Family office survey
Measuring the market
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In light of the upcoming supervision of the family office (FO) sector in Luxembourg, Deloitte Luxembourg is pleased to present you the results and trends of its survey conducted on the family office market in Luxembourg between November 2011 and March 2012.

Luxembourg is well positioned to play a significant role in the family office market, given its renowned experience and expertise in terms of financial structuring and wealth management, and the wide range of regulatory solutions and niches combined with political and economic stability.

Thus, the Luxembourg government is currently encouraging a new pillar to foster the financial industry in Luxembourg and intends to create a legal framework for family offices.

The law project #6366/01 intends to regulate this profession, which is currently only regulated in the U.S. and Dubai. It states that “Family Office activities consist in providing, on a professional level, patrimonial-related advice or services to private individuals, families or patrimonial entities founded/owned by or benefiting private individuals or families”.

This survey was aimed at clarifying the characteristics of the family office market, for which information data, players and the spectrum of services offered in Luxembourg had not been released or clearly identified up to now.

We would like to thank the L.A.F.O. (Luxembourg Association for Family Offices) and in particular its President and Vice President, Jean Fuchs and Serge Krancenblum respectively, for their invaluable involvement in this study.

We also thank all the participants we interviewed for this survey who contributed to making it a great success and a significant source of information for players in the family office market both in Luxembourg and abroad.

We hope you enjoy reading our publication.
Deloitte presented the outcome of its survey conducted in close collaboration with the L.A.F.O. to over 100 family offices and wealth management professionals, enabling players of the family office market to better understand the characteristics of this activity in Luxembourg via the analysis of four key pillars:

- The family office market
- Family office clients’ perspectives
- Family offices’ perspectives
- A SWOT analysis aimed at highlighting the strengths, weaknesses, opportunities and threats of each type of player of the family office market

The survey results presented in this brochure further underline the competitive advantages of the Luxembourg market, as well as its primary local assets, which play a significant role when analysed from a global wealth management perspective.
The family office market

Four main categories of family offices for a heterogeneous market.

Categories of family office identified
35 family office players were interviewed for the survey. The outcome of these interviews revealed a market centred around four distinct categories of actors: the single family office (not concerned by the upcoming law), the multi-family office, the banker, and a fourth category entitled ‘other service provider’ which includes lawyers, chartered accountants, company administrators and notaries.

The survey demonstrated that for interviewees, the family office is seen as a global coordinator and supervisor for wealthy entrepreneurs and wealthy families as well as medium-wealth individuals with a wealth of less than €2 million.

How interviewees define a family officer?

- Coordinator/supervisor
- Independent advisor
- Investment advisor
- Reporting/consolidation provider
- Conductor of orchestra
- Concierge/majadorno
- Asset manager
- Confidant

Type of key actors interviewed

- Single Family Offices (SFO)
- Multi Family Offices (MFO)
- FO players ‘by nature’ with a unique FO activity (for one or several families)
- Bankers
- FO actors ‘by destination’ Experts delivering their expertise to FO and/or as FO activity
- Other service providers (lawyers, domiciliaries, chartered accountants, notaries)
Geographical origins of family office clients and target clients
Benelux, France and Switzerland are historically active countries in the family office business. Nevertheless, other countries such as Eastern European countries and Russia are seen as new and increasing target markets. Family offices are also targeting emerging markets such as the Middle East and Asia.

Would family offices like to be identified as family offices in the Luxembourg marketplace?
The survey revealed a lot of uncertainty amongst survey interviewees with regards to being identified as a family office in the marketplace.

While multi-family offices stated that this identification would help to increase their business, other family office players have not yet decided whether being identified as such would be beneficial or not. This is a consequence of the law project that is still under scrutiny.

According to Stéphane Césari, Partner at Deloitte Luxembourg:
“The bill to regulate the family office business in Luxembourg, which is currently under examination and expected to be released in 2012, will definitely further improve the Luxembourg market in terms of private wealth management and increase the competitive advantages that the Grand-Duchy offers.”
Typology of family office clients
The nature of the market is predominantly threefold:
- Wealthy entrepreneurs
- Wealthy families across several generations (High Net Worth or Ultra High Net Worth Individuals)
- Medium-wealth individuals or families

Wealth structure can be understood as:
- Financial wealth (cash and cash equivalents, securities, bonds, funds, derivatives, etc.)
- Real estate wealth
- Vehicles and other equipment
- Art collection
- Intellectual properties (patents, etc.)
- Foundations
- A mix of the above

The survey revealed to some extent a correspondence between the level of clients’ wealth represented in the pyramidal model below, and the nature of their chosen family office service providers.

Most important skills or competencies expected (performance measures)?

Quality factors are more essential than quantitative ones
Most important skills or competencies expected by the family office clients

Qualitative factors like trust and confidence were identified as being more crucial than quantitative factors, such as a client’s wealth growth, and transparency of the cost structure is seen as an important component in terms of relationship between clients and their family office.

There is a simple reason for this. Clients and family office providers find themselves in a situation based on trust and confidence as they ultimately deal with other human beings. Since wealthy clients are strongly educated and well-informed, tailor-made solutions are preferred to off-the-shelf options.

In order to remain competitive, family offices should not forget their mission: to advise, not to sell.

Products and services expected by clients from their family office

The majority of clients expect their family office to provide asset management and wealth development reporting. Moreover, considering the complexity of clients’ wealth structure from both a geographical and structural point of view, legal and tax experts are consulted on an increasingly frequent basis.

This tends to oblige the family offices to adapt their model for wealthy families from a purely analytical model to a one-stop-shop solution that can address all of their clients’ needs.

Satisfaction indicators

<table>
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<th>1 Long-term relationship</th>
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<tr>
<td>2 Network effect (FO recommended to others by its own clients)</td>
</tr>
<tr>
<td>3 Clients’ demand for additional punctual services</td>
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A long-term relationship is the most important satisfaction indicator. If a family office manages the transfer of wealth from one generation to another, it is the clearest indicator that it has succeeded in its mission. The second factor is network efficiency. Word-of-mouth marketing is undoubtedly the most powerful tool so it is crucial for family offices to be recommended to other potential clientele by its existing clients.
The offerings and structures of the family offices we analysed revealed various business models, but in every case the model involved outsourcing to experts. A strong network is therefore key for success.

**Market offering**

The study highlighted that single and multi-family offices run a business model that is broadly similar, i.e. oriented towards a global coordination of services of any kind requested by their unique or multiple families respectively.

Coordinators surround services such as reporting tools, asset management and wealth structuring, legal and tax advisory, merger & acquisition services, succession planning, concierge services and more.

The business model used by bankers differs from that of single and multi-family offices in the sense that it is far more oriented towards asset allocation and private banking, which are always in-house expertise. Nevertheless, other opportunities arising from clients’ needs can easily be seized using available internal expert resources and/or leveraging expertise from within the company group to which the bank belongs.

In the family office market, the category ‘Others’, which includes lawyers, chartered accountants and domiciliaries, can count on their state-of-the-art, in-house unique or dual expertise to provide clients with high added-value services.

For all these players, a strong network is essential as the survey interviewees confirm they are not always able to source all the required expertise in-house (see illustrative picture below). Responding to their clients’ demands often means going beyond their comfort zone of in-house expertise meaning that the quality and speed of responsiveness of their network contacts becomes a competitive advantage.

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**Who are the dealing counterparties of an FO?**

- **Client**
- **Private banker**
- **Legal advisor**
- **Trustees**
- **Art philanthropy specialist**
- **Custodians**
- **Accountant**
- **Real estate agent**
- **Risk manager**
- **Tax advisor**
- **Notary**
- **Insurance broker**
- **Investment managers**
- **M&A expert**

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No Family Officer without outsourcing to experts

Network is KEY
Remuneration structure

Contract-based: All services are contract-based, regardless of the nature of the FO.

Type of remuneration

- **SFO**
  - Package: Salary + bonus

- **MFO**
  - % of assets (management fees)
  - Fixed fees
  - Hourly rates

- **Bankers**
  - % of assets (management fees)
  - Fixed fees

- **Others (lawyers, fiduciaires, etc.)**
  - Fixed fees
  - Hourly rates
  - Success fees

Transparency: Trend: awareness of the client and understandability of remuneration structure

Retrocessions: Trend: FOS think of it as a bias to transparency, except if the client is aware of it.

Threat: might be perceived as generating conflicts of interests.
## SWOT analysis

A SWOT analysis aimed at highlighting the strengths, weaknesses, opportunities and threats of each player in the family office market.

### Becoming a centre of excellence for family office services is an achievable objective for the Grand-Duchy. However, this will require players to be able to propose an integrated solution to meet all of their clients’ demands, from financial structuring and tax and legal advice through to real estate, philanthropy and concierge services.

### Opportunities for family offices in Luxembourg

The SWOT analysis for the various categories of family office is intended to provide an understanding of each category’s strengths, weaknesses, opportunities and threats, as revealed through the survey when confronting clients’ expectations in terms of the benefits and services offered by family offices.

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<thead>
<tr>
<th></th>
<th>Strengths</th>
<th>Opportunities</th>
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<tr>
<td><strong>Single FO</strong></td>
<td>- No real competitors</td>
<td>- Becoming a Multi family office</td>
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<tr>
<td></td>
<td>- Size of wealth means strong power of negociation</td>
<td>- Exchange best practices with other families or Multi Family Offices</td>
</tr>
<tr>
<td></td>
<td>- Strong relationship with the family</td>
<td>- Developing experts network to enhance the spectrum</td>
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<tr>
<td></td>
<td>- Overview and coordination of all operational and financial aspects</td>
<td>of services provided to the family, and reduce</td>
</tr>
<tr>
<td></td>
<td>- Strong dedication and commitment</td>
<td>structure costs</td>
</tr>
<tr>
<td><strong>Multi FO</strong></td>
<td>- Economically independent</td>
<td>- Develop network of experts to enhance the spectrum</td>
</tr>
<tr>
<td></td>
<td>- Overview and coordination of all operational and financial aspects</td>
<td>of services provided the families, and reduce</td>
</tr>
<tr>
<td></td>
<td>- No real competitors</td>
<td>structure cost</td>
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<tr>
<td></td>
<td>- Flexibility</td>
<td>- Develop combined reporting tool in conjunction</td>
</tr>
<tr>
<td></td>
<td>- Cost sharing, leveraging</td>
<td>with experts</td>
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<tr>
<td></td>
<td></td>
<td>- Conciergerie services to be developed</td>
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<td></td>
<td></td>
<td>- Capitalise on future regulation as a ‘quality label’ for worldwide clients</td>
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<tr>
<td><strong>Bankers</strong></td>
<td>- Private banking experience</td>
<td>- Full knowledge of existing bank clients’</td>
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<td></td>
<td>- Network</td>
<td>- Multi-institutions reporting (compilation)</td>
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<td></td>
<td>- Internal experts (local or in the network)</td>
<td>- Sell part of the banking services’ spectrum</td>
</tr>
<tr>
<td></td>
<td>- International localisation</td>
<td>- Develop network of experts to enhance spectrum</td>
</tr>
<tr>
<td></td>
<td>- Human resources, logistic and IT platforms</td>
<td>of services provided to clients</td>
</tr>
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<td></td>
<td>- Regulated by the CSSF</td>
<td>- Outsource their asset management expertise to other FOs</td>
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<tr>
<td><strong>Other service providers</strong></td>
<td>- High confidentiality</td>
<td>- Become more than an expert in a specific topic</td>
</tr>
<tr>
<td></td>
<td>- High adaptability</td>
<td>by developing its structure to evolve from an</td>
</tr>
<tr>
<td></td>
<td>- State-of-the-art expertise in their domain</td>
<td>expert structure to a more FO structure</td>
</tr>
<tr>
<td></td>
<td>- Trustworthy based on their statute</td>
<td>- Exchange best practices with other experts</td>
</tr>
<tr>
<td></td>
<td>- Perceived as high added-value player</td>
<td>- Develop network of experts to enhance spectrum</td>
</tr>
<tr>
<td></td>
<td></td>
<td>of services provided to clients</td>
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</tbody>
</table>
Strengths   | Opportunities
---|---
- No real competitors
- Size of wealth means strong power of negotiation
- Strong relationship with the family
- Overview and coordination of all operational and financial aspects
- Strong dedication and commitment

Threats   | Weaknesses
---|---
- Outsourcing to experts as general coordinator
- Costly structure that does not allow to invest in IT tools and performance reporting tools that can become necessary once critical size is reached
- Possible entrance into the FO market of experts (lawyers, fiduciaries, etc.) and bankers with existing operational structures
- Uncontrolled cost of required future regulation

- Operational costs due to a wide range of services provided
- Staff turnover to be avoided, not compatible with SFO’s transgenerational management objective

- Large exposures *(How many clients? What % of business does each client represent? Ongoing concern - strongly dependent on the number of families managed)*
- Staff turnover to be avoided, given not compatible with MFO’s transgenerational management objectives
- Low level of financial resources
- Potential conflict of interest between the families

- Distrust of banks (crisis)
- Banking system (pre-required level of wealth, guarantee, etc.)

- Conflicts of interests
- Depart from FO’s prime objective because of the pressure to sell the whole spectrum of banking services and products

- Adaptability not easy if lack of financial and banking knowledge
- Narrow spectrum of services provided

- Isolated expert if no network or does not pertain to a group
- Punctual expertise services rather than continuous relationship
- Law project more restrictive

- Dedicated services to High or Ultra High Net Wealth families
- Hands tied
- Difficulties to argument / to challenge
- Capabilities of thinking out of the box
- Economically dependent

Other service providers

- High confidentiality
- High adaptability
- State-of-the-art expertise in their domain
- Trustworthy based on their statute

- Become more than an expert in a specific topic by developing its structure to evolve from an expert structure to a more FO structure

- Exchange best practices with other experts
- Develop network of experts to enhance spectrum of services provided to clients
Attractiveness and competitiveness of Luxembourg for family office business

Is the Luxembourg market attractive and competitive?

Luxembourg is well-positioned for FO business given its renowned experience and expertise especially in terms of financial structuring and wealth management, and in view of the wide range of regulatory and taxation solutions, combined with political and economic stability.

- Financial engineering (funds, private banking, etc.)
- Multilanguage and multicultural environment
- Toolbox available (SIF, SICAR, SPF, etc.)
- Small country: reactivity / pragmatism
- Favourable tax regimes
- Regulatory flexibility and competencies
- EU country (in comparison to Switzerland)
- Banking secrecy
- Freeport
- Art and finance

- No regulation on Foundation / Trust (law in progress)
- Philanthropy to be developed
- Very little premium real estate exists in Luxembourg: attracting UHNW individuals and companies is hard
- Cost of operational structures / labour cost
- Conciergerie (Client services culture to be developed)
Is the Luxembourg market attractive and competitive?
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