

CHALLENGES AND IMPLICATIONS IN MANAGING FAMILY ASSETS ACROSS BANKING INSTITUTIONS

by Heinz B. Rothacher

Information technology has changed and is still changing at an enormous speed. Having access to large amounts of data in very little time has become taken for granted. Nevertheless, processing big data is still rather complex. How can family offices extract the most relevant information out of the data pool and derive the right conclusions? Professional investment reports ensure the relevant transparency.

Banks and wealth managers may not always fully share the financial interests of the family. Wealthy individuals, therefore, increasingly rely on family offices and independent investment consultants to manage investments across the mandated banking institutions, oftentimes also extending to complex non-bankable assets.

Growing demand by wealthy individuals
Institutional investors have been using the services of independent investment experts for a long time. In recent years, the demand by wealthy individuals for independent investment consulting services has grown due to the increased complexities of available financial instruments. These instruments are associated with new risks and new regulation requirements that have to be met by UHNWI families when managing their assets as well.

The services that family offices or independent consultants should provide are thus diverse, ranging from developing an investment strategy to reorganizing investments by selecting the "best-in-class" investment managers and products up to monitoring the wealth management process as part of a comprehensive investment controlling. Professional and independent support is furthermore sought to establish the increasingly important aspect of family governance.

Creating an effective investment report – concept first
Successful wealth management starts with a written concept wherein the goals of the asset owners are described in detail, e.g. being able to assess the family assets from various perspectives at any time,



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including not only breakdowns by asset classes or currencies, but also enabling a direct comparison of wealth managers. Similar to a navigation system, an investment report should enable the family to gain a maximum of insight on and transparency of the managed assets and thus facilitate to control them and achieve the set goals.

Results should be comparable with benchmarks of the relevant asset classes. All assets should be reflected in the investment reporting, i.e. all family property, real estate, art and car collections, company shares, etc. Lastly, the reporting should be customized towards the various recipients, so each family member and family officer receives as much information as desired, but not more data than needed.

Requirements for asset consolidation

A reliable and meaningful investment reporting creates transparency. Necessarily, all assets have to be collected, standardized and, if necessary, prepared or enriched, regardless of location and custody-type. The consolidated data are the indispensable foundation for extensive data analysis. Finally, the results have to

be filled into a customized format, accompanied by a telling summary.

In general, an investment report consists of six modules:

1) Asset Consolidation and Allocation, 2) Performance Measurement, 3) Portfolio Analysis, 4) Risk Measurement, 5) Investment Compliance and 6) Specification of the Service Range according to the clients' needs. The report should be an individual combination of these components, whereof asset consolidation and allocation, as well as performance measurement, generally form the basis. Besides the content itself, format and layout are decisive elements. In order to explain complex investment topics, it is particularly important to create comprehensive visuals, with an adequate structure, an appropriate information density, as well as informative charts and graphics.

Doing it yourself or outsourcing it?
How to start the process

Based on the goals defined by the family, an individual report has to be set up. So, the first question is: Who needs when what kind of information in what format? In practice, many reporting solutions run the risk of accidentally hiding the relevant statements in huge amount of data. Instead of maximizing the data in a report, the focus should lay on the appropriate calculations and information which enable asset owners to answer the relevant financial management questions. Nowadays, even sustainability aspects (ESG) have to be integrated. Regardless of whether an investment report is done internally or outsourced, the asset owner should pay attention to a set of criteria:

- Does the current asset structure correspond with the defined investment strategy?
- Does the return potential of the asset structure match the performance goal? What are the related risks?
- Which investment categories and investments have achieved what performance in a certain period of time?
- Did the wealth managers comply with mandate-specific guidelines set by the family? (Investment compliance of costs & fees, ratings, investment limits and other requirements)

Saving precious time

After the information concept has been written, a few more steps follow to producing a comprehensive investment report. There are quite a few software solutions on the market. However, before buying a tool, it should be checked if all requirements are met and the tool can be configured easily.

Is there an interface to insource all investment data and transactions on a daily basis automatically, or do some tasks have to be done still manually? Since families usually deal with multiple banks, it can be time consuming (and nerve-racking) to manage different interfaces. Innovative and independent providers bridge the gap, offering professional asset consolidation and investment reporting.

The range of services extends from the periodic production of reports to providing access to a real-time system and tools for the asset owner.

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