

Hull on Estate and Succession Planning Podcast #42

The Family Office

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Suzana Popovic-Montag: Hi, and welcome to Hull on Estate and Succession Planning. You are listening to Episode #42 of our podcast on Tuesday, January 9th, 2007.

Welcome to Hull on Estate and Succession Planning, a series of podcasts hosted by Ian Hull and Suzana Popovic-Montag, that will provide information and insights into estate planning in Canada, from the offices of Hull Estate Mediation in Toronto, Ontario, Canada. Here are Ian and Suzana.

Ian Hull: Hi Suzana.

Suzana Popovic-Montag: Hi Ian, how are you?

Ian Hull: Just great, thanks.

Suzana Popovic-Montag: That's good.

Ian Hull: I thought we might continue in talking about estate planning issues generally, and expand into what is, as we said on our last podcast, a very important aspect of estate planning that is a growing part of our practice certainly, and many other estate planning practices. And that is the concept of a family office, and to the extent that we can, we have run into recently a situation where there was a family office in the Middle East and that, in and of itself, brought about some other unique characteristics to the family office. But let's, and we may use that for some examples, but let's start with the family office concept. We spent a lot of podcasts talking about the family meeting and we are now branching off to what I would call a wing of that in a sense, and that is the family office, which gives people an opportunity to have a day-to-day running of the family affairs. And I say "affairs" both financial and emotional. And a more administrative, and as we've said before, in a businesslike way. So Suzana, what would you describe the family office as?

Suzana Popovic-Montag: I think, Ian, the concept of a family office is a very fluid one, in that, at it's most basic level, it would amount to basically a personal assistant who helps provide administrative services to a family business. And then you've got the other end of the spectrum where it could perhaps be a fully-regulated office that not only handles those administrative aspects, but also deals with the family's investments and perhaps even acts as a trustee.

Ian Hull: Let's spend a little bit of time with this concept, because I think it's worth understanding it before we talk about its positives and its negatives. It's a concept that has originated, certainly from our review of the materials, at least 150 years ago where advisors would step in where they have, and it was typically with wealthy families. And

it was established, the office, the family office itself was established to deal with information and summarizing advice that wealthy families were confronted with in an organized way, and as I said earlier, sort of a business way. The establishment of these family offices, though, has grown and it has really grown for good reason, because the relationships, both financial and emotional, with families have got nothing but more complicated over the years. And so whenever one sets up a family office, whether it is as you say, this more minimalist administrative office or a more branched out one where there is more activity involved with this, and there's more regular meetings and a much more sort of corporate environment. Whatever spectrum you fall into in terms of the family office, it's important to set out what would be the objectives of the family office itself?

Suzana Popovic-Montag: And that really will depend on the family values, I think fundamentally. And that's the nice thing about a family office that it allows you to meld the business concepts with what actually is important to the family and what is the root of that family business.

Ian Hull: So if I was to sort of summarize three main objectives of a typical family office that we deal with and run into from time to time, what would be the first thing?

Suzana Popovic-Montag: Well, the first thing would be to plan for the efficient transfer of the family wealth to the next generation.

Ian Hull: And to do, you'll want to centralize the management of the family's legal affairs, tax, financial and business affairs.

Suzana Popovic-Montag: And that really is the key, Ian, because these family businesses, especially the really strong and profitable ones, they've already got a whole host of financial advisors. And the idea really is to centralize it, to make it into a concise group of individuals who can deal with it, and they can all talk to one another. So that these plans, these companies are working with a centralized knowledge database.

Ian Hull: So that takes us really to our third point. So the first being, as you say, the planning for the official transfer of the family wealth which is obviously the cornerstone reason and objective for a family office. The second is the centralized management of the family's legal affairs and business affairs. And the third is, as you say, the coordination of the efforts of the family advisors to really protect against inconsistent advice, and advice that is unmanageable from the family's standpoint. Alright, what about today, the modern day concept of the family office, where are we at today now, and where is the family office most often sort of being used in your experience?

Suzana Popovic-Montag: Well certainly, Ian, what I've seen is that the concept is very much used in the U.S. And in fact, that's where I think it originally came from, and what we see is that the offices are used to manage the significant fortunes that these industrial families are creating. Whereas we had a typical wealth advisory firm that would oversee things like investment, tax and estate matters; the family office is now taking on a much

broader and more intricate function that's going to be unique to the particular family. So for instance, you'll see things like, you know, they are suddenly managing airplanes, they're protecting artwork and specific kinds of real estate, organizing household affairs in a fashion that they never had before. And performing these other kind of concierge services that may not have been something that was done years ago, but certainly something that is becoming more and more important these days.

Ian Hull: And it's funny because our experience is that when you say the word "concierge services", that really is sort of a big part of the family office. And that is, is that these are families that are typically busy people, they are sometimes dispersed, they are across the country or countries, and it's sort of like walking into a fancy hotel and having a concierge run things and look after things, and to know you and to know a little bit about what needs to be done on a day-to-day basis. But the one thing that strikes me that I've seen in terms of the most useful, effective way of dealing with a family office, is bringing in the kind of family meeting process. And we don't necessarily see families signing constitutions every month when they have their family meeting and have family office meetings, but using the agenda approach, using the transparency approach, the things that we talked about in the family meeting. If those systems are employed in the family office environment, it's that much more effective. Let's talk about a few aspects of what the family office can offer.

Suzana Popovic-Montag: Well, I think one of the things that it can do is, and as we've mentioned, is that it centralizes the management of the actual business that the family is running, from both a legal, tax and financial perspective.

Ian Hull: So in this centralizing, that's obviously a great administrative organizational aspect of it. But one of the things that I find most with the families that we deal with who have an effective family office, the most important thing to them is confidentiality. And if they have set up a family office with proper advisors, who of course, are bound to keep confidential the information and the like, that is always so important, I find anyway, with many of these family offices.

Suzana Popovic-Montag: Another advantage of the whole concept of a family office is the fact that you can actually coordinate the advice that is going to be given to the family business. And so that's the nice aspect of the centralization because you're going to have people who are talking to one another, all within the confines of the nature of the business and the family values.

Ian Hull: And it's funny, on the coordinating of the advice, you know, as we talked about earlier, there's different levels of family offices. But, you know, even people with what I would call more modest estates, have often situations where they might own a cottage, or they might own a Florida condominium or they might own assets outside of Canada. And they need to be coordinated, they need to get regular advice and the like. Because ultimately, as you said earlier, what is the goal? The goal is to plan for the transfer of the family wealth to the next generation. What do you find is a secondary goal within that transfer?

Suzana Popovic-Montag: Well I think it really is educating the members of the family about the business, and what it is that they're ultimately going to inherit, and how they can maintain or improve that business for future generations.

Ian Hull: And in that vein, we really find the most effective family offices are assisted by good investment managers and good trustee services, where the families have got advisors, not just professional advisors from a legal standpoint or an accounting standpoint, but someone they can really trust from the financial planning standpoint. And a good financial planner, it can be a real feather in their cap if they offer these kinds of services. And I think that the real message that we want to get across today was one, that the idea is I think a wonderful idea, but it's a wonderful idea for a lot more people than people expect. This isn't just for people with tens of millions or millions of dollars, this is for people with what I would call complex, relatively complex estates. And if you sit down and think about it, many of your clients are in that situation. Maybe there aren't as many zeros involved and so you have to run it efficiently, and you have to be businesslike about it, you can't rent space and have meetings every two weeks with 16 professionals around the table. But on the flip side of that more modest situations, where you might have various assets and ongoing reason to be having dialogue within the family, the family office itself can facilitate a regular family meeting. And if they're run properly and businesslike, they can be sort of the conduit and also the focal point of maintaining great family relations. So anyway, we didn't get a chance to talk too much about that example about the Mid East which we might do, because we ran into one client who had a very effective family office established in the Middle East, which was fun for us on a couple of levels, because it created some interesting dynamics to a concept that we understood well. But because of the geography and the proximity, some of the issues that we dealt with were a little new to us and some of them were unique. But we thought at another podcast we might talk a little bit more about that. But I wanted to make sure that anyway, we certainly got our thoughts on the usefulness of it, and now we have the concept out there, so we've got two sort of core concepts. One is the family office and the other is the family meeting, and we hope that that's been helpful.

Suzana Popovic-Montag: Well, thank you very much Ian, I look forward to our next podcast.

Ian Hull: Thank you.

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