SUCCESSION PLANNING *for Family Offices*

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There has been a significant rise in the number of family offices globally over the last ten years with the numbers estimated to be 10,000, a tenfold increase since 2008 . This upward trend is expected to continue as wealth levels keep rising along with the demand for associated management services. For most family offices, the biggest risk to success is the effective transfer of the family structure to the next generation. A recent survey found that 38% of global family offices do not have a succession plan in place and this needs to change if family offices are to thrive beyond the current generation. So how can family offices be successful in succession?

Cohesion

It is vital that the younger generations of the family share the goals and vision of the founders and can come together to protect and further those objectives. Family rivalries, jealousies and relationship breakdowns at any level of the family can cause rifts and disruption that can severely jeopardise the success of a family office. This can ultimately lead to fragmentation if individuals decide to manage their portion of the wealth independently from the family office.

To avoid this, have a family constitution: a way of outlining the family's wealth objectives, values and vision; roles and responsibilities; and process for resolving disputes. A family council at the top of the family office structure can be used to involve family in the running of the office albeit care is needed to maintain balance between family members. Managing what younger family members can expect from a wealth entitlement perspective – which often comes down to good communication - is also key.

Education

Education is another central component in any succession plan for a family office. If the management of the family office is to be passed down to younger generations, they need the requisite skills, experience and outlook. This education will come on several levels including mentoring in wealth management, financial literacy and economics generally as well as leadership skills and a knowledge of the family's goals, vision and management style. Any education programme could involve on-job training, external work placements in the industry, involvement in family meetings and general mentoring from senior family members.

External personnel

As well as loyal and skilled family members, it is important to bring in, and retain, expert external talent too. This will be in the shape of external advisers to whom key services are outsourced when it is not practical from a skills and/ or cost perspective to perform them in-house. Outsourcing legal services, for example, is common and, in the UK, can help maximise the use of legal professional privilege.

As well as advisers, it is often advantageous to recruit externally for key family office roles. If the family office is run as a limited company, there will be a board of directors and usually a chief executive. Recruiting highly skilled business people for these positions can be integral to the success of the family office provided the right balance is struck with family for morale, privacy and control reasons.

Incentives should also be offered to retain talent once it is recruited. The right incentive package might involve co-investment opportunities and/ or performance-related bonuses, helping to foster a sense of loyalty to the family and their values, and ultimately longevity and quality of performance.

Wealth management structures

Central to any family office succession planning strategy should be wealth management structures to hold some or all of the younger generation's share of the family wealth. Such structures could be a simple family trust or multiple trust-company structures. The key objective would be to control the wealth that flows down to the younger generation, in amounts and timing, without giving an outright share from the outset that is more vulnerable to claims from third parties (such as a divorcing spouse or creditor). Outright ownership also runs the risk of wealth fragmentation following family rifts and tensions.

Whilst the extent to which the younger generation can benefit would usually be at the discretion of the trustees, using holding companies within the structure can allow them to be involved, via positions on the boards of those companies, without endangering the direction of that wealth.

The identity of trustees and choice of jurisdiction for the structure should be carefully considered. Using a commercial trust company in a low-tax judication is often a favoured route for international families; but if family members are used, it is advisable for there to be at least one non-family representative who can act as an impartial third party and mediate in any disputes.

To the extent that wealth stays in the hands of the founder, or is transferred to responsible members of the younger generation, Wills are essential to ensure that the wealth passes as intended on death. This is particularly so where the assets are held in jurisdictions where forced heirship rules may apply and advice will be needed. Within the EU, forced heirship can be avoided in some circumstances by making an election under the EU Succession Regulation 650/2012. Alongside Wills, pre or post-nuptial agreements can help prevent assets passing outside the family in the event of marital breakdown.

Strategic planning

All of the above factors should be included in a strategic five to ten year plan for the family office to ensure smooth transition of leadership to the next generation. Shorter term business plans, intended for a one to five year period, should support that strategic plan and provide the key initiatives to put the longer term goals in place.

Conclusion

Due to the length of time it can take to educate and train the next generation, family offices should start succession planning at least five years before any anticipated transfer of control but, even if the founder is in good health, it is never too early to start and educating children from an early age will only make the ultimate transition that much smoother when the time comes. Succession planning is a vital item on any family office's to-do list.

Family office and wealth structure