Family Office: a new or old phenomenon? Pathway to successful family and wealth management

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Family offices are not a new phenomenon in finance and wealth management. Their origins date back to the 16th century, when kings authorized others to manage their royal wealth. As time passed and kings became an anachronism, the financially wealthy and noble adopted a similar concept to manage and grow their wealth, help avoid family disputes and maintain transparency. Prominent examples include J.P. Morgan who founded the House of Morgan in 1838 to manage family assets, and years later, the Rockefellers who founded their own family office, which still provides services to other families.

In recent years this mechanism, which offers holistic and outsourced solutions to managing the financial and investment side of an individual or family, has seen an acceleration as family offices around the world and even more so in the emerging markets are being established. There are many reasons to set up a family office, but at the root of these is the desire to ensure sustainable growth of a family's wealth and smooth intergenerational transfer of this wealth, as well as to mitigate risks and reduce intrafamily disputes. This desire naturally increases from generation to generation, as managing the family's wealth becomes increasingly complex.

Without being exhaustive, the following themes outline why a family office is justifiable, even necessary: (i) privacy and confidentiality – maintaining privacy of a family's wealth, (ii) governance and management structure – dealing with the complexities of the family's wealth to avoid future conflicts, (iii) alignment of interest – aligning financial advisors and the family, as opposed to a non-family office structure where multiple advisers work with multiple family members, (iv) potential higher returns – through the centralization and professionalization of asset management activities, family offices may achieve increased returns, and (v) centralization of other services – family offices can coordinate other professional services, including philanthropy, tax and estate planning, family governance, communications and education, to meet the family's mission and goals.

There are several forms of family offices with the most common being Single Family Offices (SFO) and Multifamily Offices (MFO), both of which manage assets that are completely separated from the family or family business. In most cases, the MFO emerges from an SFO as subsequent generations evolve and branches of the family become more independent of each other and investment activities within the original SFO activities become separated. More recently, we have also seen the emergence of the Virtual Family Office (VFO), an entity for families interested in the benefits of a family office managing their financial and other affairs, but do not want to set up a company to do so.

Frequently, many families are hesitant due to the high costs of family offices, however this issue may be resolved if several families pool their wealth together and set up an MFO where all assets are managed under one umbrella. Additionally, some families do not feel confident putting their assets in the hands of an external manager, however trust between the family and the manager builds as the relationship grows.

For more information, please check out EY’s Family Office Guide: Pathway to successful family and wealth management (http://bit.ly/1RPSVfQ), a comprehensive and in-depth guide designed as a learning tool to provide guidance to families considering setting up a family office.