a thorough understanding of the diverse client base as well as the “right” market positioning and choice of business model, are prerequisites for success.