Family wealth has emerged as the financial-industry topic of this decade, akin to what estate planning was in the ’70s, investment planning in the ’80s, financial planning in the ’90s, and wealth management in the ’00s. Today family wealth advisors serve 35,000 households that all together account for more than $5 trillion in assets. Also known as family office services or multi-family offices, this service sector continues to evolve, and here we highlight some significant trends that are shaping that evolution.

A Renewed Emphasis on Integrated Financial Planning

The first trend we see in the family wealth industry is a return to the fundamentals of integrated financial planning.

Indeed, the wealth management services that grew up during the past decade began as a branch of financial planning. The idea was to apply the disciplines and techniques of comprehensive, integrated planning to the needs of wealthy households. It went beyond investments to address wealth transfer, asset protection, tax planning, risk management, and charitable legacy. This integrated approach was the essence of financial planning, as Harold Evensky made clear in his groundbreaking 1997 book Wealth Management. Evensky didn’t coin the term wealth management. Nonetheless, he placed it firmly where it belonged. “I have little doubt,” he wrote, “that wealth management is a specialty of financial planning.”

In the ensuing years, things changed. Investments came to the fore, powered by rampaging bull markets. Integrated planning—un glamorous and costly to provide even though wealthy clients benefit greatly from it—receded in importance. It became common and remains so today for many firms to offer investments and nothing else yet to call themselves wealth managers. Who needs comprehensive, integrated planning?

Well, not so fast. In a welcome turn, financial planning is making a comeback and shows signs of reasserting its rightful place as the foundation of wealth management. This trend is evidenced by a renewed emphasis on identifying and achieving the family’s financial and personal goals. It has been heralded through the use of such terms as holistic planning and goals-based wealth management. Goals are identified and prioritized, then resources are directed to each of them as needed to make sure they are accomplished within the intended time horizon. Progress toward each goal is tracked and investments supporting individual goals are put on glide paths to reduce the risk profiles as the time for spending the assets approaches.

This development is a win-win for both firms and families. Firms are focusing on the service that can add the most value—integrated planning—though they often are challenged to demonstrate that value to clients. As investments become further commoditized and compression of asset management fees persists, firms that practice integrated financial planning will be better positioned to maintain their profit margins and families will be better positioned to achieve their financial and personal goals, too.

The Challenge of Increased Complexity

Family wealth firms are grappling with the issue of increased client complexity, which plays out in two ways. First, firms must build sufficient staff expertise to give clients the professional advice they need to handle increasingly complex financial lives. That’s expensive. Second, firms must be able to gauge and put a price on a given level of complexity in order to deliver services profitably. That’s risky. Unprofitable relationships bleed a firm dry.

Why are client lives becoming more complex? Longevity is one of many contributing factors. Increased longevity has added an extra living generation to many families, complicating wealth-transfer planning and family governance and prompting families to require more services. For example, many client families now ask their wealth-management providers for help with eldercare arrangements and administration, prompting the need for additional staff expertise.

Investments are more complex and esoteric strategies require greater expertise than plain old stocks and bonds. Taxes on investment income are more complex than they were two decades ago. Tax compliance is more onerous. For example, clients with overseas income, assets, bank accounts, etc. now need assistance with Foreign Bank Account Reports and the Foreign Account Tax Compliance Act. Consider as well the trend toward multiple ownership entities to hold family assets. Use of multiple entities may be motivated by wealth-transfer, tax, or asset-protection strategies, or a family’s penchant for direct ownership of
multiple businesses. In any case, these factors and more play off each other and compound complexity.

Complex clients challenge firms to price relationships correctly. Multi-family offices participating in a recent Alliance Research study published by the Family Wealth Alliance cited the pricing of complex non-investment services as their second-greatest overall challenge related to fees and pricing (the greatest challenge was communicating value in the context of price). 2

Cost and complexity of client requirements also were listed as the most important factor both in setting overall pricing policy and in coming up with a fee for a particular client.

As growing complexity ratchets up client needs, firms that can meet those needs with essential advice will prosper. The challenge for firms is to marshal sufficient resources and correctly price their services.

Figure 1 shows the market shares of various providers among $30 million and up households in North America.

Security and Risk Mitigation for Private Families

Criminal interests increasingly are using the Internet to rob, defraud, and embarrass; and U.S.-based single-family offices, private family businesses, and wealthy households are favorite targets. Security breaches at these private family enterprises rarely make it into the news. Many are not reported to law enforcement because the families fear the spotlight of publicity.

Security experts offer several reasons why private family enterprises might be more likely to be targeted than commercial businesses of similar size. For example, private family enterprises are less likely to have adequate security and they may believe that keeping a low public profile will prevent them from being targeted. But cybercrooks, fraudsters, and other criminals have found that private family enterprises offer “minimal risk for maximal gain,” in the words of one security expert.

Threats to wealthy families take many forms (see figure 2). Some are chronic but nonetheless serious. For example, a 2013 Alliance Research study published by the Family Wealth Alliance found that sustainability of their organizations was perceived as the greatest risk facing single-family offices.3 Other risks, such as travel and health risks, are acute. Yet others are unforeseen, such as identity theft, fraud, or erosion of a family’s good name due to reputation management neglect.

Indeed, networks used by wealthy families have become favorite hunting grounds. Most private family enterprises have not done enough to secure their information. Most need expert help to set up a security plan, which starts with a thorough diagnosis and assessment of all risks. Operational risks for the family office must be identified and addressed. Personal risks also need attention. For example, family members may want to establish contingency plans for emergency medical treatment or personal security assistance when they travel. Families also should be concerned about managing privacy and the online reputations of family members; this may include ascertaining all personal information available on social media or elsewhere on the Internet and taking steps to limit further exposure.

Still Seeking Better Investment Outcomes

Family wealth investors have had their fill of costly, illiquid investments that neither enhance return nor reduce risk—the kinds of investments that bombed during the financial crisis and have proved unreliable.
in the years hence. Many funds of funds are endangered; some hedge-fund strategies are still credible but they face increased skepticism. Passive index funds, long a favorite of institutional investors, are finding their way into family portfolios because of low cost, predictability, transparency, liquidity, etc. They provide cheap beta and usually are supplemented by full-price alternative strategies expected to find alpha. It’s a sensible approach but hardly compelling.

Two recent areas of excitement have been direct private equity deals and impact investing. Some families are comfortable buying and operating businesses, on their own or with other families as partners. These direct deals avoid the fees, lack of control, and lack of transparency that go with private equity funds. The liquidity is not great, but probably not any worse than a 10-year lockup in a private equity fund. They also stimulate a family’s entrepreneurial spirit. “Doing direct deals may positively impact family office sustainability and longevity by making families more proactive participants in and determinants of their continued existence,” said Daniel Goldstein, a family office consultant based in Santa Barbara, California.

Impact investing, another hot area, is a venture capital-like strategy that aims to generate both a financial return and measurable social or environmental gain. It’s particularly popular with younger family members because it can be meshed with charitable or social values. “The greater attention to deploying capital in coherence with family values will also positively impact family office sustainability and longevity,” Goldstein said, “because it will create greater affinity in a family’s ecosystem, even as that family increases in size and geographic dispersion.”

### The Struggle to Demonstrate Value, Rationalize Pricing

Pricing is a knotty problem for any business, and today’s wealth-management firms are no exception. Fee structures and pricing are particularly vexing for multi-family offices. These firms offer complex, bespoke professional services to multiple generations in multiple households of client families, and pricing is among their biggest headaches.

The traditional pricing paradigm—a bundled package of services at a bundled asset-based fee—is still widely used but no longer optimal. Bundled fees, or what might be called “all-you-can-eat” pricing, encourage service creep and limit the ability of multi-family offices to price customized and complex offerings appropriately.

The most challenging of these issues is communicating the value that the firm delivers in the context of the price charged. The problem is two-fold and includes demonstrating the worth of the firm’s services to the client as well as helping the client make an informed comparison based on what competitive firms are actually charging and actually delivering (see table 1). Different business models, different service menus, and different levels of transparency regarding all-in fees combine to make comparisons difficult. “We provide very comprehensive family office services but usually compete against firms providing fewer services, which creates a mismatch in terms of fees,” one study participant said.

Half (53 percent) of multi-family offices and one-third (33 percent) of the external chief investment officer (CIO) and wealth-management firms say they charge flat annual fees or retainer fees, but mostly as a supplement to asset-based fees. Unfortunately, those figures overstate the progress made by the industry in reducing dependence on asset-based fees. Multi-family office participants report that asset-based fees as a share

---

**Table 1: What Family Wealth Firms Offer—Comparing Top Family Requests**

<table>
<thead>
<tr>
<th>Single-Family Offices</th>
<th>Multi-Family Offices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assist with Executors</td>
<td>Trustee/Administration</td>
</tr>
<tr>
<td>Household Employee Administration</td>
<td>SFO Business Consults</td>
</tr>
<tr>
<td>Family Security</td>
<td>Bill Paying/Household Bookkeeping</td>
</tr>
<tr>
<td>Bill Paying</td>
<td>Family Governance/Education Consults</td>
</tr>
<tr>
<td>Health Insurance Administration</td>
<td>Concierge/Personal Assistant</td>
</tr>
<tr>
<td>Information Technology</td>
<td>Municipal Bond Management</td>
</tr>
<tr>
<td>Family Education</td>
<td>Real Estate Management</td>
</tr>
<tr>
<td>Insurance Review</td>
<td>Art Appraisals/Consults</td>
</tr>
<tr>
<td>Philanthropy Advice</td>
<td>Online Access/Document Vaults</td>
</tr>
<tr>
<td>Tax Planning</td>
<td>Divorce Planning</td>
</tr>
</tbody>
</table>

**Figure 3: The Demand Side—Generations**

Number of people in each generation (millions)

<table>
<thead>
<tr>
<th>Generation</th>
<th>Number of People (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greatest</td>
<td>35</td>
</tr>
<tr>
<td>Baby boomers</td>
<td>80</td>
</tr>
<tr>
<td>Generation X</td>
<td>41</td>
</tr>
<tr>
<td>Millennials</td>
<td>86</td>
</tr>
<tr>
<td>iGen</td>
<td>74</td>
</tr>
</tbody>
</table>

of revenue were 77 percent for the year 2010 and—four years later—75 percent for 2013. For the external CIO and wealth-management firms, the comparable figures are 80 percent and 78 percent, respectively.

Here Come the Millennials
It’s wise to be skeptical about over-the-top predictions regarding the impact of this or that social or demographic trend. They can be overwrought and quickly fizzle. That’s not the case, however, with the hoopla surrounding millennials, also known as Generation Y, those born between 1982 and 2003. Millennials are the real deal, and they are living up to their billing as every bit as transformational a generation as their parents, the baby boomers. Along the way, they have started posing some new challenges for firms that serve multigenerational families of wealth (see figure 3).

Name it and you can find a study or two showing how millennials feel about it (they hate shopping malls, they love craft beer, etc.) We’ll focus here on issues relevant to family wealth providers. First, millennials are much less trusting than their elders. They are two-thirds as likely as Generation Xers (born between 1965 and 1981) to believe that most people can be trusted, and they are only half as likely as baby boomers to trust most people.6

They shun the stock market, have a favorable view toward socially responsible investing, and keep more of their money in cash than do older generations. They don’t like banks much, but a remarkable nine out of 10 millennials do their banking online or via mobile devices because millennials don’t care for printed material.7 “This unique millennial sensibility will extend into the marketplace as the generation begins to think about which, if any, financial institutions to trust with their money,” according to a Brookings Institution report that predicts millennials will force “seismic shifts in the nation’s financial sector.”8

Firms serving multigenerational families must find a way to engage millennials if they are to keep them as clients as they age. Thus, millennial outreach is the order of the day among smart family wealth providers. These providers are learning to communicate online or via mobile devices because millennials don’t care for printed material, and that includes financial reports. These providers also are keen to hire younger advisors who can relate to the ways millennials make decisions and define success.

The Challenge of Technology: Chasing One’s Tail
Technology remains the most elusive, time-consuming, and expensive item for every family wealth firm because it is necessary for everything from back-office platforms to front-office client reporting, including secure yet mobile-friendly information delivery. Family wealth firms see reporting as an issue of growing importance to clients but many also express unhappiness with their own reporting offerings, according to a 2013 Alliance Research study published by the Family Wealth Alliance.9 This study also noted a lack of industry standards for client reporting and found that reporting vendors were viewed poorly by family wealth firms. Many respondents expressed frustration at the difficulty of evaluating client reporting vendors and the cost of upgrading technology. They also acknowledged that clients are demanding easy interfaces and delivery via mobile devices, despite increased privacy and security risks.

Technology has been driving extraordinary changes in everyday lives, but the family wealth industry has been slow to adapt. Despite demands from clients, particularly younger ones, change has been hampered by daunting costs and rapid technological evolution. This year’s cutting-edge reporting technology may be obsolete in a year or two, which makes firms reluctant to commit to costly upgrades. Attitude—the question of technology aside—also can be an issue. When one old-school private family office executive was asked about the risk of mailing out client statements versus having them available via highly secure electronic vault downloads, he replied that as long as he was sending them out on time, “what happens to them after they leave here is their problem.” Until the industry learns to harness technology to strengthen its ties to clients, it will continue to have one foot in the past.

Families Remain Confused: A Random Walk
Although family wealth management has evolved over the past decade, uncertainty and misinformation persist, and families selecting providers are confused. Exactly what is meant, they are likely to ask, by the term wealth management? What is a multi-family office? Is a big brand name reassuring or a contrary indicator? How do you evaluate service offerings that appear similar on the surface but quickly become different when you look under the hood? They see vastly different value propositions marketed under the same rubric. Can they all be bona fide?

This uncertainty is mirrored by the firms that serve as family wealth providers. For years, they have told Alliance Research that their biggest challenge is differentiating themselves in the marketplace. Their clients and prospects don’t know what they do. Likewise, when it comes to setting fees, they say the biggest challenge is communicating the value of their services in the context of price. Their clients and prospects don’t know what their services are worth.

Scant guidance is available to dispel this uncertainty. We believe this is the family wealth industry’s chief challenge in the years ahead. It has significant implications including too few private families being served, an underachieved market share by family office providers, and a general lack of understanding and trust on the part of families, their advisors, and the media.

One executive of a leading multi-family office put it this way: “When a private family comes in to talk with us, asking about our services, they do not know enough to be able discern the difference between us and a pretender firm. When we ask them how they found us and how they will make

Continued on page 20 ➤
their decision, many tell us that they really don’t know. It is totally a random walk.”

Conclusion

Family wealth firms are an emerging breed, offering an integrated menu of services for client families with millions of dollars in assets under management. This industry struggles with scalability, talent, technology, and appropriately pricing its services. Family wealth firms also wrestle with differentiating themselves and communicating their value to clients and potential clients. Although they are well-respected and successful, these firms must heed the changing market if they are to achieve and retain meaningful market share and best serve their clients.

Robert Casey is senior managing director of Alliance Research. He earned BS and MS degrees from the Medill School of Journalism of Northwestern University and an MBA from The Wharton School, University of Pennsylvania. Contact him at bob@fwalliance.com.

Thomas Livergood is founder and chief executive officer of The Family Wealth Alliance, a research and consulting organization that works with both private families and the firms that serve them. He earned a BA in liberal arts and an MBA in finance, both from Bradley University. Contact him at tom@fwalliance.com.

Endnotes