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Challenges for Family Offices – and Five Reasons to Consider a Restructure

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A family office ("FO") is a practical means to organise a group of individuals who share the commonality of a familial relationship, but which may also bring together complex and sometimes disparate financial means and objectives. The members of an FO may be geographically spread, short on time and cover multiple generations. As a FO grows in wealth and complexity, or as the needs of the family change, there will come a point when reviewing and restructuring will be incredibly important to ensure the FO's underlying structures continue to serve their purpose and meet the FO's needs. A FO will ideally want to remain agile and able to stay abreast of change from both within and outside of the family.

A FO will regularly keep a review on its businesses, finances and investments, but rarely on its overall structure. Only when significant events arise such as an investment opportunity, diversification of business or investments, or a transition between the generations can a review be prompted. Regular reviews of the structure will ensure that risks are mitigated and opportunities are not lost.

Here are five reasons for FOs to consider restructuring:

- Started simple. Many FOs have gradually evolved and increased in complexity over the years whilst solely under the personal stewardship/direction of the wealth creator. The effect after a few decades can be unnecessary layers of complication and redundant vehicles. Therefore the aim of a review or restructure will be simplification to reduce cost, the administrative burden, and ensuring that every part of the underlying structure has a clear rationale for its existence. Restructuring can also help to prepare the ground for an IPO or a partial asset sale.

- Control. Increasing numbers of families choose FOs to retain a degree of legitimate control – for example, when a private trust company or foundation structure acting as the "brain" of the FO it can allow certain family members to choose or be invited to take an active role in deciding the strategic direction of the FO. This is combined with more attention to introducing or updating the overall family governance which is essential when planning for the second and third generations and avoiding potential disputes.

- Women are increasingly involved with important decisions. The shift in attitudes globally, culturally and generationally means that women have an ever increasing and active participation with their family finances and the running of their businesses. Periodic reviews provide the FO with the ability to adapt and continue to adjust to ensure that it remains relevant in relation to their family and the world in which it is doing business.

- Generational Shift. As one generation passes the baton of management and influence to the next, it can naturally allow for a review of the strategy and structure of the FO. Successive generations may not wish there to be a radical shift in focus of the FO, but they may wish to diversify and investigate new opportunities or implement a more structured system of internal governance to ease any issues that they may have faced during a transition.

- ESG. It is now beyond doubt that the sustainability of investment options are high in the list of priorities for the current and next generation. The focus on sustainable, green and impact investments have significantly intensified and families are increasingly wishing to hardwire the consideration of sustainable and green investments directly into the structure. A FO that can align with a family's changing priorities will reduce the chances of conflict and secure its own future.

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Therefore, if those are starting points to consider a restructure, what are some of the particular challenges that we should be restructuring FOs to meet?

Maintenance of the FO structure is increasingly important as families change and evolve, with an emphasis upon considering how the changing family make-up continues to be served by the underlying structures.

Communication with and involvement of the successor generations is key if a FO is to continue beyond the founding generation.

Increasing disparity between the views of the individual family branches as the different generations rise can be addressed by ensuring that clear governance is in place that allows the FO to grow and adapt all under the strong family vision that can unite a family's goals.

The Covid-19 pandemic which has swept the world with immense speed and ferocity this year, whilst being an undeniable global crisis, may have also acted as a prompt for FO restructuring and provides an opportunity to assess and mitigate current and future risks.

Guernsey as a jurisdiction has fared impressively through the Covid-19 pandemic, with the financial services industry being agile and able to continue with little or no disruption to the provisions of a seamless service and day-to-day life being largely unaffected and enquiries of Locate Guernsey seeing an increase of 20%.

The planning and preparation when creating a FO is key to its success. Establishing why a FO is necessary together with its objectives before moving on to design the most suitable structure to achieve this. However, it doesn't end there! Staying alert to the suitability of the structures as families and their investments grow and become more complex is imperative. Periodical reviews of the structure and the risks that it may face (either initially or through the passing of time) equate to good maintenance and ensure the longevity of the FO. Finally, the early engagement of the next generation will see FOs continue successfully throughout the years and reduce intergenerational conflict.

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