Family office: Structuring wealth and unlocking value through institutionalisation

According to the Wealth Report by Knight Frank, the number of UHNIs was 6,884 in 2020 and the number is expected to go up to 11,198 by 2025.

November 28, 2022, 07:43 IST

Anuj Kapoor
MD & CEO, Private Wealth Group & Venture Capital Funds Platform, JM Financial

Family offices have emerged as an effective vehicle for UHNI families in India to manage, preserve and grow their wealth as well as structure seamless intergenerational transfers. In developed markets, in addition to ensuring effective strategic asset allocation and risk management, family offices cover an entire gamut of fiscal, lifestyle, and management services.

With that transition gaining momentum in India, the scope of investment and the ambit of operations of single and multi-family offices are becoming increasingly broad-based. On one hand, generating higher risk-adjusted returns and building operational efficiencies are key mandates that family offices have been pursuing to grow wealth. On the other hand, the functional domain of family offices is becoming diversified taking into account strategic planning to preserve the legacy, succession planning, efficient investment management to generate alpha, regulatory and tax compliance, integrating ESG aspects into the investment decisions, business advisory, family and life management, etc. As per the Private Market Monitor Report of Trica, there are more than 140 family offices that are managing, investing, growing and transferring family, HNI and UHNI wealth in India.

The evolution of fully developed and full-service family offices is primarily driven by institutionalisation of the operational and decision-making framework. Wealthy individuals and families have discovered that they can operate at a significantly lower cost than the traditional vehicles accessible to them, while maintaining strong performance. Additionally, family offices can often operate with much more agility and flexibility than the traditional investment advisory firms when it comes to asset allocation and investment - related decision-making. On the investment side, instead of a 7-10-year horizon when looking to exit, family offices span an inter-generational view.

According to the Wealth Report by Knight Frank, the number of UHNIs was 6,884 in 2020 and the number is expected to go up to 11,198 by 2025. With the surge in wealth, there will be growth in demand for personalised and tailor-made wealth management solutions. To meet the demand, family offices need to transform the operational and investment outlook and build competencies to manage a diversified range of investment mandates.

At a time when every wealthy family wishes to either set up a family office or leverage their existing family office set up to grow and preserve wealth, it's important for them to strategize the process of institutionalisation factoring in the phase in which their family offices are functioning. For instance, at the preliminary phase of the journey, the family governance framework needs to be put in place. Higher degree of family control needs to make way for shared decision-making and minimal conflict of opinion among generations. Recruiting professionals in running operations helps decision-makers in the families to focus on formulating strategies, managing implementation and reviewing the outcome.

For family offices in the growth phase, institutionalising the portfolio diversification and risk management needs to be prioritised. In this phase, family offices should move away from legacy investment portfolios and set up effective risk management frameworks. The goal is to spread the portfolio across geographies, asset classes and tenors. The new-age business leaders in the family with a diverse outlook are actually leading the transition by investing in uncorrelated assets such as private equity, private debt, unlisted shares or derivatives. Family offices with an evolved outlook are deploying tech-enabled data-driven solutions to make wise investment decisions, enhance risk management capabilities and maximise returns efficiently. As a result, with a growing risk appetite, family offices are eyeing the booming start-up ecosystem of the country to spread out the portfolio allocation. With start-ups opting for IPO routes, family offices are picking up direct stakes or co-investing with PE/VC funds. According to a 256 Network and Praxis Global Alliance report, Indian family offices are projected to account for 30 percent of the estimated $100 billion to be raised by Indian start-ups by 2025. To manage the start-up investment pipeline, family offices are strengthening their leadership teams by hiring experienced professionals. In addition, at a mature stage, family offices need to institutionalise other processes such as tax planning, ESG mandates, family management and concierge to make themselves a one-stop destination for HNIs and UHNIs.

Institutionalisation is often thought to give precedence to the idea of capital preservation and longevity of wealth and that makes returns range-bound. However, that's not the case anymore. In a globalised environment, an organised approach based on proper due diligence, sector insights, portfolio construct, information coefficient etc. puts family offices in a position of strength to structure wealth efficiently and leverage emerging investment opportunities.