

Families are Going Virtual

Why the Virtual Family Office is the most effective solution for most wealthy families.



Marius A. Holzer, CFA, CAIA
Chief Operating Officer
mho@parkviewgroup.com

New York
January 25, 2021

“I can’t”, says my daughter, slamming her laptop shut. It has been a long day of home schooling and the virtual class meetings take their toll. Stepping out of my last of a series of video calls, I can empathise with her. Whilst we learned how to deal with technical glitches, video call fatigue is harder to cope with. In a post-COVID-19 world, the word “virtual” has certainly lost some of its glamour.

Bear with me. The Virtual Family Office (VFO) is more exciting than “a bunch of connected advisors” and we even go as far as to claim that for most wealthy families, it is the ONLY effective and sustainable solution to manage their fortune.

Let us start with a definition. The VFO is commonly understood to be a lean SFO, that relies to a high degree on outsourcing. In recent years, an increasing proportion of family offices has been created as VFO, and some Single Family Offices (“SFO”) even transitioned to become virtual.

Why families go virtual

For one, running a family office has never been cheap. Considered an essential function for a wealthy, multi-generational family, a dedicated organization staffed with specialized professional costs on average USD 6.8m per year, the CEO alone earning on average 0.5m¹. What represents a cost of 0.68% on assets managed for a billionaire family seems unreasonably expensive for a family office overseeing only half of that wealth or less.

Investment cost, as we know, reduces the net return to an investor. In an environment of negative real fixed income returns in large parts of advanced economies and lofty equity prices, families find it increasingly hard to justify operating their own internal boutique wealth management firm.

The VFO also gained popularity thanks to technological advances. From analyzing, to sharing and storing data, technology has fundamentally changed how we communicate and manage information. In a matter of a decade our portable phones have morphed into powerful mobile companions. Technological innovations, such as 5G, and advances in Artificial Intelligence and Machine Learning will yield new, currently unimaginable possibilities.

How does the VFO differ from a Single or Multi Family Office (MFO)?

Whilst the MFO and SFO landscape are similarly diverse, a MFO generally has the ambition to become the one-stop full-service solution provider for its families, and essentially renders a SFO experience to multiple families at a fraction of the cost. With the family office service outsourced, the family does not have to run its own organization with everything it entails (hiring, managing, etc.). We discuss the differences and advantages of each setup in more detail [here](#).

The VFO, on the other hand, retains a smaller organization covering services essential to the family with a main focus on combining and supervising a network of service providers and trusted advisors into a virtual organization. In this hybrid model, the VFO combines the benefits of a SFO, such as control and privacy, with the advantages of dedicated specialized firms. Building the virtual team function-by-function, allows for a tailored organization similar to a SFO, but provides better access to a deeper and broader pool of knowledge and know-how, and this likely

1) UBS Campden: The Global Family Office Report 2019

at a lower cost, as highly-skilled professionals are not full-time staff members. One of the greatest advantages of the VFO model is its flexibility. As the environment changes, the family office can expand and shift its focus relatively quickly, without having to hire, train or fire staff.

Important considerations on going virtual

What is outsourced depends on the activities and specific needs of each family. Some critical functions such as the control of the investment committee, including the approval of investment guideline changes, as well as unfiltered access to data and analytics should never be outsourced. A family may choose, for instance, to administer household staff (i.e. maids, gardeners, chauffeur, and pilots) in-house, but outsource facility and fleet management. Managing a larger portfolio of direct investments may warrant in-house legal and direct investment expertise, whilst deal sourcing & evaluation, as well as capital market transactions, are delegated to dedicated professionals with relevant sector focus and expertise. Every member of staff retained needs to be well justified, as it inadvertently adds complexity and cost (supervision, administration, representation/succession). A family should strive for an optimal trade-off between internal and external services, resulting in a highly effective but also cost-efficient virtual organization.

As a function of both technological innovation and increased demand, a myriad of IT solutions have been created to support a virtual organization. Concerns about security have pushed providers to encryption standards and other cyber security measures that are ready to meet the high standards of the financial industry. In many ways, a VFO is not much riskier to operate than a SFO from a Cyber-Risk-perspective, as mobile devices and cloud computing have already crept into the SFO-space. Quite the contrary. As many SFO's don't have the technology and policies in place today to securely store and share information (especially with outside parties such as lawyers and bankers), decisively pursuing the VFO-route allows for systematically addressing the various cyber threats. In any case, careful selection of a suitable technology, and the staff to implement and handle it, are as important as selecting the right outsourcing partners.

Whereas already a number of dedicated "Virtual Family Office Providers" have emerged, screening your network of fiduciaries and trusted partners for suitable providers is probably the best starting point. Many of those, such as Parkview, may have a long history of catering clearly defined services to a Single Family Office, well before the term "Virtual Family Office" was coined.

An extended working-from-home model may have imposed more screen time on us than we are comfortable to handle. It is important to remember how and when to "pull the plug" - even for digital natives amongst us, such as my daughter. At the same time, the pandemic has forced us to re-think centralized organizations. We generally seem to feel more comfortable with conducting meetings, negotiating and even transacting online. Embracing the irreversible force of change, together with the next (digital) generation, the model of the Virtual Family Office is a powerful tool with the potential to enhance returns, reduce cost and ultimately help a family meet its objectives in an increasingly challenging investment environment.

We invite you to discuss, how we can help you streamline your family wealth-related workflows and implement a more cost-efficient Virtual Family Office strategy as your outsourcing partner.

This document was produced by and the opinions expressed are those of Parkview Ltd as of the date of writing and are subject to change. It has been prepared solely for information purposes and for the use of the recipient. It does not constitute an offer or an invitation by or on behalf of Parkview Ltd to any person to buy or sell any security. Nothing in this material constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. The price and value of investments mentioned and any income that might accrue may fluctuate and may fall or rise. Any reference to past performance is not a guide to the future. The information and analysis contained in this publication have been compiled or arrived at from sources believed to be reliable but Parkview Ltd does not make any representation as to their accuracy or completeness and does not accept liability for any loss arising from the use hereof.