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# *The Uniform Family Office – Practices and Procedures for the Cloud-Centric Virtual Family Office*

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*With the Proper Practices and Procedures in Place, the Modern Cloud-Based Uniform Family Office Can Be a Cost Effective Solution for Transferring Wealth and Legacy*

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## Executive Summary

*The most effective method for transferring wealth and legacy is a dedicated, team- oriented, approach that encourages and facilitates open channels of communication among all generations and service providers. This model is known as the Single-Family Office and is often employed by ultra-affluent families (greater than $50 million in net worth). The most common wealth management framework among affluent families (families with greater than $5 million in net worth but less than $50 million) looks vastly different and does not lend itself to the same degree of effective wealth/legacy transfer.*

*This White Paper will explore best practices, procedures, and technological innovations that can bridge the gap between the typical wealth management framework and what is efficient.*

## Traditional Methods for Managing Wealth: Affluent vs. Ultra-Affluent

### *How Wealth Management Looks Among Affluent Families*

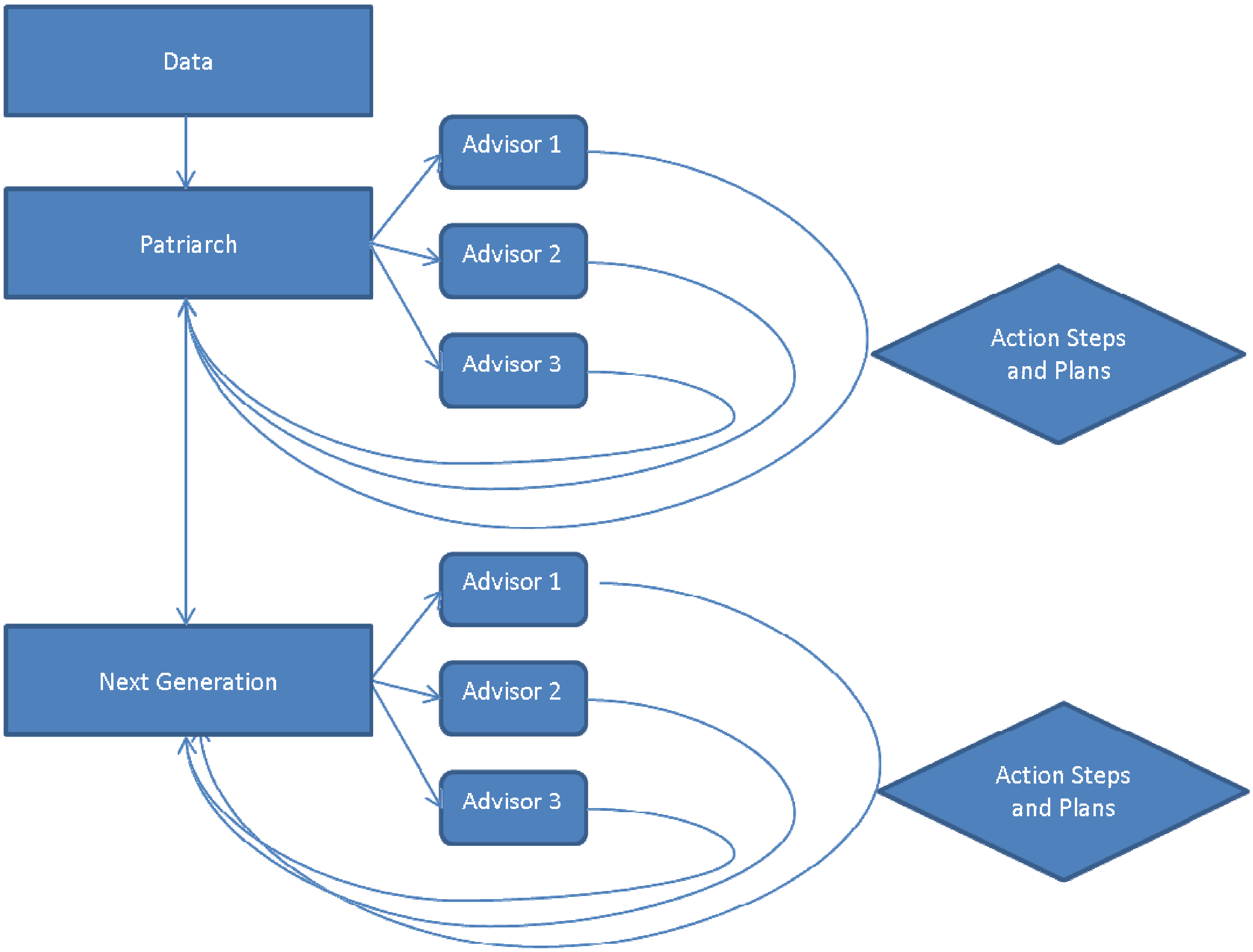
*Some estimates suggest that the average affluent family may employ fifteen to twenty "advisors" to service a broad range of financial needs.*

The traditional framework for the management of family wealth for an affluent family (less than $50 million and greater than $5 million) often consists of the wealth creator's "go to" primary advisors overseeing the broad family engagement; handling financial planning and estate planning for the wealth creator while setting up trusts that will pass down to future generations. Typically non-spouse beneficiaries (i.e. children and their spouses) hire their own trusted secondary advisors to fulfill their various financial needs with limited interaction with the wealth creator's advisor. These primary and secondary advisors, who are perceived to be experts in various niche areas, will inevitably spend countless hours learning (and re-learning) the desires, needs and unique family dynamics of their respective mutual clients. This often occurs while the advisors are operating in different buildings, with limited communication between one another and no communication (or very little) with other generations and other family units. Pricing discounts aren't given because the work is being done under several different roofs.

Service providers may include attorneys, tax advisors, business consultants, insurance professionals, investment advisors, banking associates and estate planners. The many generational and professional layers involved in the execution of a typical wealth management strategy – brick and mortar with niche experts – makes the traditional method of managing the transfer of values and wealth very inefficient.

This framework also does not lend itself to meaningful oversight and monitoring. With each additional advisor these families choose to hire, the likelihood increases that someone is going to do something that will have a severe negative impact on the ability to transfer wealth and legacy effectively. Indeed, the more wealth involved the greater the consequences of improper planning.

## The Traditional Model - Non-Related/Coordinated Service Providers




*Commonly, data flow is managed by the head of the family (the patriarch or matriarch). The head of the family articulates relevant data received to the best of his/her ability to his/her key advisors and eventually down to future generations. Once the next generation family members have received the data, they will attempt to deliver the data to their individual advisors. In this model, each advisor along the flow-chain will assess fees based upon the labor required to disseminate the data and design a plan to address the need. In this model, there is a high risk of error due to extra layers and lack of professional oversight/communication.*

**How Wealth Management Looks Among the Ultra-Affluent**

The inefficiencies highlighted above (with regards to Wealth Management and Affluent Families) are why many of the wealthiest families choose to start traditional Single-Family Offices or join Multi-Family Offices to address their financial needs.

A Single-Family Office means one family while a Multi-Family Office means more than one family where the family is typically provided a Relationship Manager.

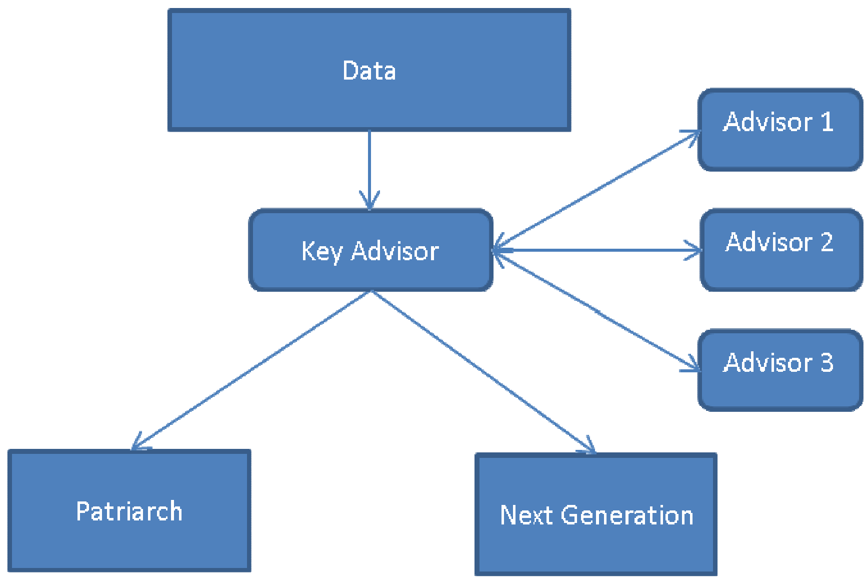
A Single-Family Office employs a dedicated team of talented professionals to service their needs exclusively, running the office as a separate business entity with roles you would find in a typical business setting (CEO, CIO, CCO, etc.).

The CEO of the Single-Family Office staff is often the "quarterback" and the most trusted advisor (the person the office is built around). This person is often a generalist with a specific core competency that suits the very specific needs of the family (whether it be tax, investment, property management, lifestyle coordination, art/collection expertise or something else). The CEO of a Single-Family Office will be hired to build a team that compliments the needs of the family that he or she is serving by employing in-house talent, typically, with limited outsourcing. Working in an exclusive team-oriented manner ensures better communication and coordination among family members and service providers while reducing the chance of error. The team's only concern should be to service the family so the focus stays on the family's needs and coordinating with each other to meet those needs.

A Multi-Family Office, by comparison will look and operate much differently than a Single-Family Office because family needs and dynamics are vastly different from one to the next. The team concept is utilized and most services are still provided in-house but in order to address differences between families and still maintain the benefits of having a coordinated team of advisors, the Multi-Family Office may outsource more and must maintain a keen focus on processes and efficiency in order to stay profitable and meet expectations.

When you look at it from a pure service angle (from the family's point of reference), assuming talent is equal, the Single-Family Office is clearly the best paradigm/model. A dedicated team of advisors will spend less time learning about the family and more time employing strategies that will help preserve (or enhance) wealth and promote efficiency, However, talent and exclusivity can be expensive. The cost of starting a Full Service Comprehensive Single-Family Office is estimated to be around $1 million and for that reason, the Multi-Family Office was created. Currently, the Multi-Family Office is being utilized to service ultra-affluent and upper-end affluent families in a more coordinated, yet, not completely exclusive manner. These firms cater to affluent families that wanted the coordination, focus and talent of a Single-Family Office without the burden of supporting the overhead costs by themselves.

## The Family Office Model: Key Advisor/Coordinated Service Providers




*In most Family Offices (Single or Multi-Family), a key advisor (CEO r relationship manager) manages the task of data flow and delivery; coordinating information and plans between advisors (in-house or outsourced) as well as downward and across generations. The coordination and oversight helps deliver a plan that is consistent and well communicated. This approach works seamlessly when advisors are in-house. When outsourced advisors are used, effective data sharing becomes a bit tougher to manage.*

**Unique Issues With Regards to Multi-Generational Wealth and Family Dynamics**

***"From Shirtsleeves to shirtsleeves in three generations."***

*Transferring wealth and legacy is complicated by vastly different generational habits, ideologies, and priorities.*

According to research that has been done at Cornell, it is estimated that the Baby Boomer generation will transfer $10.4 trillion in wealth to their heirs so there's a lot of skin in the game for advisors to ensure that they're taking care of the next generation clients. Unfortunately for the investment advisory industry, the success rate of retaining assets being transferred across generations is not good (depending on what you read, the loss rate in these cases is probably somewhere between 70 to 95 percent). I believe that the reason the success rate is so low in these cases is because few advisors fail to invest in the time to understand how to effectively reach these generations X/Y'ers.

In general, Baby Boomers tend to define themselves as hard working, loyal, persistent, and proud. Generation X/Y heirs, who will be inheriting the wealth mentioned above, are generally more inquisitive and deliberate with their intentions. If they want something, they will go out and get it. These X/Y beneficiaries also take pride in being more informed which sometimes manifests itself as a lack of trust or empathy.

Those key generational differences often create problems with regards to wealth and legacy transfer; Baby Boomers will often keep things closer to their chest when it comes to succession planning and wealth transfer. They tend to be very proud of what they have created and skeptical that someone else is capable of keeping the legacy going. Their skepticism and lack of communication often leaves the younger generations feeling upset and uninformed. Add in Unique Family Dynamics, Black Sheep and other more delicate issues surrounding the wealth creation vehicle (which is often a family business) and you have a recipe for major conflict and the potential for wealth dissolution… shirtsleeves to shirtsleeves in three generations.

Communication is the most critical component of a successful wealth transfer plan and yet, it's undoubtedly the area that gets the least attention. Advisors and family members spend hours upon hours creating plans, choosing advisors, and deploying strategies and very little time on communicating the end goals and desires of those works among family members and other service providers. But even if the intent is there to educate and incorporate family members and other service providers in the process, without an emphasis on technology, this cannot be done effectively. The younger generations are spending increasingly more time on their smart phones and less time checking email and reading snail mail. Physical sit-down meetings are not preferred and a deliberate, concentrated communication strategy is often needed to bring future generations to the table.

**Additional Concerns and Areas of Opportunity**

Now more than ever, affluent families have targets on their backs. The so-called "War on the Wealthy" has never been waged louder or clearer. Income tax rates are increasing for the wealthiest Americans, the estate tax rates remain extremely high and strategies for transferring wealth like GRATs, IDGTs and discount valuations are continually being debated in Washington.  With that in mind, tax and estate planning will be in focus for affluent families.

Further, because so much wealth is being transferred, there will be tremendous opportunities in the areas of business succession planning and so the lifeblood of all Wealth Advisors is indelibly linked to the future generations of their clients.  Without a strategy in place for effectively communicating with and presenting value to these younger age groups, it's clear that the pulse of many advisors will be beating thin in years to come.  I have seen studies that suggest that only 2% of second-to-die non-spouse beneficiaries (children) inheriting wealth will choose to retain the advisor of the deceased; children have no reason to trust their parent's advisors because they have never heard from them and don't really feel that their interests have been considered.

The holistic multi-generational advisor that focuses on the needs of the family – across generations – inherently creates more opportunities to connect with younger generations.  Advisors who have this focus in mind often place a greater deal of emphasis on "intangible" benefits like wealth education, family governance, and legacy transfer.  With more meaningful conversations, these advisors have a better chance of retaining business down the family lines.

**A Conundrum: The Costs of Single-Family Offices and the Pitfalls of Multi-Family Offices**

As mentioned, the cost of starting a Single-Family Office is often prohibitive but the fact remains a dedicated team with aligning interests is going to provide better service than a team that is spread thin and working without coordination.  For all intents and purposes, the Single Family Office is the best model but it's surely not for everyone and exclusivity is too costly for some families to bear.

The Multi-Family Office is a great compromise between the disjointed status quo and the efficient, yet costly, Single-Family Office model.  However, starting a Multi-Family Office can be challenging; not only does it require amicability and cooperation between service providers, but it also requires amicability and cooperation between the families that are engaged in this new enterprise in order to fully leverage the Office capabilities.  Multi-Family Offices are often created as strategic partnerships between various families as a way to bring talent in-house (my family has a great attorney, yours has a great investment advisor, let's pair these two together and see if we can come up with a solution that makes sense for everyone) but when the service provider customarily functioning as one family "quarterback" gets pulled in a different direction due to a more pressing need from another family, that can lead to dissention.

The Multi-Family Office is a better solution than what the market is currently offering but there are complications and a lot of considerations need to be thought out before heading in this direction. How will the advisors be paid and by whom?  How will resources be shared in order to create a healthy working environment?  What is the process for monitoring and supervising these relationships?

Even if those wrinkles can be ironed out, inevitably, the brick and mortar Multi Family Office fails to address the key concern of succession planning for the advisory practice; how are advisors reaching the younger generations?  And ultimately, without a technology strategy, most advisory practices will end up losing their clients as the wealth switches hands because advisory practices are failing when it comes to addressing the needs of future generations.

## The Uniform Family Office (UFO) Solution

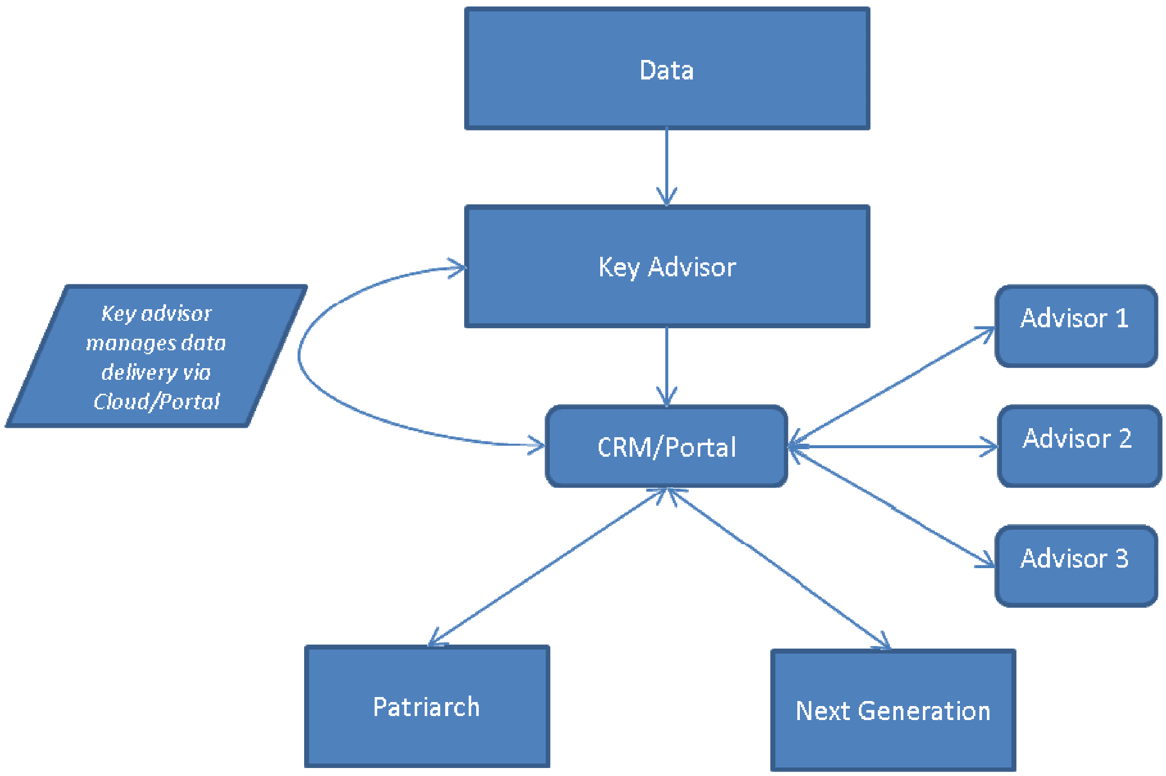
**By utilizing technology and focusing on processes, it is possible to scale down the costs and complexities of a Family Office to clients with smaller asset bases while retaining the benefits of a controlled and more focused service environment that a traditional Family Office provides.  Over the next few paragraphs, I will attempt to explain the Uniform Family Office (UFO).**

*The main issues with regards to running a successful Multi-Family Office, in summation, are ensuring cost efficiencies, cooperation among advisors, security and anonymity of data, effective transfer of information among multiple generations, and the complexity of creating processes and procedures.*

A UFO gets to the root of the issues by combining three key components:

1. Process-focus management
   - Documentation of all processes and procedures
   - Internal controls and accountability documentation of all functions
   - Comprehensive reporting and accounting to the end user
2. Customer Relationship Management Solutions with online web-integration and cloud computing
   - Technology driven CRM solution that allows the end user access to a customized virtual office portal
   - Portals can be shared across generations and with key service providers
3. Integrated wealth education, communication and technology strategies to ensure that the needs of future generations are being addressed

# The Uniform Family Office Model: Cloud Centric




With regards to investments and fiduciary advice, so much emphasis is placed on fees, investment selection and monitoring but oft overlooked is the effective and efficient delivery of service and data which is just as critical, if not more, to the preservation of assets and well-being of affluent Families. The UFO focuses on delivering the best possible service solution to the Family in the most feasible manner by harvesting the capabilities of their internal CRM and the accessibility that cloud-based computing provides.

A UFO allows advisors in different buildings and from different firms to work together and share information across generations by utilizing web-based portals that are integrated and (to a certain degree) controlled by the lead advisor and his or her CRM solution.

An efficient UFO will begin with a complex service map that incorporates the broad goals of the family while addressing the communication preferences and unique dynamics within each sub-family. The process of creating the service map at the family level takes time – sometimes taking months to complete – but the service map is the most important component of the UFO because it ensures that tasks will be completed and family units will be served in a manner that fulfills their unique goals while maintaining an eye on the broader goals of the family.

The Virtual Office concept has been around a while but where the typical Virtual Office is merely an electronic filing cabinet – a place to store documents – the UFO is much more than that and truly centers on holistic service.  The Family is assigned a Relationship Coordinator who acts as a buffer for bad ideas and a conduit for information that needs to flow between generations and service providers.

In order to deliver this service at the highest level, the UFO will require a sophisticated Customer Relationship Management solution with web-integration (end user web-portals) and cloud-based computing.  The CRM combined with the web-integration allows for maximum collaboration and provides a way to enhance coordination between service providers, family members and other interested parties safely and efficiently.

Each advisor and family member (or unit) along the flow-chain will be given access to a customized web-portal which will contain all of the information that the Relationship Coordinator determines to be pertinent and necessary to that family unit or the need that the respective advisor has been hired to address.

Because the portals are linked to the internal CRM program, when a new action takes place, each advisor and family member along the flow-chain will be notified of the actionable event.

The web-portals also provide a more efficient mechanism for delivering wealth education plans across generations as well as better internal controls between service providers.

Since technology plays such a huge role in all of this, any firm that chooses to employ this model will need to have IT expertise.  Qualified IT professionals should be utilized to ensure data security and to determine the technical needs of the firm in relation to what they're trying to accomplish.

Technology assessments should be performed by qualified IT professional at every level to determine what each family member will need to get the most out of the Virtual Office capabilities and to take advantage of the web-based education resources.  For some, that may mean buying a computer or a tablet and getting hands on training.  For others, that could mean beefing up antivirus protection and providing networking solutions and security oversight.  As the service map is being created, the Relationship Managers, along with the back office team, are creating web-portals and document vaults, which will be the access points for the family and other service providers.  If implemented properly and carefully (with enhanced encryption, tested against hacker intrusions), the portal can be a safer access point for uploading files and sharing information than email or snail mail.

Bringing the in-house CRM to the end user via the cloud and coordinating with outside service providers in a similar manner is a win for everyone.  When technology is the focus, younger generations are more comfortable and tend to feel that their needs are truly being acted upon.  That comfort drives them to open up to you in a much more meaningful way.  But the best thing about this tech/process driven model is that families can utilize the strength of their go to advisor (Relationship Manager), which is focusing on the implicit needs of the family. Because of the efficiency that cloud computing provides, the Relationship Manager is freed up to connect with the family and focus on ways to add value. Data sharing portals allow advisors to communicate openly and freely with each other and web-based tools allow family members to interact and connect wherever they may be so communication flows more freely, and data is collected securely and seamlessly. Plans are in sync and there is less chance of error. The solution is clear. The solution is dependable. The Uniform Family Office is a prudent solution for the affluent family.