Video Transcript

Establishing a family office

Good morning and thank you for joining the seventh webinar in our Beyond Business Ownership series. Our webinar today is focused on the topic of starting a family office. My name is Russell Prior, and I lead the Family Enterprise Succession Service at HSBC Private Banking. And over the course of the next 75 minutes or so, we'll be taking a look at some of the decisions and options available to you if you're thinking about establishing a family office.

Joining me today for the discussion are Andra Ilie, Senior Advisor on Family Office, Governance and Philanthropy at HSBC Private Banking, Richard Montague, partner at BDO LLP, and Karina Challons, Managing Director in UK Wealth Planning, also at HSBC Private Banking. Thank you to my fellow panelists for joining me this morning.

Before we get started, I'd just like to make a couple of things clear, a sort of health warning if that's okay, firstly that HSBC, UK Bank PLC, and our panelists have no responsibility and are not providing legal or tax advice in this webinar. And therefore, any views expressed, or information provided doesn't constitute legal or tax advice, so please don't rely upon it as such.

And then for our audience this morning, if you'd like to ask questions, please do use the question box at the bottom of your screen. We will come to them at the end, but do take the opportunity to post your questions throughout the webinar. So to our topic this morning. The landscape or backdrop against which family offices are being set up or developed seems to me to be pretty interesting at the moment. I've seen references to the family office sector being one of the fastest growing in the wealth management industry.

We're seeing development in the regulatory and legal landscapes for family offices with a focus on taxation and transparency. Feedback from family offices themselves and research we see shows that they're focused on things like regulation, digital transformation, risk, reputation, and governance, as well as, of course, the core issue of successfully managing wealth. Yet, we also see references to the perception of family offices being an ill-defined concept. So against that backdrop, I'd like to start today's webinar by exploring the term "family office".

It can be a bit of a catch-all phrase. We see it applied quite loosely and, consequently, from discussions we have with our clients, there can be quite a bit of misunderstanding around exactly what a family office is and does. So I'd like to start there, as I say, with our conversation this morning. So, Andra, if I may come to you first, could you give us your views, please, on what is a family office, or what does this term "family office" stand for? What are some of the types of family office that are being set up? Why might someone look to set up a family office?

Andra
Thank you very much, Russell, and hello everyone. I think that's absolutely right. I think the term family office is definitely one that we've been hearing a lot. We also see it associated with a number of different businesses or structures, but also, we hear it and see it in the news constantly, especially recently, as you mentioned. So it's great to get the chance to go over some of the fundamentals.

So to answer your first question around what the family office is, I guess there is no single definition, and there are no two identical family offices, to put it very simply. Now, the closest we can get to a modern definition of what the family office is, is perhaps to say that it refers to the infrastructure that a family of wealth might use to organise itself, the wealth, and indeed the relationship between the two. Now again, this can mean different things to different people, which again, why there is no universal definition for it.

Now, in reality what we see is, more often than not, what tends to happen is an individual's wealth will grow and evolve to the point where it is just too complex and time consuming for them to handle alone, at which point they might bring in additional help. To answer the second part of your question, so what are the types of family offices that we see, I'm going to use the example of an entrepreneur, given our audience today. So let's say that an entrepreneur comes into a significant amount of wealth, perhaps through a part sale of their business, and what they might do then is they might start using their finance director in the operating business, and they might get some help with that individual handling their personal investments. Perhaps they might use the practice manager to handle some of the family's travel arrangements, or I don't know, things like their properties. So this is often that starting point, and we call it an embedded family office. From there, again, continuing with my example of the business owner selling some of the business. They might consider to sell further or perhaps a more considerable part of the business, and then want to focus on investing and protecting those resulting proceeds to benefit their next generation, who again may be spread across the world. So at that point, significant resource and time commitment are required, and so they may decide to establish what we call a single family office to help them achieve those long-term goals.

Now, their next generations may take it one step further and perhaps consider pooling those assets together with those of other families, who benefit from things like cost sharing and economies of scale, so they might then decide to turn that single family office into what we call a multi-family office. Or perhaps, you know, they just wouldn't want the infrastructure at all, and this is, again, something we see quite frequently. I know we'll touch upon it in a bit, and they might opt for what we call a virtual family office. And this is one where the focus is on outsourcing the majority of the services required to external service providers, really. And finally, as for why someone might set-up one and what might a family office do, it will very much depend on what the family is trying to achieve. And I've already touched upon things like time saving, coordination, and asset protection. And other motivators might be things like control. Privacy is one that we hear quite often, continuity, and also cohesion.

Russell
Thank you. That's a really helpful spectrum. Richard, if I could come to you, welcome, firstly, to our webinar this morning. From your perspective, I'd just be interested on your take on that range of family offices that Andra's run through. But also, given that spectrum, what sort of legal entities are used for family offices, and are there any more prevalent than others? And I'd be interested in perhaps just -- clearly family offices are set up all around the world, so without going totally global, I'd be just interested in any particular nuances that you see in that legal entity sort of set-up.

Richard
Absolutely. So, thank you, Russell, and good morning everybody and thank you to HSBC for having me on the call this morning. So in terms of the types of family offices we see, I agree with everything that Andra has said. I think I tend to see the phrase "founder's office" used a little bit more, which I think is sort of akin to what Andra was talking around embedded family office. That's normally where we see entrepreneurs selling out of their business. They've got this newfound responsibility of the wealth that's coming out and whereas they had a good infrastructure within their own business to manage the business itself, they don't have the infrastructure for managing the newfound wealth. So it's very usual to bring along maybe the finance director and the executive assistant that's probably been helping the ultimate beneficial owner manage some of the money even when it was, you know, within the business or being, you know, extracted as profit. And that tends to be kind of the embryonic stage of a family office. And, you know, in terms of why someone would set one up, I agree with all of Andra's comments. I think the other bit that I would add to that is that it's a useful way to start the process of the next generation planning as well. The newfound wealth comes with a responsibility and to have the family, when it's appropriate as a whole, involved within the looking after of that wealth, and the family office can be very helpful to introduce the family to the responsibility that comes with it. So that's just a touch on the first question. In terms of the second question, which is where do we, you know, what types of family office structures do we see being used? I mean it's usually something of a corporate vehicle or a partnership with some sort of corporate veil to it as well. We don't normally see general partnerships used which don't have the same legal protection. The reason that there's a legal protection is we want to put some type of separation between the ultimate beneficial owners or the family and the employees of the family office as well, and to have something that's sophisticated and feels and looks like the business in place as well. So in the UK we'd probably see that as a limited company or an LLP. Other jurisdictions, it would be similar types of vehicles. It really depends on where you go around the world, and I'll be touching on this a little bit later. But some countries, such as Luxembourg, have a corporate vehicle for every day of the week, so there's plenty to choose there that are right for the family.

Russell
Thank you. That's really helpful. So if we move on from that, I guess the next logical point to focus on is what do family offices do, and I know we've alluded to some of this. So Karina, if I could come to you.

Firstly, also welcome to the webinar this morning, from your perspective, what are some of the key functions that you see family offices performing for the families they serve?

Karina
Thank you, Russell, and good morning everyone. If we start with the in-house function that family offices perform, we often see the managing or coordinating the family wealth. This could include, amongst other things, the liquid investments, private equity properties, many of which, as Richard mentioned, are located globally. Reviewing the performance of third-party managers, as well as assets they may be managing themselves. Consolidated reporting of the assets held in the various structures or directly by family members. Risk management, taking responsibility for managing the governance of the structures and family members. Coordinating with external specialists on changes in law, regulatory issues, tax, or say changes in jurisdiction of family members that could impact the structures that hold the wealth of the family or even family members themselves.

We also see them coordinating the training for the next generation and communicating and reporting to family members on the status of the family wealth and issues or opportunities that may arise, that they're informed and consulted. With some families, the family office's responsibility may even extend to recruiting and managing staff, managing the diaries of some or all of the family members, including travel arrangements, budgeting, right through to the dog walking. However, with other families, they may have these personal matters managed separately to enable the main family officer to focus primarily on the family wealth and structures and the governance, so that they don't become overwhelmed by family issues such as the dog that's not been collected or someone has missed a flight or needs a taxi to pick them up.

So all these functions are important. Regarding outsourcing, it's common for a family office to outsource advice such as investments, tax, governance, succession planning, and legal matters. And why? Because having all these specialists in-house would be extremely expensive. Furthermore, the experts may struggle to maintain their expertise in-house, whereas appointing experts such as Richard and his firm for tax advice is more cost effective as they have access to experts in many different fields and globally who can be called upon when required without having the expense of employing them all on an ongoing basis.

Russell
That's an enormous range of functions. Thank you, Karina, for taking us through that so succinctly. I guess I'd just like to now come to you, Andra, on this and possibly Richard very quickly. With that enormous range of things that a family office could do, given what we were saying a moment or two about where and how you get started, how do you actually begin to, if you are thinking of setting up a family office, how do you synthesise that, and can you narrow it down to other kind of typically one or two approaches that people tend to start with? Andra, let me pose that to you quickly first, and then perhaps Richard, get your view on that.

Andra

Sure, thank you, Russell. And I agree, Karina's range was very helpful, and I guess the point that I would make here, and to your question about the approach, I think wise advice is to start small, right, and build as you go along. I think it's much easier to scale up than scale down, as I'm sure you'll agree. And we do have to be mindful that there is a significant cost that's associated with substantial infrastructure. So, again, that's something to bear in mind. I think what we do see in practice is even the largest single-family offices have a very lean team, right? Because the whole point of setting one up is that it allows you to act and react quickly to opportunities.

There are some roles that we see family offices, they tend to have in-house, they'll probably have somebody dealing with finances. They'll have somebody looking after operations and admin. They might have somebody with some sort of an investment expertise or coordination, and somebody who understands the legal framework. I think, in my experience at least, these are the functions that I can foresee most of the time. And also, depending on how the family has created and generated that wealth, they might have somebody that specialises in that area. So say real estate or private equity or something like that.

But again, to Karina's point, it's important when you create that approach and think of how to build that plan around how to staff your family office, it's very much around anybody you bring in will need to be developed, right? You will need to keep their knowledge up to date, which is why I think family offices, in practice, what they tend to do is they tend to outsource either nonessential areas or area that carries significance risk, again, to Karina's point, tax advisors or firms like Richard's who are constantly up to date with the latest legislative changes. And I think what we tend to do, so again, an approach that we tend to take is we use questionnaires when we work with families. We look at a matrix of all of the possible services you may need depending on what you're trying to achieve with your family office and then try to work out a cost-benefit analysis depending on need, usage, return, and things like that. But I guess to sum it up is we have to remember that the family office is fundamentally an enhancer for the family. It's not just a cost machine or, you know, which is why, I think, the costs are just part of the bigger picture, and having a clearly defined measurement for what success looks like is essential here.

Russell
Thank you, that's great. Richard, any thoughts from you on this very interesting, please yeah.

Richard
I was going to say I'll keep it succinct. So I think for me, it's the same approach as you'd probably take with your business units as well, which is that, you know, do in-house what you're really good at, and the bit that you're not so good at or not good at at the moment and find some experts externally to build on that. And I completely agree with Andra, it's better off starting and thinking small and growing as the need comes to you and also playing to your strengths in terms of the expertise that you already hold. If you created and generated a lot of wealth in a particular sector and want to stick with that, then you're comfortable with it. If it's something a little bit outside of your area of expertise, then have a look at what's available externally.

Russell
We've had a question come in. I know I said I might cover these at the end, but we've had a question come in that's really kind of quite topical in relation to what we've just been saying. It asks the question, what are some of the common mistakes that are made when people sort of set up a family office initially. And I guess we've had a couple. One is making that choice around what to do in-house and what to outsource. Another one was, it said, be lean, watch the cost, that sort of thing. Any other, just whilst we're on this issue, any other kind of common issues. I don't want to necessarily call them mistakes, as such. Are there any common issues or traps that people fall into when we see this? I don't know, Andra, Richard, Karina, anyone can answer on this one.

Karina
Not planning properly from the beginning, trying to just build it and trying to take on too many functions, as Andra said. Really look at it, start small, plan it carefully, how it's going to work. Too many people take it on and then just build on it without any planning, and that's where chaos can ensue.

Russell
Andra?

Andra
So one of my favourite mistakes, if I can call it like that, is when somebody sets up a family office, they will already have some people in mind that they want to bring with them, and I think this, in the longer term, can cause some interim conflicts, because hiring somebody because you're friends or because, you know, you've known them for a long time, their skill set may not necessarily lend itself to what you're trying to achieve with the family office. So what I would say is weaving in one of Richard's points, which is treat your family office like you treat your business. Approach recruitment in the same way as you'd approach it for your business. Just make sure you hire the right people, not the people that either you know or have the type of pedigree that you think you might want in your family office, because they have to also fit into the culture of what you're trying to achieve with that family office. And I'll just stop here, because I could talk about this forever. Thank you, Russell.

Russell
Thanks. Richard, any quick thought from you on this?

Richard
I would just probably just build on what Andra was saying as well and just taking it that step further. And it's not just about recruiting the right people, but how do you keep them interested and incentivised within the business as well. And, you know, maybe that's not just about sort of cash and bonuses. It's more a long-term incentive plan as to think about, which I think we'll discuss a little bit later as well.

Russell
Yeah, brilliant, thank you. So, look, thank you for that. It's been really interesting, a really interesting area to cover. So if we move on, let's perhaps take an example now of, which I know a couple of our

panelists this morning have referred to as somebody who perhaps built up a very successful business, is exiting that business and is thinking about setting up a family office. Richard, if I could come to you on some of the more sort of technical aspects here. What are the sort of critical tax, legal, and regulatory aspects that somebody should be bearing in mind at that point of thinking of setting up a family office?

Richard
Yeah, sure. That's a really good question. So say that the first thing is to get the tax compliance and the tax payments with regards to the sale of the business right. All the sales of business take slightly different forms. There may be a straightforward cash sale. It may be a partial exit.
There may be some earnout element or deferred consideration. There may be a rolled element.
But all that comes with different tax consequences in itself.

So understanding the compliance and the regulation that goes with that and ensuring that you've got the right liquidity to fund the tax payments is your first starting point, because any mistakes you've made from the sale of the business, you'll carry into the family office just in terms of liquidity needs as well. And then I think the second bit I would say is that don't rush anything, I think has been mentioned before, take some advice. Do a lot of slow thinking, as I would call it, and consult with people to establish the structure that's not just right for you, but right for your family as well. And what I mean by that is start thinking about that next generation, if it's an appropriate time and if your children are old enough, start to think about the next generation as well. And then slightly more practically, I'd say you need to sort of think about the difference between where your assets are located or likely to be invested versus where you need your family office services performed, and the performance of the services are likely to be closer to where those financial services expertise tends to sit or closest to where the family tends to be located, whereas the asset holding structure could be, you know, anywhere depending on where the assets are situated. And also, you know, we touched on this as well, you know, think about what expertise that you need in-house versus what expertise you want to buy in from the external advisors. You know, make use of the strengths that you have from your own expertise and kind of accept where those don't sit and bring them in-house.

Just in terms of other sort of tax and legal implications as well, employment law, really, really important. If you're employing people, take the same approach as you would do within your business. If you feel that you got the right contracts in place, understand all of your obligations around, you know, [inaudible] and other HMRC obligations, which is key. Cybersecurity is a really important one. The family office is likely to be holding a lot of sensitive information for the family, and you should seek and take the same approach as you would with your business, ensure that you've got the right protection and firewalls in place to look after that information. And then the final one I'd add is just around the FCA. If you're managing your own money, you're likely to be okay. But if you're managing money for others or if you're in a co-investment situation, you know, take some advice around FCA, because that's the one you don't really want to get wrong, because that takes you from a civil to a criminal offense. So they definitely need some advice around that as well.

Russell

Thank you, some critical pointers there. So thank you for that sort of technical perspective. Andra, briefly, can I just come to you then on a more of a practical perspective, you know, with this sort of example I quoted. What are some of the practical thoughts you would have when someone is approaching this sort of situation?

Andra
Sure. So I guess the way we'd approach the conversation is by exploring three key areas. So the first one is that of purpose. I know we've spoken about it before. We'll probably keep talking about it, but why are you looking to set up that family office? You know, what does it mean to you, what should it help you achieve in the in the next five, ten, 20 years, and do you have a clear vision of what the successful family office might look like. So this built on my previous point around just making sure you've got those parameters in place. Is it the same for everyone, and also, last but not least, how do you measure that success? I can't stress the importance of having a clear goal to work towards, as well as interim checks and milestones and measurements that may not just be around financial returns, but also around the family office, helping with next-gen education. I know both Richard and Karina touched upon that, things like philanthropic contribution and so on. So purpose is the first one. The second one is around people. So who are the people and the stakeholders in the family office? So ask yourselves questions such as who will be part of the family office either by way of ownership and management? You may start as the CEO of the family office and maybe bring in other family members or friends, again, I spoke about that a bit earlier, but how does that bode with the non-family members in the family office, and how will that make them feel? Do you have clear roles and responsibilities for everyone? How will you reward them, to Richard's point, so that you can retain them, and they feel motivated, and will that be the same for family and non-family members? How do you performance manage? I keep going on -- I could keep going on forever on this, but there are some big questions here that need very clear thinking from the outside.

The third area, we've spoken about purpose, we've spoken about people, the third area is that of processes, and this is about your operational structure of the family office. How will the reporting lines work? How will the decisions be made for which areas? Work out authorisation to do what. How will you plan and manage risk? And what procedures can you benefit from? So I guess whilst having a large number of policies is not the aim here, that's absolutely not what I'm saying, but having some basic rules and guidelines is always good practice. So clarity of purpose, clarity of roles, and robust processes, I think, from our perspective can be of great help, especially when those non-family members start coming into the family office with their own goals and thoughts as the family office evolves and changes.

Russell
And I guess that's particularly important given what a number of you've said around this setting up something new. You're not actually, you're not building it on an existing infrastructure. You're starting afresh. And therefore, this issue of building it out carefully, I think you're absolutely right to emphasise. Karina, the logical next step is really to build out from the point that Richard alluded to, which is that the family office entity itself and the asset holding structure is, you know, often very different.

I'd like to explore this distinction with you if that's okay, because I know this is an area you cover. I guess firstly, is it really well understood that there is that distinction between these two things? And then perhaps you could talk a little bit more about what kinds of people that are setting up a family office should be thinking about, and which aspects of these are the ones that are really the most important to highlight?

Karina
Thanks, Russell. We generally find that clients don't have a clear distinction between the strategic and operational structures of the family office and the asset holding structures. And the important thing is, the starting point is to understand the purpose of a family office, what is it intended to achieve today, and how does the family see it developing in the future?

Developing a clearly defined remit for the family office and a business plan is vital, rather than just focusing on how say the investments should be managed or how it may link in. And it might be just a very simple plan to start with, but it's essential to develop a clear definition of the role of the family office before establishing one. If we start with the strategic and operational, every family office is different, as Andra pointed out, and should be designed to meet the family's requirements. And it might be small to start with and grow over time. But there are some common features. One is to establish a coordinated structure for the management of the family wealth. Another is to coordinate and implement external advice from experts on investments and tax and legal and governance and succession planning. Now, this may come over time. It might not all come in one go. And to manage the vision and values of the family, as well as for many clients, a legacy of the family. The services of the family office would provide, have been touched upon earlier, and some of it will be outsourced, some of it will be in-house. And it's important to balance out what can they manage given the personnel they have, given what the family requires. So a single family office may start with say one or two employees that just deal with the investments to start with, and the question is, is the family focused on just investments, where they might need only one or two, and maybe their remit will broaden over time, and then they need many more personnel covering those functions. And as Andra pointed out, it's very important to have the right personnel with the right remit, not just somebody you know that you're bringing in and you think they can cover that because they were wonderful in the business you developed with them.

In terms of structures, some family office staff are employed directly by the company, I'm sorry, by the family members, but as Richard pointed out, they can also be employed by corporate, partnerships, etc., over time. I'm often involved with both, because if you're setting up from scratch, the two will come together, but they are different. And so holding structures is where I usually work with lawyers and accountants like Richard. The type of structures that will be used, the holding assets will vary, and Richard pointed this out earlier, the type of assets, where they're located, and where the residence or family members or the patriarch or matriarch are located will influence the type of structures. These structures may change in the future and for many reasons, and this is why family offices need to, and family wealth needs to be reviewed. Once it's set up, it'll change over time, and it's important to review them, because there may be changes in asset class or location or changes in family members that can impact the structures that we talked about earlier or changes in law or even changes in the family circumstances or what they require.

Russell
Thank you, Karina. I'd like to just perhaps build on that and come back to this sort of jurisdiction question again here, Richard, because we get asked this a lot and, you know, we see out there in the sort of family office landscape a number of jurisdictions highlighting how attractive they are for the establishment of family offices. What's the sort of -- can you bring some clarity to that issue? I know you've sort of touched on this a little bit. I'd be really interested when someone sat there and they've got assets in different jurisdictions and they're thinking about the family office, they might have family members around the world, how do you bring sense to that jurisdictional issue?

Richard
Yeah, I mean it is a difficult question, and I think actually there are lots of questions that you asked today, Russell, you can always, always start with it depends, which is not particularly helpful. But it does depend. It depends on where your family is located and where the assets are located as well. You can normally put a fairly kind of distinct difference between asset holding and organisational, you know, family office organisational structure. So we're talking about the organisational piece here, not the asset holding. But the -- it depends on where you are in the world. So in Asia, we tend to see Singapore as a hot favourite they've got some good structures there in place, which also gives some rights to live or immigration rights within the jurisdiction. Hong Kong tends to be another favourite in Asia as well. In the U.S., there's many local sort of family office entities for U.S. citizens, and they tend to be either in New York, San Fran, or LA regions, which is where the main kind of hub of financial services expertise is held. And in Europe, again, it depends on where the expertise is, but again, if you look at these sort of where the financial services expertise is, that's normally where you find the family offices as well. So London, of course, Monaco, Jersey, Switzerland, and Luxembourg tend to be favourites in Europe.

Russell
Brilliant, thank you. I'm going to move us onto the issue of kind of costs associated with setting up a family office next, if that's okay, and partly because we've had a question coming on this. So I'd like to kind of explore this issue of the costs associated with running a family office, and in a sense, therefore, is there a minimum level of wealth or is that one way of thinking about how you justify the costs for this. So I'd be interested to get your sense of this, and I know you may well start with the it depends again, but I would be interested to see if we can draw out something general on this. And the particular question that we've had come in here is, you know, how do single or multi-family offices attract top talent and retain it? Partly because of, you know, they're quite small, and they're not, you know, they don't necessarily have that sort of wallet of a large organization, and maybe they don't want to or can't afford to pay for that level of talent, so it's a great question to ask in the context of the costs. So Richard, let me come to you first on this, and then Andra, perhaps I can get your take on this one as well, if I may.

Richard

I know Andra's got some views around cost, so I'd probably start with sort of wealth size. So we tend to see family office of -- well, we tend to see founder's offices starting at around sort of the 50 million upwards wealth level with single family offices around the sort of 250 million upwards level, and I know Andra's got a video around costs, so I won't steal her thunder there. But, excuse me, in terms of incentivising and ensuring long-term commitment, it's a really good question because it's not around cash and bonus. It's around something much more than that, and because if you're a, you know, like myself, you know, in a professional services firm, which has many different clients, and then you shift into, which is not unusual, you shift into the family office world, it's quite a concentrated risk because you suddenly have one client to keep happy and one person, one family to get on with. So there needs to a good understanding on both sides, and part of that obviously comes down to, you know, the various different incentives, which can be quite wide. But sticking with financial, as I said, it not just about cash and bonus. It may be a bit more than that. So, for example, could you bring the family office key executives into some sort of co-investment together with the family office or give them some share options of some of the asset-holding structures as well to ensure that long-term commitment with a view to a capital exit further down the line. So everyone is on the same page in terms of what they're trying to achieve.

Russell

Thank you, Richard. Let me come to you then, Andra, on this, and I've got a follow-up question from our audience this morning, which I might pose to you depending on what your next answer is.

Andra

Thank you, Russell, and thank you, Richard, for not stealing my thunder as you kindly said. So I guess in terms of costs, so I'll touch on the cost piece. I think it really depends on the complexity of the family office and ultimately the resource that is required. Again, I know we said it before, but it's the same principle as for your business, right, which is why we emphasise the importance of writing a plan at the beginning to figure out what resources you will need and then cost them out. Now, even though there isn't, you know, there's a lack of standardisation in family offices, there is some research out there, and also based on practice, around how much it costs. So it tends to be around 1% of the assets under management, the cost of running a family office. Again, this is just research. Take it with a pinch of salt, but that's an indicative number. Now, there's also research that says that about 60% of the fixed costs of running that family office around staff and reward, which is exactly what Richard was mentioning before. You know, it's not really unexpected. So that's why it's really important to figure out from the beginning, you really need to in-house some of these resources or can you just, you know, use external service providers. The other thing that I wanted to mention here is don't forget that there are also the setup costs. So you've got things like your legal fees, your infrastructure cost, your IT cost, Richard touched on cyber, which is something that comes up quite often. So bear those in mind as well and figure out, do you really need those costs, do you really need physical premises. So just to share an example here, there was a principal who commissioned an in-depth analysis of how much having a family office would cost and the projected return that it could yield compared to using multiple banks and investment managers, and so on. And they basically used a blended benchmark of industry indices and figured out that it didn't make sense, right? So they went with outsourcing everything. But in another case, the principal was keen for the family office to be used for asset protection, for next-general education, as Karina was mentioning before, and basically succession planning. So for them, it made sense, even though the numbers didn't necessarily add up. So the key here, again, is going back to the family offices is not -- it has to be a value creator and enabler for the family, because you can't really put a price on keeping future generations together if keeping future generations together is what matters to you. So, again, it just goes back to what you're looking to achieve with it.

Russell
Thank you --

Andra
And I'll just -- sorry Russell. I'll just add, on the levels of wealth, just to add, because I'm probably preempting Russell's question on this, I think for an actual single-family office, I agree with Richard. You don't really need a very high level of wealth for the founder's office, for that embedded family office. But if you start thinking about the single-family office in its pure sense, I think we are talking about up of 100 million or even more for an actual fully-fledged, single-family office for it to make sense, I would say.

Russell
Thank you. You did indeed, Andra, answer the question that came in from the audience, and I guess part of this and the question from the audience said, the person that asked the question said they'd heard that it might need to be up as far as $500 million. And I think the issue here alludes to this thing that it's quite difficult to get the firm handle on many of these things around family offices, because each family office is different. And I think that is part of it. But no I think wise words there from you, so thank you. I'd like to move on now to the issue of risk, if that's okay. You know, we've heard comments earlier on about things like cyber risk, you know, FCA, regulatory risk, things like that. So I'd like to delve further into this issue of risk. So what are the sort of the other risks, other main risks to be considered, and what in the context of the risk perspective, what are some of the pros and cons of setting up a family office? And Karina, I'll come to you, if I may first on this one.

Karina
Thanks Russell. If a family office has been carefully planned, and the remit is very clear on what they have to do, and that they don't have to keep having services or demands on them, if it's working well, then it will run efficiently, and it will meet the risks required, because they'll be alert to it. They have the time to do it. And this is why I spoke earlier about making sure your family office, you're not dealing with the personal matters. You're very focused on the risks associated, regulatory risk, cyber risk, all the risks that could be. So careful planning, implementation, the right remit for the right people, so making sure you have that. If that's properly planned for, the firm may agree, the personnel in the family office running it, it can work really well. The problem is that if family offices keep getting added with different demands on them, without planning, without thought of, you know, the consequences, that's where the

risks, they can take their eye off the important things, focusing on, you know, minor, irrelevant issues. So planning and proper implementation is key. The other risk is if you've got the wrong personnel, you could find a family office where you've got the head who becomes dictatorial, we've seen on a few occasions. They cease to reflect the values of the family, and this can -- or they don't understand the tax or regulatory or legal risks and don't get the advice they need at the right time. So having the right people with the right qualifications is, as Andra pointed out earlier, is very important. And another risk is that you can sometimes have family offices that take sides. We've seen that on a few occasions. They might take sides with certain members of the family. Now this can either create a conflict or worsen a conflict. So personnel is very key, and having the right people who have an understanding of all this is significant.

Russell
Thank you. And Andra, let me come to you next, and then Richard, I'll come to you after Andra if I may.

Andra
Thank you, Russell. So I'm going to start with the positive end of the spectrum before I go into the risk, if I may. So I guess, look, I think we all know that some of the pros of setting up a family office are things like can provide proper governance and coordination. It can help you with, you know, having control over the wealth. It can help you with interest alignment between the family office members, or the flip side to what Karina was talking about. It can be a very good platform for keeping generations together and provide that demarcation between the family-owned business and the private wealth. Now, shifting into the risks, I guess one of them that we see quite often is tying people into structures that may not be appropriate in the future, and I'm sure Richard can talk more about this. They can be mitigated to a certain extent, but again, that's one to keep in mind. There's things like expertise risk. So not having the breadth of expertise that you need or having people in-house whose expertise is not necessarily up to date. Again, we've touched upon this, but really important to bear that in mind. The third one I would mention here is concentration risk, because you are concentrating all of the risks in a small unit and a small team that are managing it, if you're doing that in-house. And the fourth one I would mention here is the potential misalignment between family and nonfamily employees and stakeholders. So risk assessments are really, really important. Having those in place from the outset is really key, just because it helps you figure out and plan in advance and detect certain areas where you just need to have some controls in place to make sure that you can manage it carefully.

Russell
Thank you. And Richard?

Richard
Yes, so I think I'll probably put a slightly different spin on this as well. So what I would say is that if a family office is set up in the right way, essentially there to help manage the risk of the families as opposed to bringing the risk in itself. So and, for example, the risk of not getting your kind of tax and legal obligations correct. We see quite usually that a family office will probably have someone like a general or legal counsel in-house liaising with external advisors such as myself to ensure that that's

managed properly from the family perspective. Also, cybersecurity, ensuring that there is a focus on that within the family office itself and probably bringing in the expertise in externally. But, you know, we're all at risk of cyberattacks or by forces that can try and get their hands on wealthy people's money. So even going as far as, you know, as to monitoring the online activity of some of the children within the family and ensuring that they are not giving too much away around the family wealth and putting themselves at risk. I think, you know, a family office can help to manage that risk. And I'll say also around kind of diversification from an investment perspective. If a family happens to be multibanked, it's not unusual to have a monitoring service within the family office as well to help liaise with the various different banking counterparties to manage that risk. And then the final one, I would say, is just around that next generational risk that Andra has touched on, that I mentioned earlier, and Karina has no doubt mentioned as well is that how do you start to introduce the next generation to the responsibility of the wealth within the family, and again, a family office can help to manage the risk in that respect.

Russell
Great. Thank you. So what I'd like to do perhaps, and actually, Richard, your point at the beginning of your answer was a good prompt for this, but I'd like to ask each of you perhaps to share an example of where you've seen the establishment of a family office and you've seen that succeed and, particularly, why did it succeed, and how was the success measured? So an example from each of the three of you would be great. So, Andra, let me come to you first, if that's okay, then Richard and then Karina, we'll do in that order if that's all right.

Andra
Sure. I guess to me, successful family offices are those that have very clear goals and the right amount of governance in place to allow them to meet those goals. So my example, again, is a positive example. So a case that stood out for me was a family business that had been sold to private equity by three brothers, who were the second generation of the founder. Now, what they did is they decided they couldn't continue together with either the ownership or the management of that family business because they all wanted different things for themselves and for the families. Their father let them decide, didn't really have a choice to be quite frank, but what he did ask of them was that as the generations expand, he really wanted them to know each other's names and also remember him. So this was the remit, which is why this stuck for me, it was quite interesting. Now, what the three brothers or that second generation did was they were all quite astute investors, so they decided to set up a family office, and that was flexible enough in the way in which was structured, it allowed them for collective but also individual investments. So the branches could each decide if they wished to co-invest alongside one another or not. They also set up an investment committee, and all of them had representation on that investment committee, and that was alongside other external professionals. But that was going to continue in perpetuity. So every time somebody from a family branch was entitled to sit on that investment committee, was subject to certain parameters. Separate to that, they created a philanthropic foundation, and that was bearing the name of the father or the founder of the first generation, and they entrusted that to the third generation. So their kids, the three brothers' kids were in their 20s. So they would come together every year, and vote on causes that they wanted for the

charity to support and how to deploy those funds, so it was a [inaudible] making charity, so they would decide on that. They had a charter with clear risk of roles and responsibilities, so it also acted as an educational tool. So there's just a very simple case that stood out for me because it shows how even though the family could not continue together with the family business, they did it both via the family office and via the foundation, and redefined the parameters of success because they had very clear brief on remembering people's names and keeping the generations together, and that's just how they did it.

Russell
Thank you. That's a really, really lovely example. Richard, may I come to you?

Richard
Yeah, sure. So rather than using a specific example, I think I just maybe give some of the key points that I would say that are common across a number of the clients that have had, you know, built and run successful family offices. I mentioned this earlier on, again, but come back to doing a lot of slow thinking at the outset, take a lot of advice, ensure that you define the purpose of the family office and understand what you want to achieve, and bring that purpose together as one that's owned by the whole family, so you can bring that next generation piece to it as well. Engage the right advisors, ensure that you know what you want to be doing externally, that this is what you want to be doing externally. And also engage with the right recruiters out there, because if you want to bring people into your family office, you know, there's a specific skill set of recruitment needs there as well too, so they can help you to build that. There's quite a small pool of that family office expertise, and sometimes you have to go and pull them out of other jobs to be able to get the right people, so think about that. And then my final one would be really take some time to think about how to incentivise your family office employees as well, and ensure that long-term commitment, and I'll go back to my points around co-invest and, you know, long-term incentive plans that I mentioned earlier.

Russell
Thank you. Karina?

Karina
Thank you. Well, I agree with both Andra and Richard, and that covered a lot of my points, but I'm going to share one where we had a family who came to us, and when we reviewed where it had gone wrong, they had set up a family office with not much advice. They kept adding services as and when they needed it, so the family office was creaking at the seams. And they hadn't considered the impact on the family office or on the whole structure of their wealth. And it was only when they spent a lot of money getting it wrong, losing all the staff who weren't incentivised, who were worn out trying to deal with personal, all the issues that they realised they had to set up the family office from scratch. It needed all the advice. They needed all the planning, and as Richard just mentioned, take time to do it. Because it doesn't mean you need a huge structure. It's better to start small, and that's what this family did, and today it's working very well, very similar features to the case study that Andra mentioned. And so you went from a very unsuccessful family office to a slim and tight family office today that's working for the family.

Russell

Thank you to all three of you for those examples and thoughts and for your comments so far in the webinar. Now, we've had some great questions in from our audience this morning, some of which I've already taken as we've gone along, but we have a few questions still that we should cover. So if it's okay, I'm going to move us into the sort of Q and A part of this. One question, and perhaps I'll come to you on this one, Richard, is just the issue of any direct or indirect tax benefits. A question has come in from somebody saying look, you know, they're aware that as a business owner once you've sold the shares in the business, the business property relief kind of falls away. Are there any direct or indirect tax benefits in the UK for establishing a family office?

Richard

I guess we'll stick with the point around business property relief. You're correct that whilst you own the business, it's likely that you'll have a full exemption from inheritance tax. And then as soon as you cash out, you suddenly give yourself a 40% IHT problem, and so that is correct in itself. There is an advantage of setting up a family office in terms of inheritance tax and succession planning, and it goes back to what we said previously. So on one side the family, the organisational structure of the family office can help to introduce the next generation to the world, but then similarly, whilst we're doing this, on the asset holding side, the family may start to feel more comfortable about passing the assets down to the next generation or perhaps forming a structure that the family own as a whole to start shifting some of that wealth down to the next generation. And so I think the family office can absolutely help with both succession and IHT planning, yeah, sure.

Russell

Thank you. Actually, the part of your answer there links neatly to another question I've had, which is this issue of how and at what point, you know, would you say is the right time to get the next gen involved in a family office? Quite a big question. But Karina, you've talked quite a bit about sort of next-gen development and training in relation to the function of the family office. Let me come to you, any thoughts on is there such a thing as the right time to or the right point to get the next gen involved?

Karina

I think it's important to get them all involved when they're young, so late teens. I mean the youngest I've been involved with was a 14-year-old who was extremely bright and very interested. But most of the time, mostly I would say that they would be around 17, 18, because it's important to start the training and their understanding, especially if you want to protect and introduce them to topics such as nuptial agreements so they understand their role in the family, their responsibility, because one, they will inherit a great deal of wealth, and you need to start them early before they've formed close relationships with say girlfriends, boyfriends, whatever, so they can understand what they need to do to protect the family and why it's important. And when you do it early, it doesn't become personal. So if it's a nuptial agreement, it's for them, it's something that they have to do. Whereas you introduce it to them when it's, you know, a couple of months before they're getting married, say on that topic, it's a much harder conversation because they're not used to it, they haven't thought it through. But I think 17, 18 is about the right age to start them.

Russell
Thank you. Andra, any thoughts yourself on this question of the next gen?

Andra
Well, I have an example that came to mind, and this was a family office who was getting, their next generation was late teens as well, one was late teens, one was early 20s. And they were being brought into some of the meetings to take notes, but this was their remit, and again, the family just thought that's quite a good idea to get them -- even if they get accustomed to the language of the business and what's happening. And the other example that came to mind was three families coming together, wanting to get their next generation involved, they set up a structure, a corporate entity. So they got some advisors to help their next gens, and the point of this structure, where these three next gens were involved was A, educational, to help them understand how to run, how to be compliant and all of that, but also learn how to make investment decisions, and this was around impact investments. So the family got them an advisor in that space to help the next gens understand how to make those decisions. So I agree with Karina. I think it's never too early. I think there's some really clever ways in which you can start, get the next gen involved, because I think the piece here is how do you make it interesting to them, right? So their interests are probably quite different and they're quite far away from coming and taking notes in some of your meetings. So finding something that resonates with them and blending that into what you're doing in the family office, I think is quite interesting.

Russell
Thank you. I've had a linked question to this, which I think is quite an interesting one. The question is sort of, it's recognised here that when you have the senior generation and the next generation in the family office, you always have a sort of a triangle of relationships. And I think Karina, you might have alluded to this piece of, you know, is the family office sort of caught betwixt and between? The question sort of then says, do you have to then also think about succession in the family office team as the generations of power base shifts from the senior to the next generation? Karina, thank you. I was going to ask who would like to tackle this, so thank you for stepping in, Karina.

Karina
Absolutely. And it's very important, because, you know, some family offices are only set up for one generation, as we've found Russell in working together. You know, they're going to distribute the wealth. For them, it's not a legacy. Where you have families that you're looking at legacy, it's a -- you might be looking at it the same way for one generation, but you need to look at the succession. What's that family office going to look like? Is it going to be working with trustees in the future? How is that going to fit together? What's the succession of the personnel there, as well as the next generation who will be working with future family offices? So it's a very important thing to consider because if they all,

something happens to them, and there's no succession planning, then you're having to go back to the drawing board again. So you need to -- that needs to be an important part of the planning.

Russell
Thank you. I've had another interesting question on this issue of sort of family development, which is, and again, you touched on this earlier, panelists, thank you, but it focuses on the issue of as family members become more international or move internationally, what are some of the challenges that this throws up for a family office to have to cater for. So Richard, I'll come to you first, and then Karina, perhaps come to you second on this, because I'm sure you'll both have something interesting to say on this.

Richard
It's a really good question and, you know, wealthy families are becoming more and more international as time goes on, and that may be based on the fact that they have various different homes in different countries, and the children may be educated in different schools in different countries or different universities. They may take a route in terms of their business, which leans them towards another, you know, country which the family are not located in. And so that, there are, you know, lots to consider. You need to think about, I'll start with immigration. You need to think about kind of right to live and visas and the ability to be able to travel freely. So there is an immigration piece there and maybe kind of a dual passporting piece as well. And then also to think about tax, sorry to be boring. I'm a tax partner, so I've got to mention it. But the tax residency will be based on where a person spends most of their time. And suddenly to, you know, put yourself in a country which has got its own sort of tax code, which is going to effect the, maybe the asset-holding structure. So, for example, you know, a non-dom family living in the UK and, you know, the child goes to live in America and they have some trust in Jersey, that can cause you a bit of a headache. So you need to sort of start thinking about that and addressing that quite early. But of course, you don't want to, you know, go as far as to stop family members pursuing their own dreams. So it's all manageable, but again, you know, it's something you need to think about at the outset.

Russell
Great. Karina, anything you wanted to add on that?

Karina
Sure. Just completely agree with Richard. It is important. This is where the family office can be so vital, because if they know about the family members, then they can obtain their advice before a family member moves to say America, which is a common issue. And that can impact the family structures both for the individual and for the family as a whole. But if the family office are aware of it, they can coordinate with external advisors to make sure that this is planned for and to avoid these issues. We had one who didn't bother to consult in the family office and just turned up in the states. He was a beneficiary of a Jersey trust, actually, Richard, and that caused all sorts of issues. Now, if he had been consulting the family office, this could have been planned for without incurring any issues.

Russell

Thank you. So really important points to be shared there. I've got some great questions. I think we're all right for time for a couple more questions, but we can't run a webinar at the moment without the question of political change coming up. Richard, I'll come to you on this if I may. Any sense around potential areas of impact from family offices that are sort of surfacing or being discussed in relation to this question of political change?

Richard
So nothing that I've seen which is specific to family offices, but plenty that will have impacts on the family offices that are not directed at them. So, in the UK we've got lots of whisper around the abolition of the non-dom regime which will impact where there is no wealthy families' asset holding structures may well be, this may even, you know, result in a move of some of the family members outside of the UK. So then the family office needs to, you know, consider how they deal with that both from an asset holding perspective, but also from an organisational perspective. If political, you know, if tax changes mean the moving of the family, does that also mean the moving of the family office as well at the same time? So it is a real, you know, with general election next year, certainly changes, you know, expected, and something would have to indeed keep a close eye on.

Russell
Thank you. I've had an even more technical question. I think we've touched on this issue around different asset holding structures. You might have different investment managers or banks out there managing those assets. So a question has come in on thoughts around software for consolidated reporting in family offices. Andra, I know this is a topic that we often discuss. So I hope you don't mind if I pose this question to you.

Andra
I love that question, Russell, as you all know. So, I guess software in family offices has become much more prolific, and I think we're getting a lot of questions in that space. There are already a lot of providers out there. Now, what I would say is the way I would approach it, if you are considering getting some sort of software for consolidated wealth reporting within your family office, it can have a lot of advantages, because it can help you basically have all of the information in one place. If you move or have different family office members or family members move to different jurisdictions, you have access to all of your data. So there's all sorts of positive things about it. There are also challenges. So there's things like data privacy, that I'm talking to family offices about because they're concerned about that. Again, some of them, some of these software providers deal very well with them. Now, the way I would approach it is, first of all, I would say create a brief. If you are thinking about getting one of these softwares for your family office, think about what you need it to achieve for your family office specifically. Secondly, I would say due diligence a few and test them, because a lot of them will come and do a demo for you, so you can figure out if it feels right for you, if it's simple enough or complex enough, depending on your needs. And the other thing I would do is I would speak to some other family offices and see what they're using, because also some of the professional services firms have started to develop their own pieces of software, and they can aggregate those with some of the services, some of

the additional services or some of the back office that they can give you. So there's lots of good stuff going on. I think the market is becoming already quite crowded, so I would just say, create yourself a very clear brief of what you want that software to help you achieve, test a few, and then speak to others before making a decision.

Russell
Thank you. That's really helpful. I had a great question come in around the issue of multi-family offices, not something we've talked a whole lot about in this webinar. So thank you to the person who has asked this question. The question is, is there an inherent conflict when an organization which calls itself a multi-family office is also the investment or wealth manager for the wealth. Great question. Richard, I might come to you on this one if that's okay. Any thoughts on that?

Richard
I think there's got to be, really. So it really depends on the services that they're performing. That if there is the ability to stand as an independent on the side of the family office and effectively monitor the performance of various different other investment managers, and that's fine, however, if they're doing an element of the investing, then I think you just need to be clear about what part that plays in the overall portfolio. Because, you know, if you sit there from the outset, inherently, you think, well, there must be a conflict, but I think if everyone is very clear about the part that they're playing, and that multi-family office has a particular type of expertise that is not on offer elsewhere, then absolutely you should use them, but factor that into the part of the overall portfolio.

Russell
Thank you. Thank you. That was a great answer to a really interesting question. I want to squeeze this last question in. I'm conscious this is going to make the ending, the last five minutes of our webinar a real squeeze this morning. So panelists, please do bear with me, but it's a great question that's come in. Could we invent a game, which is being called by the question of, for instance, how to invest, to let the next generation play with? This might get them involved and teach them in a funny and involving way. I'm going to take the liberty of answering this question first myself. I know that's a terrible thing to do, but only because it's such a great question, and funnily enough, I did have an example where the principal, the ultimate benefit -- so ultimate owner, UBO, and the family office were talking to us, and we were actually having a conversation with the UBO, how is the grandfather, and his grandchildren, and he was sharing his life story around this. And out of the -- at the end of this conversation, quite spontaneously, he said to his six grandchildren, "I'm going to give you an amount of money." It was a smallish five-digit sum, so meaningful, and said, "What I'd like you to do is to think about a business that you know really well. Do your analysis, but then I want you each to invest in the one you choose, and we're going to come back in a year, two years, and see how that's done." And I thought it was very spontaneous in a really nice way of actually trying to engage them with, you know, what makes a great investment, and then actually allowing them to back it. But so that was my example. I hope you don't mind, panelists, that I've leapt in on that one. But does anybody else want to share a quick sort of story? Andra.

Andra

Yes, so I was just going to -- actually, I haven't given the full context of the previous example that I shared, where the three next gens would come together using that corporate entity for investment. So that's very similar to what you were referring to, Russell. The only difference here was that the next generation were focused specifically on impact investment, and they have an impact investment advisor helping them understand how to make those decisions. But again, it was a relatively small amount of capital that the families would give them, and the idea was that at the end of the year, the three next gens would present their results to the family in the hope of doubling the amount of capital that they get next year. So again, a really nice and fun way to teach them, A, about investment, B, about managing that corporate entity, because they were the directors of that entity. They had to deal with the compliance, and so we all know that's not the fun bit, but still, it was a really good and interesting educational tool for them.

Russell

Thank you, Andra. Thank you. I would love to have come to you, Richard and Karina, but in my excitement to answer the question myself has led us to come to the point where I need to close today's session. So, look, firstly may I say a huge thank you, Richard, Karina, Andra for sharing your views and thoughts in the conversation that's ensued. Also, thank you to our audience. We had some great questions in from our audience, which I'm sure indicates that the conversation today has been of real value. For our audience today, look, there is an opportunity for you to share feedback. So please do do that. And if there's anything you'd like from today's conversation that you found interesting or want to know more about, please, if you'd like to contact one of our experts, please do take the opportunity to do that via your HSBC Relationship Manager. Obviously, I'd like to plug our future webinars. We have two more webinars in our nine-webinar series this year. We're both happy and sad that we're moving towards the final phase of that. But before I close, I want to come to each of our three panelists and just ask you to leave a sort of a final message, if that's okay, a sort of 20-second final thought for the day that we can leave with our audience. Richard, let me come to you first and then Karina and then Andra.

Richard

Thank you, Russell. So I would say that if you're thinking about setting up a family office, just start with some slow thinking, take advice, make decisions for the family as a whole, make use of your own expertise, and work out what you want to do internally and what you want to do externally. That's it for me.

Russell

Karina.

Karina

Thank you. Very similar to Richard. Take time to think through your vision for your wealth and your family and engage the right advisor to help you right from the start before you think of establishing a family office.

Russell
And then finally, Andra.

Andra
Very similar to Karina and Richard. First of all, a family office, remember, it should be an asset for the family rather than a liability. So treat your family office like you would your business, set it clear objectives, strategy, operational framework, roles and responsibilities, and clear parameters around what success looks like. And don't forget to review it from time to time.

Russell
Thank you, Andra. So from me and from our panelists to our audience, thank you very much for joining us. Thank you for the great conversation we've had this morning, and may I wish you a good day.