

# What is a Family Office?

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**Executive Summary** - A family office is a professional firm that manages the financial planning of the very wealthy families. They take care of investments, tax planning, expenditure, legal matters and wealth creation for the family. With the growing number of rich in India, there is an increasing demand for the services of family offices.

In 2014, there were 14,800 multimillionaires (people with net assets of \$10 million or more) in India as per the wealth index recorded by New World Wealth, a global wealth intelligence and market research company. Till September 2015, India recorded the fastest growth of millionaires in the world. Rich are growing richer and the number of people growing rich is also increasing. It is not enough to be cash rich. You need to stay rich and grow your wealth for which financial planning is a must. But with busy lifestyles, lack of knowledge and self-confidence, personal financial planning takes a backseat. Here is where family offices come into the picture -

## **What is a family office?**

A family office is a professional private firm that manages finances for a wealthy family. It manages a host of functions like tax planning, legal matters, investments, estate planning, charity and wealth management for a fee. They have to work with a high level of confidentiality.

## **What are the core functions of a family office?**

Each family is different and their financial planning needs are different. A family office needs to understand requirements of the specific family and work accordingly.

A family office manages the wealth of rich families which includes ancestral wealth, money, investments, real estate across the world and art collection etc. They have to ensure that the wealth is intact, the right investments are made and they wealth grows to provide for successive generations.

The office needs to be aware of current investment trends and ensure the right investments are made so that the investment value grows and optimum returns are generated.

There is rise in consumption and lifestyle expenses also. The family office takes care of the same and ensure value based expenditure is made.

A family office has to coordinate and control wealth. It cannot just recommend a few investment products and generate some wealth and income and expenditure reports on a quarterly basis. It has to go beyond that. It needs to have investment strategies and integrate business strategies with family wealth strategies.

There might be specific needs of certain families. Some might have family members with rare medical issues. Some might have specific financial constraints. The office therefore needs to have personnel with relevant knowledge, expertise and experience and manage each family's wealth accordingly.

### **How does a family office work?**

A family office usually has highly qualified professionals in the finance field. They need to have good communication skills to understand family situations and requirements and communicate their short-term and long-term financial planning strategies for different situations and needs. They have to maintain a high level of confidentiality and need to be able to convey the same to their clients.; A family office has a team of lawyers who protect the family interests. There are PR professionals also to manage the client's external communication.

A family office can be a single family office or a multi family office. Single family offices cater to only 1 family and a multi family office has many families as clients.

The family office needs to give unbiased independent advice and cannot favour any investment products that are not in line with the financial planning goals of the family.

The family office has to ensure that the clients assets are managed such that advantage of favourable tax regimes and environments are taken and managed as per changes. They make sure that luxury items such as yachts are registered properly and companies are registered in the right ways. They look out for sound investment opportunities. They are always trying to increase and consolidate wealth.

They usually charge a fee as a percentage of the assets to be managed or have a flat monthly fee in place.

### **What is the current scenario of family offices in India and the world?**

Family offices are more common in Europe and US compared to India. There are some family offices in India as it is a relatively new concept. Azim Premji started PremjiInvest. N R Narayana Murthy has started Catamaran. Some financial institutions like Kotak Wealth Management also provide

family office services.

Economic prosperity, new challenges, increasing regulation and exciting investment opportunities lead to demand for family office services. High net worth individuals (HNIs) and ultra-HNIs have very different investment needs. Family offices with their sophisticated skills can provide these services and ensure that the family's wealth is well managed and grows over a period of time.

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