



## The State of the Family Office Market 2019

This market started by growing slowly and in the U.S.A. it is often stated that it came out of the offices started by the likes of JP Morgan and the Rockefeller families. It wasn't until the early 1990's that the number of family offices made sense for an organized network community to be established – Family Office Exchange (FOX). This was necessary because the family office approach to managing the affairs of the ultra-high-net-worth (UHNW) was insular or niche and as FOX puts it, “This community of family members, family office executives, and trusted advisors was created as a way to make it easier for each member to fulfill their responsibilities to the families they serve. By having access to others like themselves, members gain insights into how other families are operating, what issues they are facing, and how they achieve their solutions.”

The family office market was in a period of growth in the mid-2000's, but this was cut-short by the financial crisis of 2007/2008. However, by 2010 the growth in the numbers of family offices had started again. It was such that by 2017 E&Y estimated that there were around 10,000 family offices worldwide. That number included Single Family Offices (SFO) and Multi-Family Offices (MFO) – where an MFO is a business that provides most/all the services that a SFO does, but to more than one family group.

This year Campden Research have released figures to show that the SFO market worldwide has grown by 38% since 2017. They estimate that there are 7,300 SFO's, split proportionally with “...North America (42% or 3,100 offices), followed by Europe (32% or 2,300 offices), Asia Pacific (18% or 1,300 offices), and the emerging markets of South America, Africa and the Middle East (8% or 600 offices)”. They also estimate that “The total estimated assets under management of family offices stands at \$5.9 trillion, while the wealth of the families behind them totals a vast \$9.4 trillion.”

So, in 2019 the family office market is a significant market for those businesses that supply product or services that meet the needs of this niche. It used to be that these products and services were “adapted” from other markets – like asset management, hedge funds, etc. – but now the critical mass of family offices is such that this is changing. This shift is consequential in several ways, but one key area is professionalization, especially for the SFO's. The professionalization matters because of:

- More diversified investment portfolios, which bring more complexity around estate planning, tax and data
- More complicated due-diligence and risk management/compliance
- More direct investments (in start-ups, in real estate, etc.)
- Desire for more privacy, security and confidentiality
- Financial training for next-gens
- Desire to involve more independent advisors



- Demand for more sophisticated services and reporting, but with the need for more transparency, efficiencies and cost-controls
- 24/7/365 access and more timely reporting

A family office usually has staff that are “professionals”, that is they act in the best interests of the family and other stakeholders. The family office in 2019 is a complex business that is getting ever more complex and, like any other business, to function successfully it needs to facilitate being professional. The professionalization of an office is more around these issues:

- The office is structured to attract, develop, nurture and retain great talent
- Ensure that the office can always make timely big decisions
- Respect the management hierarchy and empower employees to make decisions
- Utilize systems to ensure consistently high performance and fairness
- Ensure core values are embedded

Another key element of functioning professionally is the office infrastructure. There are several proverbs that fit here, like “Give us the tools, and we will finish the job” and “You cannot make bricks without straw”.

It is here that many family offices are found lacking and of course that impacts the staff. It is a problem that stems from the point made above, where products and services were “adapted” from other markets, but also from the way many offices, especially SFO’s, originated. They often spin-out of an operating business, are staffed by trusted employees, but are expected to perform using tools like spreadsheets and basic accounting software. The office grows informally from there, driven by various demands and eventually ends up with an infrastructure that relies on people and manual processes to perform its duties.

When analysis is done around the best way to change this it is often a surprise that the real infrastructure “need” a family office has is around managing data. In 2019 this need is only growing and will continue to do so. It is the:

- Gathering of data
- The management of the data (consolidation and aggregation of disparate data)
- The ability to create meaningful analysis and reports from the data

It is data that drives the professionalization needs listed above.



The gathering of data isn't as easy as it sounds even though the two main types are investment-based data and accounting based data. The complexity of investment portfolios mentioned above ensures that the data goes above and beyond what an office can get from its Investment Custodians – (even if this is automated there are always exceptions to be managed). There are alternative assets where data like pricing and valuation must be gathered manually and entered into a recording system manually – (often in a spreadsheet!).

The complexity also compounds the accounting work, with multiple investment vehicles, partnerships and the like where transactions must be logged, tracked and reported on – often using an accounting software package like QuickBooks and typically in multiples, one instance for each vehicle/partnership.

Every office recognizes the problems and inefficiencies that such a way of operating causes. The staff work hard to make up for this and some offices have tried to use more sophisticated technology and operational approaches to try and improve this. It typically turns out to be a partial solution and the reason why is the “data”. The attempted solution uses a “point-based” technology, say for investment management, that works well in consuming and reporting on the investment data. However, to create a consolidated report, say a net worth report, that data must be combined with data from accounting systems at least. The default way of doing this is using a spreadsheet. Some offices have created their own data warehouses to try and solve these sorts of problems, but with consequences around the work required to maintain it.

Incumbent with the data management are the manual business processes and workflows established by the office to try and control this work and maintain some degree of risk management. This implications of this can be significant, especially involving transactions around the movement of money. There is fraud in the family office world, *Law360 (April 24, 2018, 4:59 PM EDT) -- The multimillionaire former CEO of an Illinois bank holding company sued the chief financial officer of his family office and JPMorgan Chase Bank NA in Illinois state court on Monday, claiming the CFO embezzled and lost more than \$100 million of his family's money under the bank's nose. In a lawsuit filed in Cook County, Illinois Circuit Court on Monday, Roger Weston, the former CEO of GreatBanc Inc., claims CFO Sultan Issa transferred millions out of the family's accounts, pledged family assets and forged signatures to...*

The imperative to have real operational risk management in a family office will only increase. Such processes as the segregation of duties, the four eyes principle and full audit trails should not be monitored and should be embedded in some type of system solution. It is a key element of any professionalization.



## How to create a Professional Family Office

As mentioned above, this starts from the bottom up.

1. Data
2. Business Processes
3. Workflow
4. Functionality
5. Reporting
6. Access

## Learning from Other Businesses

In the world beyond the family office the reasons why many companies replaced their manual or semi-automated systems with “ERP” type platform are:

- Increased business agility  
the ERP system’s ability to manage and track problems, fix them, accurately and quickly and release them faster results in improved customer satisfaction
- Improved productivity  
ERP systems improve the productivity and efficiency of organizations by eliminating data redundancy, streamlining processes, introducing best business practices and workflow
- Error reduction  
ERP systems automate most of the monotonous and repetitive tasks that were done earlier by people with reduced the opportunity for human error
- Information integration  
One of the major functions of ERP is to provide sufficient, relevant and accurate information about the software system to the different people, allowing the functioning of the business processes to proceed smoothly
- Automation  
ERP systems automate many processes and workflow so that a single action triggers a number of related events and actions automatically. This level of automation reduces data entry, errors, data duplication and helps the organization to react and respond



faster. By automating the business processes and tasks, ERP systems have improved development productivity and give people more time for analysis

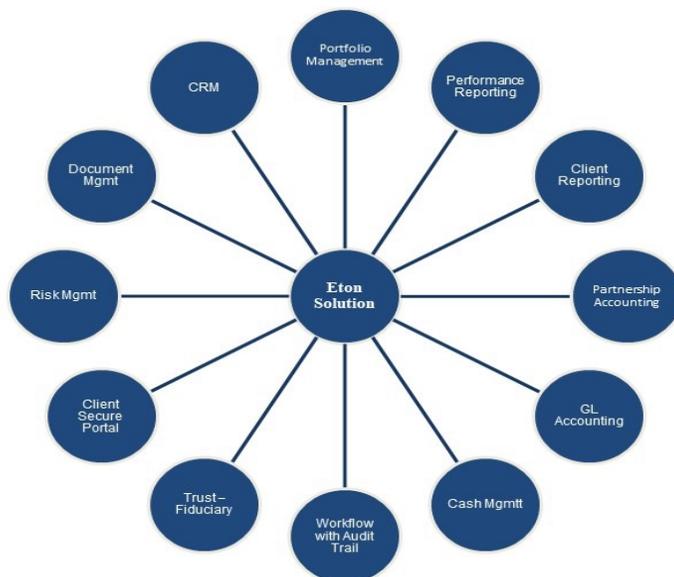
- Risk Management

Enterprise software that helps companies to actively manage risk. Many of these tools are analytical in nature and use existing data or projections to help human decision makers identify risk and take measures to avoid potential crises

### Is there an ERP system for the Family Office?

The Eton Solutions platform is a comprehensive enterprise management system and service for the single and multi-family office, including a full suite of investment reporting, general ledger, fund/partnership accounting, entity management, data aggregation, and transaction processing with integrated reconciliation and verification. It is a family office management platform - the infrastructure that allows a family office to operate more efficiently and effectively.

The solution was created to eliminate the data challenges and manual processes that have been endemic to the family office marketplace: manual business processes subject to human modification and error, multiple systems with poor integration and untimely and inaccurate reporting, and inefficient use of expensive staff to protect against unreliable processes and data. The team that built this lived the problems; then decided to solve the problems with best practice business rules, business processes and workflow.



- Integrated enterprise management system
- Full suite of integrated applications for the family office
- Best practice business



## **One Book of Record – Solving the Data Problem**

As we pointed out earlier, most family offices people of “high value” are doing tasks they shouldn’t be doing but are doing them because the key tools in the office are spreadsheets and something like QuickBooks. The staff make heroic manual efforts to get the transactions and the reporting right. With great, dedicated, talented people a family office needs one single technology platform that can provide the transparency required so that they really can be in the business of managing wealth effectively. A true book of record is needed for all the data a family office manages and it is this that Eton Solutions provides.

What does this mean day-to-day for the family office staff? It’s having all the information (documents plus accurate financial transaction information) in one place to do planning (cash, estate, tax, investment, insurance etc.). A strategic solution where the office has all the information to coordinate tasks and solve problems ahead of time. The staff of the office become proactive instead of reactive.

The one Book of Record provides transparency, where “complexity is made simple” and where there is one source of the truth.

The Eton Solutions platform provides enterprise class processes, reporting, automation, and client delivery capabilities that a family office need. It is the catalyst to revolutionize the management and operation of single and multi-family offices.

Why? Efficient, timely, and accurate reporting to drive improved decision making. To provide the client 24/7/365 anywhere access to reporting and secure communications. To facilitate staff providing high value-added work, together with significantly reduced cyber security vulnerability. The end is result is what the clients want, a highly engaged staff delivering excellent, timely reporting and service execution that is driven by automated, integrated best practices to provide best-in-class risk management. In other words, a professional family office.