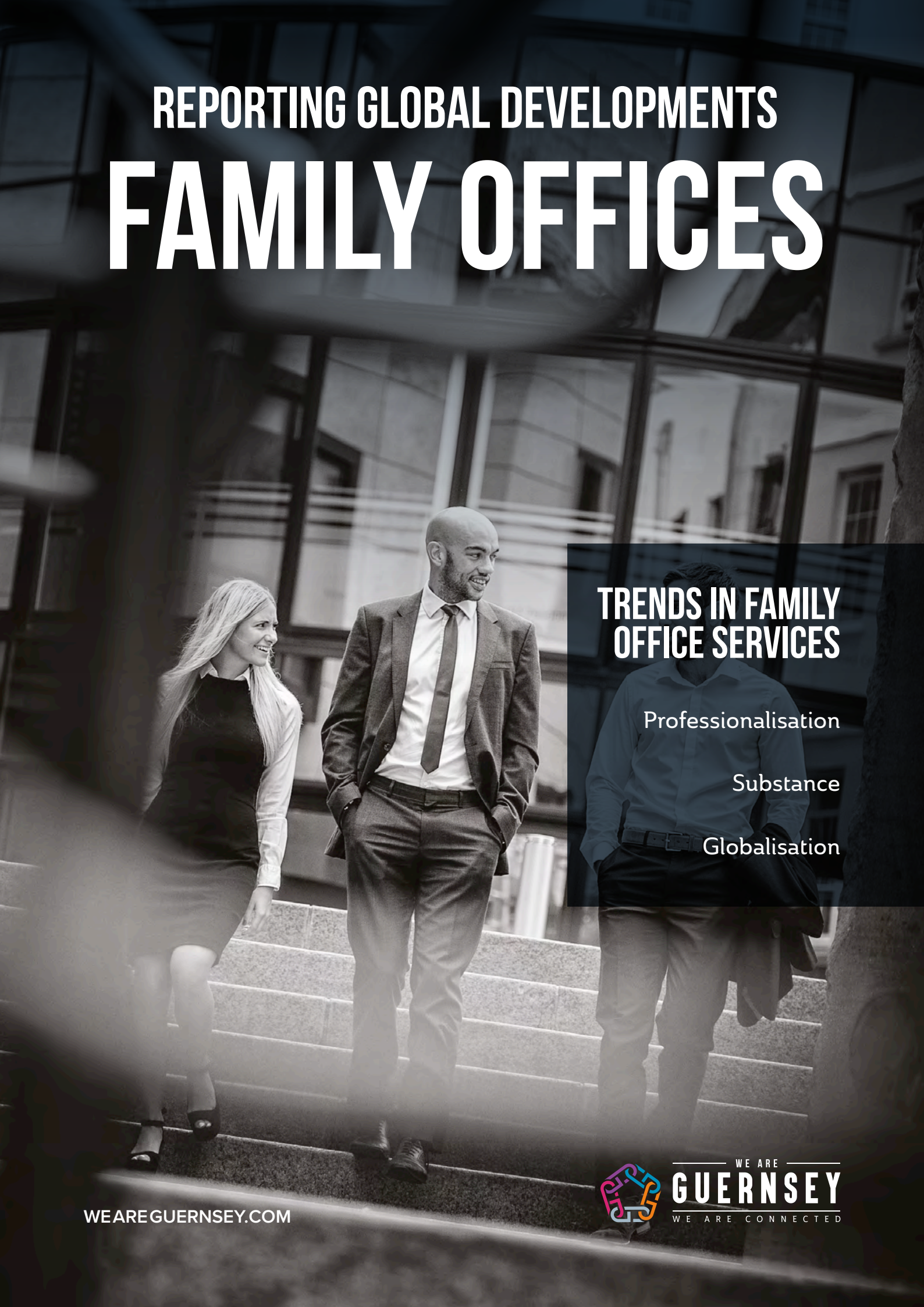
REPORTING GLOBAL DEVELOPMENTS

FAMILY OFFICES



TRENDS IN FAMILY OFFICE SERVICES

Professionalisation

Substance

Globalisation

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Image: Carey House boardroom, Guernsey

FOREWORD

The family office concept has been around for many years and the objectives for servicing that market remain broadly the same – to provide a centralised and cost-effective hub to manage the financial and familial affairs of wealthy families.

But the activities, structures and asset classes involved are ever-more diversified and sophisticated.

Each family office is unique. They are increasingly complex, inter-generational and often cover many jurisdictions. Many family businesses have grown into multinational corporations over the years. And moreover, their requirements are ever-changing.

The challenges they face include regulation, the drive for transparency, which challenges the natural desire for privacy of a family-run entity, succession planning, geopolitical uncertainty, even data protection and cyber security.

Reflecting our status as a specialist centre for the location of family offices, Guernsey Finance commissioned Dr Stuart Gibson of Gibson Strategy to conduct an independent research study into global trends in the family office sector and the factors driving their development.

In March and April 2019, Dr Stuart Gibson interviewed 15 family offices and high-net worth (HNW) families and conducted a survey of 59 corporate service providers (CSPs) consisting of trust companies, investment managers, private banks, lawyers, and tax advisers/accountants.



Image: Old Goverment House, Guernsey

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Image: Glategny Court, Guernsey

EXECUTIVE SUMMARY

Economic substance

Substance requirements are so significant that they are influencing where HNW families set up base for their family office.

Globalisation and multiple jurisdictions

Patriarchs and matriarchs of high-net worth (HNW) families are truly global. With that comes complexity in terms of geographic spread, multiple jurisdictions, extended multi-generational families and subsequent complex tax and legal issues.

Selection criteria for jurisdiction

Family offices are looking for jurisdictions which are robust in terms of political and economic stability, quality of service providers, privacy, data security and reputational risk.

Simplify the complex

Family offices are more unique, complex and sophisticated than ever before, and are looking for simplification of services and structures in a well-regulated jurisdiction with a robust legal system.

Specialist services

Family offices require a suite of specialist services ranging from global wealth structuring, tax planning, succession planning, investment management, compliance to full concierge services.

Professionalism and depth of talent

There is a significant increase in the professionalism of global family offices and their service providers.

Transparency

Family offices are committed to transparency but maintain the right to their privacy.

Family office trends

At present the demand to establish multi-family offices are increasing, higher than that for single family offices. Furthermore, the regulatory environment is increasing for all family offices.

Guernsey as a jurisdiction of choice

Guernsey is increasingly being considered as a jurisdiction of choice for global family offices in order to manage their wealth structures in a safe, secure and stable environment.

Guernsey provides an abundance of local talent and expertise in fiduciary, investment management, tax, legal, and private wealth services.

Guernsey accommodates the balance between transparency and privacy with a central register of beneficial ownership from which information may be provided to appropriate tax, law enforcement and security agencies on reasonable request.

BACKGROUND

The term ‘family office’ means different things to different people in the private wealth industry. The research study discovered three distinctive models:

- Single-family offices – where a single family employs its own in-house team of experts to serve its own needs – as a result the set-up costs are high;
- Multi-family offices – where a number of families have teamed together in order to gain efficiencies – the multi-family office serves the needs of the different families;
- Family office service providers – where families outsource the family office functions to a third-party specialist provider.

However, within each category there lies subtle differences. Each and every HNW family is absolutely unique with its own nuances, complexities, specific requirements, goals and strategies.

Single family offices range from simple operations to the more complex, who work on behalf of families involving several generations; multiple asset types located in different jurisdictions involving discrete holding structures; where legal and tax advice are critical to the success of the family office. The amount of wealth required to make a single-family office economically viable is considered to be £100 million or more.

Families with assets of up to £100 million typically do not have a dedicated family office due to the large set-up costs and maintenance. “To build a team of five or six people, they’re going to spend £1 million and it’s not affordable nor efficient. People don’t necessarily want to jump into a full-on single-family office set up, which is where family office service providers facilitate an incubator service.”

Asked why they seek specialist third-party family office service providers, most family offices list expertise in investments, governance and succession planning. Family offices are looking for long-term trusted advisers that can be an extension of their single-family office and add value to their in-house team of experts – and for them to be extremely responsive and demonstrate integrity and discretion.

In addition, family offices employ internal or external investment managers to manage their investment portfolios such as cash, listed and private equities, mutual funds, hedge funds, real estate and collectibles such as fine art, fine wine, super cars, watches, precious stones and jewellery.

Trust and loyalty grow as the relationship between the outsourced family office service provider, the single-family office and HNW family builds over time.

WHY HAVE A FAMILY OFFICE?

Should certain threshold conditions be met, a family office can become a centralised and cost-effective hub within which the financial, familial and other affairs can be managed. Common considerations include:

- The amount of wealth – a net worth of £100-500 million – to make it economically worthwhile;
- The needs of different branches or generations of the family who might have wealth management requirements;
- The complexity of the family's affairs – international cross-border issues and a mix of different assets in complex structures;
- The overall efficiency of the family's wealth management;
- An opportunity to engage with the next generation and for children of HNW families to be involved in the family office;
- To achieve privacy for the family – employing a small team of trusted people.

One of the key determinants given by family offices is absolute confidentiality and making certain that only a select few know about the affairs of the family and the structuring of how it all works.

> We provide trustees and directors, providing the support for the management and administration of structures that are there for individuals and for families; including professional day-to-day administration, investment management and corporate governance. We ensure that structures are run properly and give single family offices the support they might need; together with legal, tax and accounting professionals we provide vehicles for succession planning, trust and company structures, property holding, philanthropy and next-generation education.
>
> **Family office services provider**

REPORTING TRENDS IN FAMILY OFFICE SERVICES

GROWING COMPLEXITY

Family offices, trustees and professional advisers unanimously agree that family office requirements have grown in complexity in recent years.

The increase in complexity can have internal and external drivers. Internal drivers include the professional and familial needs of the founder and their family, which is likely to grow in the future. External drivers include the political and economic, legal and regulatory environment in which the family office operates.

Nine out of 10 respondents reported that jurisdictions and family offices services firms are responding to this trend with higher levels of professionalism.

GLOBAL CLIENTS

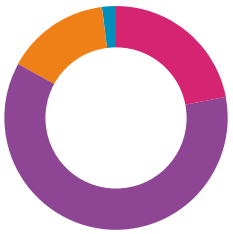


- highly multijurisdictional (31%)
- multi-jurisdictional (47%)
- fairly multi-jurisdictional (22%)
- not multi-jurisdictional (0%)

All family offices, trustees and professional advisers consider their wealth affairs to be multi-jurisdictional.

The multi-jurisdictional nature of a family office can be due to the location of the physical and legal structures that make up the family office being separate to that of the family, and from the disparate nature of the family members it serves, or the investments it manages.

INTERNATIONAL STANDARDS



- very significantly (22%)
- significantly (61%)
- fairly significantly (15%)
- not significantly (2%)

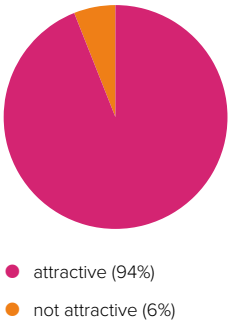
98% of family offices, trustees and professional advisers see globalisation as having a significant impact on family offices.

While an element of globalisation is the diasporic families and international diversification of their investments, the other is the corresponding increase in international standards that govern a globalised world.

Most relevant to family offices are global standards on tax transparency and reporting.

DELIVERING SIMPLICITY FROM COMPLEXITY

Against a backdrop of growing complexity, family offices and their founders are demanding greater simplicity – 94% of respondents stated that simplification of services was attractive to them, while 77% of respondents went as far as saying it was important to them.

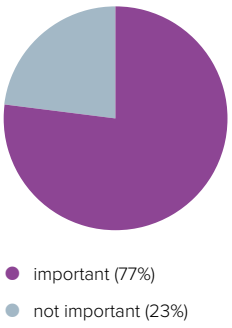


94% of respondents stated that simplification of services was attractive.

77% of respondents stated that simplification of services was important.

90% of our survey respondents reported that professional services firms were responding to this additional complexity with an increase in professionalism, which was unanimously reported as being important to our survey sample.

More than 60% said demonstrable professionalism was key. “There has been an injection of vigour and professionalism into management of assets and the creation of a more holistic approach to managing the family office overall asset class, and wealth,” said one respondent.



SPECIALISM

When asked to identify any specialisation of services which meet the needs of family offices, respondents commented on the knowledgeable, professionally qualified, trusted advisors who provide a range of advice. They also mentioned beyond providing trust and company services, being a trusted adviser, and facilitating all areas with the family office.

Contributors also pinpointed the centralisation of on wealth structuring, private trust companies and investment funds; along with corporate transactional and capital markets expertise; provision of board directors/trustees, tax advisory services, investment oversight; and aggregated reporting. The knowledge of individuals charged with managing and controlling these structures was highlighted as being key to these specialist services.

FAMILY OFFICES AND TRANSPARENCY

There was a generally favourable reaction to how well family offices and their managers were responding to increased demands for transparency in their wealth affairs.

Several said they were responding very well, while others accepted it more reluctantly, as part of “the world we live in”.

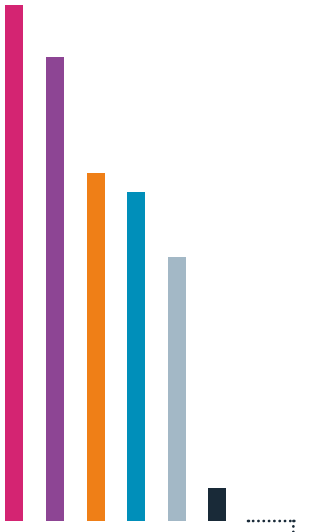
Family offices are seeking to understand their obligations properly and then respond appropriately to the regulatory challenges. While being generally comfortable with being transparent, they are reluctant for information to be publicly available – complex family office arrangements are not always understood by third parties.

Family offices are asking for professional advice in order to understand their obligations more fully – employing trust, legal and tax specialists in order to manage their complex structures in multiple jurisdictions in the areas of compliance and reporting requirements for FATCA and CRS.

Family offices are also consolidating their structures in one jurisdiction and seeking higher-quality administrators. They are structuring regulated funds, so they can avoid certain impositions such as registers of public beneficial ownership.

Service providers are taking an enhanced approach to more detailed reporting, but also being protective about which data to release, and taking time to educate clients to make them aware of this, described as “softening the blow”.

JURISDICTIONAL CHOICE



Factors considered extremely important to our respondents

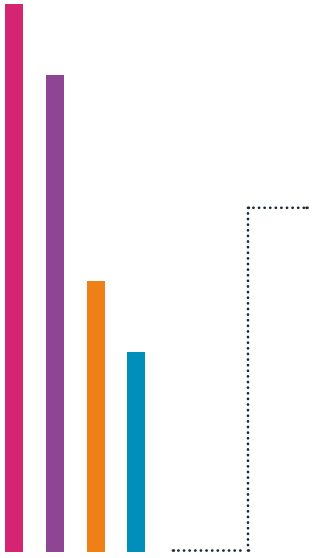
- safety and security (80%)
- reputation (72%)
- depth of talent (54%)
- rule of law (51%)
- english-speaking advisors (41%)
- proximity to london (5%)

GENERIC FACTORS

Family offices and their advisers considered that 'safety, security and stability' was the most important criteria when considering a jurisdiction to set up a family office. 80% said this was extremely important.

Indicators of safety include high levels of social cohesion while indicators of stability include constitutional autonomy; political and economic stability; and an independent judiciary.

A jurisdiction's reputation was the second-most vital criteria (72% said this was extremely important). Next in importance was a depth of talent available, followed by Common Law rule and a strong legal system, English-speaking advisers, and proximity to London.



Factors considered extremely important to our respondents

- jurisdiction reputation (85%)
- service (74%)
- range of products (42%)
- cost (31%)

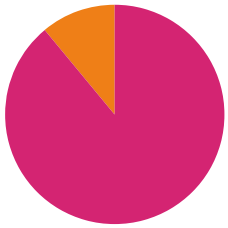
GUERNSEY-SPECIFIC FACTORS

When asked to share which factors would influence their choice of Guernsey over continental European jurisdictions, respondents highlighted a number of factors including its reputation, service levels and range of products.

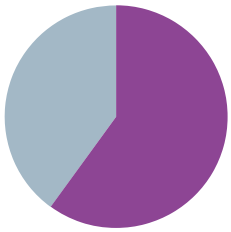
Respondents cited the jurisdiction's long-established tradition of providing specialist wealth management services, the quality and experience of its service providers.

Not being within the EU, Guernsey's political and legal autonomy provides greater certainty and stability within a safe and secure jurisdiction. Guernsey is also considered well-regulated when compared to its peers.

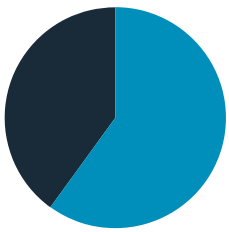
SUBSTANCE



- increasingly important (89%)
- other (11%)



- substance of greater importance than 5 years ago (60%)
- other (40%)



- substance of greater importance still in 5 years time (61%)
- other (39%)

Economic substance is a doctrine in tax law, which states an arrangement must have both a substantial purpose and economic effect, aside from tax, to be considered valid.

As complex and multi-jurisdictional arrangements, family offices must guard against the risk of accusations of lack of substance – that their means and motives are contrary to the letter or spirit of the law – and should look to ensure they demonstrate otherwise.

89% of respondents strongly agree that substance in a jurisdiction is becoming increasingly important in choosing a jurisdiction for private wealth and family office services.

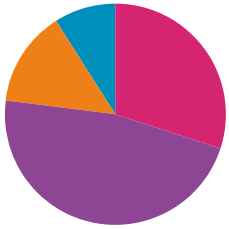
60% of respondents consider substance to be of greater importance than it was five years ago and 61% believe it will be of greater importance still in five years' time.

Fortunately for those considering establishing a family office, neither scale nor scope are factors in determining economic substance. Instead, substantial purpose may be present in specific arrangements carried out by specialist providers.

Respondents were asked about the scale of the typical family office today compared to yesteryear – they commented that the size of a family office is growing in response to the requirement for a wider range of services.

79% of respondents consider that a full-service office is not required when starting a family office. Further, more than a third of the respondents of our survey see the take up of multi-family offices, where a third-party provides a specific service to one or more families, rising.

OUTSOURCING

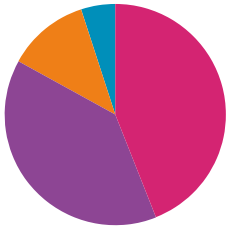


- very important (30%)
- important (47%)
- fairly important (14%)
- not important (9%)

Specific consideration needs to be given to outsourcing arrangements – with economic substance more easily demonstrated if services are retained in-house or, if out-sourced, undertaken within the jurisdiction of the family office.

When asked how important are clients' needs to be offered a full range of investment management and brokerage services within a jurisdiction, more than three-quarters stated that it was 'very important' or 'important'.

Family offices employ internal or external investment managers to manage their investment portfolios such as cash, listed and private equities, mutual funds, hedge funds, real estate and collectibles, i.e. fine art, fine wine, super cars, watches, precious stones and jewellery.



- very important (44%)
- important (39%)
- fairly important (12%)
- not important (5%)

Also asked about the importance of being able to offer a full suite of fiduciary products within a jurisdiction, approximately three-quarters stated that it was 'very important' or 'important'.

WHY GUERNSEY?



Guernsey has a long-established tradition of providing specialist wealth management services for sophisticated clients and their families.

Guernsey is home to more than 100 regulated trust companies, ranging from bank-owned institutions to local boutiques and the diversity, breadth and depth of expertise in the island provides international clients with a one-stop shop for wealth management.

Contributors to this report feel Guernsey provides access to experienced wealth management services and talent, offering a range of experienced individuals, working independently or corporately; they are English speaking, have the highest standards of professionalism and know how to work within the regulations and the strong, robust legal system; they are competitive and offer high quality competitive services. Guernsey provides discreet, established expertise in the area with sophisticated trustees and good precedents, lawyers and court system.

When asked to share which factors would influence their choice of Guernsey over continental European jurisdictions, respondents highlighted a number of factors including the tried and tested history and practice within the Guernsey industry, the quality and experience of service providers in Guernsey as well as its geographical location, political and legal autonomy, with 85% of respondents stating that the reputation of the jurisdiction was an advantage.

CONCLUSION

The purpose of commissioning independent research and publishing this study is to provide insight and intelligence on the subject of family offices, selection criteria for jurisdictions, family office requirements for specialist services, transparency and substance.

The data and views expressed in this report demonstrate the accelerating complexity, professionalisation, and globalisation of this field and provides testament that Guernsey is a jurisdiction of choice for global family offices and their advisers, providing a confidential, stable and secure environment to manage their wealth structures.

Gibson Strategy is a business consulting firm specialising in research, education and strategy consulting in the global financial services industry; we have a team of business consultants and experts, which through a collaborative approach with our clients, improves their performance and co-creates value in their business.

WE ARE GUERNSEY is the brand under which Guernsey Finance promotes the island's financial services sector internationally. The agency conducts marketing, communications and business development on behalf of its public and private sector stakeholders. The agency also employs representatives in London, Dubai, Hong Kong and Shanghai.



Image: Glategny Court, Guernsey





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