Family offices help multiple generations become good stewards of wealth

They're found frequently throughout Europe, Asia and the United States. And while family offices are a relatively new creation in Canada, their numbers are growing.

"They're becoming more and more popular now," says **Cindy Radu**, a partner in the Business Transition Services section of **BDO Canada** in Calgary.

Not to be confused with family businesses, family offices are set up among wealthy business owners to help them meet the needs of transitioning their companies to the next generation. Generally, families are not prepared for the massive transfer of wealth and many of those on the receiving end are not financially adept enough to ensure its future, says **Kimberly Maiatico**, a senior manager with tax services at **PwC Canada**.

High net worth

A recent **RBC** Wealth Transfer Report indicates that of the high net worth individuals in the study, only about one-third had discussed inheritances with their beneficiaries and only one-third of those knew what the beneficiaries intended to do with that money, Maiatico told a recent conference of the **Investment Industry Association of Canada** (IIAC).

"People are fearful of their kids inheriting massive amounts of wealth and what it can do to them," she said. "It either propels them into action or completely immobilizes them."

Enter the family office.

There is no single definition of a family office: whatever circumstances develop the need for an outside expert defines the term.

In most instances, however, family offices begin when the wealthy founder of a successful company sells his major business and has many other assets that need to be controlled as well. Those who end up being responsible often find this overwhelming. This is when an experienced outsider – a lawyer, financial advisor, financial manager, bookkeeper, accountant and most importantly – a person with no financial interest in the firm – is called in.

The family office advisor's "main goal is to ensure and build trust and confidence among everybody who is involved so we have full communications around difficult subjects so that we can move forward with confidence," says Radu, who works with family offices and has herself been an advisor with a family office.

Whoever is selected is seen as an impartial confidante, the trusted advisor who may have been the family's CFO or lawyer for a long time and whom they trust implicitly, adds **Louise Smith**, a managing director with **RBC Wealth Management** in Toronto. "That person either hires a few people to work with them or brings in external advisors from time to time depending on the need. There is usually a small core team that is permanent."

Family office advisors provide a broader perspective to the business, have good common sense and are able to collaborate with all members of the family and non-family executives in the business to build bridges between generations.

Single and multi-family

There are basically two kinds of family offices – single-family and multi-family offices. It's said that family businesses with more than $100 million can contemplate the cost of running a family office.

While the founder of a business can run her company with only a few executives, decision-making can get very complicated when a second – and then a third and maybe a fourth – generation become involved.

"Where things can go off the rails quickly and commonly is around the area of governance," says Radu. "The family office is really a great infrastructure to not only manage the business side of being a business, but also manage the family side of being a family business. That's where a lot of disconnect comes in terms of understanding what a family business is. The focus is so typically on the investment business itself," says Radu.

"When you are talking about a family office … you are talking about the upper level – what is our family all about, what are our family values, how to communicate as a family, what kind of policies do we have as to who gets to be involved in the business and who doesn't, how do you come into ownership – a much, much broader perspective."

Assets may be complex and great enough that a single business may want to join with other families to set up a multi-family office to create economies of scale, says the RBC report.

The true multi-family advisor helps multiple generations in a family business by creating good stewards of wealth, often by setting up policies for ensuing generations to follow.

Family advisors can start out working for a single-family office as a full-time CEO or head of a department, says Radu. In multi-family offices, in-house advisors may be able to provide a whole range of services.

In ultra-high net worth situations, the role can extend as far as ensuring that a cottage, for example, is purchased and invitations are sent out to family members to celebrate, says **Kevin Wark**, a tax consultant with **CALU** and a managing partner with **Integrated Estate Solutions**. Wark is expanding to be a family office advisor in the area of estate planning.

Bernadine Leung, a managing director at RBC, adds that a future family office advisor might be currently working in the family's operating company when she comes to realize that there's a barrier between the operating company and the family's personal affairs. A decision is then made to form a family office and that person might then be dedicated full-time to the family office.

Wark says the cost of both single- and multiple-family offices can be steep and families need to determine whether the advisors are needed on a full-time or retainer basis. There are many cases where the advisor comes in on a long-term basis.

He says it only makes sense that the number of family advisors and family offices is increasing in Canada as the older baby boomer generation transitions its wealth to the younger generations. Both generations see the value in their businesses and are looking for support to manage them.

Many businesses work quite well without a family office. But families at a certain level of wealth often find issues get more complicated as time goes by, particularly if a family continues to run an operating business and realize they need additional help, says Leung. "I think it's just an evolution."

Because family offices are not specific to any one size of company or business, the need really arises from what the family is trying to achieve and the complexity of their family needs, says Smith.

Resources and manpower

"It goes back again to what you are looking for that entity to provide," says Leung. "If it's just accounting you might just look to engage an accountant and that would be that. But if you decide that once you have sold your business and you have extensive executive management or you want to invest in some kind of equity companies, then you might need more resources and manpower and then decide to establish a family office."

■ SUSAN YELLIN