

Digital Planning Podcast (Season 5, Episode 1): Family Office Technology Solutions

Speakers: Justin Brown, Jennifer Zegel, Ross Bruch, and Chris Dickson

Ross Bruch:

Welcome back to the Digital Planning Podcast. I'm your host Ross, along with my co-hosts Jen and Justin. Today, we are extremely excited for our guest, Chris Dickson, who's a senior manager in the family office advisory services of EY Private. His primary focus is on advising families and their single-family offices on business and operational risk management, process re-engineering, and family office systems technology.

So Chris, welcome to the podcast. So excited to have you here. I believe you're the first CPA we've had on the podcast. And so your career path, and especially focusing on family office work, is a really interesting one. Can you give the audience a little bit more background about how you got here and your day-to-day operations?

Christopher Dickson:

Yeah, absolutely. So Ross, pleasure to talk to you. First and foremost, thank you to the three of us for having me here today. It's a privilege and something I've been looking forward to for the past couple weeks. So really excited to be here.

My journey to the family office space has been a natural progression since my teenage years. So when I was a teenager, my dad started a family-owned business. It was autobody shops in the Philadelphia suburbs. So I saw firsthand the emotional and financial ups and downs of family-owned businesses, their owners, and really saw the hard work that had to go into creating and growing a family-owned business. So for years, I've just had this tremendous respect for entrepreneurs and what they've been able to do.

So coming out of college, I had an accounting and finance degree. I joined a regional accounting firm in the suburbs of Philly that focused primarily on private companies and family-owned businesses, but also happened to have an investment industry team that supported single and multi-family offices.

I spent about seven years there doing traditional audit and accounting services for clients within the asset management and investment industry space, audit accounting, operational due diligence, and investment performance. About five years ago, I joined EY's family office advisory services team and the rest is history.

So we really day in, day out are really focused on supporting families and their family offices in terms of protecting, growing, and improving. And that comes in different shapes and forms, and I'm happy to dive into that throughout the day.

Ross Bruch:

So let's actually back up for a second because a lot of our listeners are planners and very familiar with the family office concept, but some of them are not. So can you define family office or family enterprise in the way that you see it and what you work with?

Christopher Dickson:

So often, people use the term family enterprise and family office interchangeably. At EY, we view family enterprise as, yes, family offices, the families that support them, but also the family businesses that are generating that income and that wealth and that legacy for the family. So family enterprise is really that overarching term in which family office fits neatly into.

Now, the modern concept of a family office has really been around since 1838 when the family of J.P. Morgan started the House of Morgan in order to manage their family assets and family affairs. Over the years, different types of family office operating models have come and gone. And choosing which family office structure a family deploys really depends upon three things, the size of the family, the size of the assets, and then the complexity of the assets.

Now, when we define family office, we usually use three terms. You have embedded-family offices, you have single-family offices, and you have multi-family offices.

An embedded-family office is a family office that, to use the term as the definition, is embedded within an operating business for that family. So as that operating business grows, becomes successful, the needs of the family often change from outside investment management to increased complexity around their tax work. So they often tap trusted and loyal employees within the family business, often the CFO, the legal counsel, or the director of tax to really stand up this informal structure of people, process, technology to support the needs of the family outside of the business.

A single-family office is separate and distinct from an embedded-family office to the extent that it is separate legal entity. It has been separated from the family business and is owned and controlled by the family. It typically manages the investments, the tax reporting and planning, the trust and estate planning, and concierge services for a family. Concierge services typically being bill pay, travel logistics, event planning.

The third, a multi-family office, is all of that, but for other families as well. So it is still a separate and distinct legal entity. It serves multiple families. It often arises out of a successful single-family office that has been prompted by families that they know, seeking to gain access to their investment platform, their people, their process, their technology.

Jennifer Zegel:

Thank you for that background on the different types of family offices. And this might be an impossible question to answer, but is there any other demographic or data information about the amount of these different types of family offices in the US and abroad?

Christopher Dickson:

So it is an incredibly tricky and complex question to answer primarily because family offices are notoriously private and because the definition of family office as a kind of just outline varies. You have people calling themselves an embedded-family office, you have people that are single-family office, those that are within a multi-family office.

Now, with that said, today's private-family capital is larger than private equity and venture capital combined. There's something on the order of \$14.3 trillion of private-family capital out there today. And behind that, we approximate there to be around 10,000 family offices globally, each of which on average have approximately 850 million in assets under management. Now, the vast majority of those family offices have been stood up in the last 15 to 20 years.

Justin Brown:

Chris, with all the different types of family offices that you described and the different functions of a family office, what do you and EY tend to do when you're working with family offices? What role do you guys play?

Christopher Dickson:

Yeah, absolutely. So first, I'll kind of cover EY generally speaking at the broad level, and then I'll hone in on the group in which I support.

So EY has over 1,200 professionals and 100 partners that are dedicated to supporting private clients and family enterprise. This includes family offices. Now, these individuals support with everything from your typical tax compliance and tax planning to cross-border tax advisory to charitable and/or estate planning. So we really cover the broad spectrum.

Family office advisory services, sits neatly within EY Private and really does five things for family offices. The first is strategy and design work. The second is risk. The third is technology. The fourth is managed services. And the fifth is governance.

So when I say strategy and design, it's really two sides of the same coin. Design is all about assisting families with setting up a new family office, often following the sale of their business or some other significant liquidity event. Strategy, on the other side, is assisting families with redefining their existing family office, developing long-term strategic plans, and aligning their operating model with best practice. Risk as a service is around designing an enterprise-wide risk management framework,

assessing levels of risk within the office, and recommending improvements to more effectively and efficiently manage risk within their organization.

Technology is all about understanding the office's business and operating requirements, identifying opportunities to improve their system architecture, and then supporting them with selecting software that can streamline their processes, enhance reporting, and support decision-making. The fourth managed service is really about shifting the family office's focus from a transactional point of view to an advisory mindset by freeing up their capacity, by taking on administrative activities, such as bill pay, accounting, payroll management, and tax compliance.

Fifth, but certainly not least, is the governance work, and that's around supporting the development of family generational transition plans by developing and aligning family governance, so family constitutions, family counsels, with family office operating governance. So the boards of directors, advisory committees, investment committees, philanthropy committees. So together those five services really outline where we support single-family offices on the day-to-day.

Ross Bruch:

So Chris, what are some of the most pressing issues that family offices are facing today?

Christopher Dickson:

Last year, EY surveyed more than 250 single-family offices globally to understand what was top of mind for them. The survey really uncovered four key areas of focus for family-office executives. First, wealth and regulation, second, strategy and governance, third, risk and reputation, fourth, digital transformation.

So first, wealth and regulation. So family office tax functions are facing increased pressure due to various reasons. There's accelerating tax policy changes, there's rising pressures for tax transparency on high-net-worth individuals, and there's an increase in virtual work. Because of this, the survey found that 64% of family offices did not believe that their tax functions were high-performing. This is causing family offices to increasingly leverage external providers in order to keep pace with the pace of change and access know-how.

Second, strategy and governance. So historically, family office metrics and reporting have focused on cost and other financial metrics rather than value, to focus more on the non-financial performance metrics. Everything from diversity inclusion to carbon footprint minimization to other ESG metrics. So again, it's really taking the bones of family office reporting and then elevating it away from just the financial to the non-financial performance metrics.

Third, risk and reputation. Going to go into this in a little bit more detail later, but what we were surprised to see was that only 49% of family offices surveyed actually had a structured process in place for identifying risks to their organization. Additionally, 31% said decisions about risk management are not taken at the highest levels of the organization, meaning that those should know, don't know. And considering some of the risks I've already mentioned, I really believe that families need to put risk at the forefront of everything they do so as to prevent potential disruption. Often, it's not a matter of if, it's a matter of when. So we recommend that family offices establish a program for reviewing risk management processes and then periodically circling back to that.

Digital transformation. 81% of family offices that we talked to and surveyed indicated that they planned to make an investment not just in one, not just in two, but in at least three technology investments over the next coming years. And this is consistent with what we've been seeing, is an increased focus on transforming their digital footprint, recognizing that in order to get the streamlining of the processes, in order to get the reporting that they need, they really need to take that step back, look at their service model, look at their operating model, and figure out how to plug in technology to support them.

Jennifer Zegel:

So recognizing that there are different types and sizes of family offices and there's some different roles that each may serve, what would you say in terms of highlighting what technology and functionality you'd expect to see in a modern, cutting-edge family office operation?

Christopher Dickson:

Happy to dive into that. It's a tough question to answer and the reason why it's so tough to answer is that most family offices want a single-turnkey technology that's going to support the needs of the family and the needs of the family office.

Unfortunately, there just isn't any technology that does all of that exactly, which requires family offices to really kind of take on a system-of-system views when it's meeting the holistic requirements of their needs.

It's best to really kind of break this down into the technology that supports small family offices from the technology that supports large family offices. And I don't mean large and small in terms of AUM. I really mean that in terms of headcount because we've seen everything from billion-dollar family offices that have three people to billion-dollar family offices that have 12. And the technology needs change drastically depending upon the complexity of their operations and what their service model looks like.

So if I first take a look at small family offices, so those that are approximately five to 10 employees, we take two perspectives. We call it the CFO perspective and the CIO perspective from their technology needs.

So the CFO perspective is focused historically on the financial performance and the entity structure. So when we talk about the systems that a family office needs in order to do that, it's a multi-entity, general ledger, and portfolio management tool that can do everything from data management, financial accounting, partnership accounting to net worth reporting, and then provides look-through capabilities on the underlying assets.

From a CIO perspective, we're looking at a portfolio management system that can support with everything from portfolio construction, asset allocation to risk analytics and cash flow forecasting.

Now, for larger family offices, it's those exact systems plus more. So they start talking about CRM systems that are capable of understanding client background, relationship management, and email integration, to workflow management systems that are going to support with the day-to-day task management, capacity planning, and overall project management to client portals that just support with the secure data transfer of periodic reports to the end users, the family members.

Justin Brown:

Let's turn back to risk and risk mitigation related to technology. Chris, can you talk a little bit about the recent evolution of all of these factors and explain at a high level what's involved in keeping data and individuals protected in the modern family office operation?

Christopher Dickson:

That is absolutely critical. So going back to our survey. Again, we polled more than 250 family offices, and of these family offices, 74% indicated that they had experienced some kind of security breach. 53% of those individuals said it was within the last three years. 72% indicated that they did not have any cybersecurity program training for family members or family office staff. So what does this say? It's an urgent issue, but it hasn't necessarily received the attention that it warrants considering the inherent risks to families of size and families of substantial wealth.

Because of this, we generally have some best practices that we go to family offices with all the time in terms of what should they be standing up in order to secure their information and thus their reputation.

So one is they should have a technology use policy in place for the family and for the family office, everything governing their social media use to how they should be engaging with the technology. They should have password management and protection protocols in place. They should have cybersecurity policies, procedures, and training program. Should ideally be going through some ethical phishing exercise, ethical hacking exercise on a periodic basis just to be testing best practices on their employees and the family members. And often we recommend that they engage a third-party managed IT services provider that can provide them with real-time access to security management, monitoring, and analysis.

Now, with that said, most family offices undergo a pent test. And penetration tests are great, but they're point in time, meaning that, yes, as of this period in time we were able to come in and these are the results of that penetration test.

Ross Bruch:

Can you explain to me what's a penetration test?

Christopher Dickson:

So that's an outsourced provider coming in to take a look at the system and network infrastructure to identify whether or not somebody from the outside would be able to gain access to their systems and their network.

Ross Bruch:

Are they testing beneficiaries of the family office as well or just the family office itself? So if I'm a member of a family, a recipient of some ownership of the family office, am I getting some random emails from a third-party service that's testing whether or not I'm clicking on a phishing link, or is it going to just focus on that family office?

Christopher Dickson:

That's a great question. They can. I would say the vast majority of efforts around cybersecurity focus within the four walls of the family office, so focusing on the employees themselves. It's very hard to extend that out to the family members, especially the extended family and the younger generation as well who may not necessarily want their lifestyle and their cell phones and their laptops and everything networked to the family office from a monitoring standpoint.

Ross Bruch:

Yeah. And just to pick up on that idea ever so briefly, I think that there's a conflict there in just information sharing. So from a protection standpoint, that's great because the more distant they are, the safer things are because there's just one more outlet where a potential nefarious actor could try to penetrate, right? But from an administrative standpoint, the family office probably wants integration of all their beneficiaries to be able to communicate, to be able to relay information back and forth.

And there's a little bit of a push and pull there isn't there on how much do you bring in, people into those four walls, like you said, or how much do you keep them separate and go with old-fashioned mail and phone calls and that sort of disbursement of information? So do you see a little bit of that conflict as well play out?

Christopher Dickson:

There's definitely a push-pull because family offices are stood up to protect, preserve, and grow everything from financial legacy to reputational to how they're supporting their local communities. So to that extent, it would be beneficial for the family office to support the family members with their information privacy and security outside of the four walls of the family office. But generally it's not the case because the family is going to do what the family wants to do and don't necessarily want their lifestyle to be burdened by the administrative tasks that may result from the specific protocols of the family office would want to put in place.

In most cases, it tends to be around awareness training for family members, making them aware of best practices from a social media posting use, geolocation tagging, and so forth. So it tends to be more awareness than necessarily oversight on their digital footprint.

Ross Bruch:

So Chris, I'm really curious, a family business or a family office operation of the size and the magnitude that you mentioned before, sometimes in headcount, sometimes in AUM, any other business of that nature would probably have more universally robust protocols in place to mitigate risk, to manage technology, but we don't always see that. Based on the surveys you were citing, you don't see that as prevalent in adoption. Why do you think that is?

Christopher Dickson:

It's an interesting question, one that I don't believe there's any one single answer to. But what I would like to go back to is really the principles of enterprise risk management and the purpose behind a family office itself.

So family offices are exactly that, an office for the family. It's meant to support the needs of the family. It's meant to support them in achieving their goals and objectives. And ultimately, it's meant to grow, protect, and improve.

And if you think about that, family offices often get a bad rap for their technology infrastructure that they're putting in place or their processes. But really it's just a focus on where do they want to pay attention and where do they want to invest their money. So where family offices choose to focus, they do amazing, amazing things. In terms of the investments they make, how they're supporting their local communities, and the charitable giving that they're doing, it's tremendous.

But because that's the focus, because that's what's having that tangible impact in the community around them, sometimes they lose track on a family office is a business. And because of that, we need to be putting in place the risk management program and the risk management procedures that govern most businesses. Everything from the HR policies that are governing not just family office personnel, but the personnel I may be hiring within my households to how am I engaging with the various entities in which I own.

If I'm a shared services group within a family office, do I have contracts? Do I have agreements in place that stipulate the nature of services I'm going to provide to the various entities? Do they have systems? Are they providing system support to the various entities? If so, what type of access rights do they have within their technology infrastructure and within their servers?

So it's just thinking about the family office not just as a vehicle for the family to do good, but as a business that should have its own governance, its own operations, its own processes and technology.

Jennifer Zegel:

Chris, jumping back to considerations in either creating technological platforms or outsourcing that support to third parties, what are some of the biggest factors that should influence a family office in making these decisions, especially outsourcing some of these technological supports to third-party vendors?

Christopher Dickson:

We call that the make versus buy decision. So when we think about just data in general that's lending itself towards should I build this infrastructure in-house, should I outsource it? I was reading an article the other day that really resonated with me and brought this to light is there is more data being generated in the last couple years than the entirety of human history. So data generation is just at an accelerating pace, and what you do with that data can often mean a difference between success and failure.

And because of that and because that's being recognized, financial institutions and service providers are literally dumping billions of dollars of actual cash and then hundreds of employees into digital innovation to meet the growing demands on data and be able to support family offices.

So in order for family offices to stay competitive, they really should leverage the investment being made by their partners, their service providers, and their financial institutions in order to stay ahead on the pace of change. So we call that the barbell approach.

When you think of family offices and you think about that barbell approach, in order to move upwards, they need to really be in balance and in sync. So on the one hand side, we recommend that family offices leverage their external providers for the development of emerging technology, support with data management, and then compliance work.

On the other side, they build in-house and hire internally to really focus on client experience, knowledge management and context management around the data, and then managing workflow. So the initiation and the approval processes. It's really those two sides of the barbell working in unison that we find to be most effective for family offices.

Justin Brown:

Chris, what are some of the most pressing technology issues that you're seeing on the horizon, not just from family offices but also for businesses like EY that are trying to help family offices?

Christopher Dickson:

Personally, I believe one of the most pressing is workflow management and collaboration. We're all on this podcast together. We're all in different rooms. None of us are in the same office anymore. And I don't know about you, but most people I talk to, myself included, generally use their inbox as the completeness tasks for their tasks, their projects, and the approvals that need to go on. So not much has changed there in terms of recent years, but I would say the focus on collaboration has become increasingly more complex as we all continue to work remote and we're all dealing with this hybrid work environment.

So as I think about the future, there's already systems that are out there to support with collaboration and workflow management and approvals, but it's a user adoption issue that I think is going to be a pressing concern because for the most part, people are still going back to their inboxes to support with data and task management. And that is highly prevalent in family offices where they may not have the CRM systems or the content management systems that support real-time collaboration around workflow, their financial reporting, and the communications to their clients.

Ross Bruch:

It might be too early to tell, but based on the fact that now employees can be located remotely and family office services might be done across the country or across the globe even, have you seen a difference in hiring or approaches to business operations post pandemic that gives family offices more flexibility?

Christopher Dickson:

So like I said earlier, the pace of change from a tax and a regulatory standpoint is incredibly high nowadays, to the point where in past years most people have left public accounting to go into private industry and to support family offices. We're actually seeing a reverse of that right now where people in private industry and those in family offices are coming back to Big Four accounting in order to get that know-how, in order to be able to stay current and leverage the resources within EY and other public accounting firms in order to be able to best serve their clients.

So that's one thing, which means that for family offices in order to attract talent, they've already had great culture. That's why most employees join family offices and most of them stay for a long time. It's the culture of that family office. But for family offices to retain talent, they really need to focus on their overall compensation and think about how are we going to not just financially but non-financially compensate our employees to entice them to stay? What are the benefits? What's the vacation? What are we going to be giving them that can kind of provide that work-life balance to be motivated to stay?

On the flip side of that, hybrid work is part of that which has an impact on the operations. So with everyone working remotely, there's impacts from a tax standpoint that need to be tracked. So we're seeing family offices take more responsibility and more proactiveness in terms of coming up with remote work and jurisdictional policies and procedures to govern their employees in terms of, "Hey, if you're going to work remotely, here's the policy, here's the procedure, here's the approvals you need to get in order to do that." And then tracking kind of the jurisdiction.

So we're seeing more effort from a policy procedure standpoint on that. But then we're also seeing from an operational side an increased focus on their information privacy and their system architecture because now that information that resided within the four walls of the family office is being dispersed much more broadly. So there's an increased focus on putting in place the enterprise risk management, user access rights, and data governance policies that may not have been there two or three years ago.

Ross Bruch:

Yeah. That all seems to resonate with what you said before about using or leveraging third parties and their platforms and their resources as management of family offices, as management of everybody's daily financial activity and operations gets more

complex. It's just harder to continue to operate as efficiently as before without either hiring additional hands or relying on other parties.

Christopher Dickson:

Absolutely. It's interesting because the conversation is so much family office is going digital. And what people may or may not expect or be surprised about is that family offices are already digital. They've gone there as a result of the counterparties and the service providers that they work with. It's been years since really technology providers have supported in-house systems around accounting and reporting, meaning that most family offices are already on cloud-based accounting and reporting systems. And if they're not, they're going to be getting there very quickly.

Jennifer Zegel:

Looking at the future, and given that the amount of content and accelerated technology has been on steroids in the last few years, as you mentioned, what technological developments do you anticipate or are you most excited to see in the next five to 10 years?

Christopher Dickson:

So for years, technology has solved the data aggregation for family offices from a banking, a cash movement, a custodial aggregation standpoint. There's data feeds from their banks, from the custodians into their general ledgers to support with reporting. What hasn't been done yet, or still in the early stages is the aggregation on third-party managers. And what I mean by that is family offices often have a large asset allocation that's managed by outside money managers through funds or other investment vehicles.

And in order to get the valuation, in order to get the performance relative to these assets, they need to log on to the manager portals or their inboxes in order to get those quarterly statements, the capital account statements, the NAV packages, whatever they may be. So that's a highly manual process that is taking hundreds of hours of personal capacity to do on a quarterly basis or an annual basis.

Over the past couple years, there's been a push to find ways to leverage artificial intelligence, machine learning, and people to begin solving for that problem where they can support with that third-party manager aggregation. It's still in early stages and there's some difficulty because manager statements tend to come in different shapes and formats, so it's getting the AI learned up very quickly on how to read that, those data points to carry them into the general ledger. But in the coming years, that's going to be solved for. And that's really exciting for family offices that are spending hundreds of hours of the personnel capacity in order to do that.

Justin Brown:

Chris, it sounds like there's so much going on and so much potential for technology and family offices, and if our listeners want to talk to you or get some information from you, what's the best way for them to get in touch with you and reach you?

Christopher Dickson:

Yeah, absolutely. Thank you for that, Justin. So first and foremost, I would recommend them go to ey.com/familyoffice in order to understand how we may best be able to support them and in order to know who the points of contact would be. If they wanted to contact me directly, they are happy to connect with me on LinkedIn, but then also reach me at my email address, which is Christopher.dickson@ey.com.

Justin Brown:

Chris, thank you so much. We really do appreciate you taking the time today to talk about family office and technology. For Ross and Jen, I'm Justin, and we'll see you next time on the Digital Planning Podcast.