Family Offices in Asia

The Evolution of the Asian Family Office Market

VPBANK

Swiss Institute
of Banking and Finance
University of St.Gallen

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List of Abbreviations

AuM	Assets under management
bn	Billion
bps	Basis points
CFO	Chief financial officer
CHF	Swiss francs
EAM	External asset manager
FOSP	Family Office service provider
GDP	Gross domestic product
HNWI	High-net-worth individuals (net worth of more than USD 1 mn)
HSG	University of St. Gallen
MFO	Multi-family Office
mn	Million
PE	Private equity
SFO	Single Family Office
U.S.	United States (of America)
UHNWI	Ultra-high-net-worth individuals (net worth of more than USD 30 mn)
USD	U.S. Dollar

About the Report

The VP Bank / University of St. Gallen report on Family Offices in Asia aims to provide comprehensive insights into the current status and development potential of the emerging Asian market for Family Office solutions.

Research questions

The following research questions established the parameters of this report:

- Who are the potential clients for Family Offices in the Asian markets and what are their characteristics with respect to the demand for Family Office solutions?
- What are the current Family Office models in the Asian market in terms of structure as well as service offerings, and how do they differ from the European and U.S. American Family Office concepts?
- What are the determinants that shape the future development of the Asian Family Office market and how will this market evolve up to 2015?

Methodology

Motivated by the fact that the Asian Family Office market is still evolving and that existing Family Offices are few in number and difficult to identify (cp. for example WHARTON, 2008, which subsumes Asia to the rest of the world), our research relied on qualitative methods. We therefore focused mainly on an expert panel survey, which was conducted on the basis of a standardized questionnaire consisting of open-ended questions. In addition, our research was extended by secondary literature.

Procedures

This research project consisted of three consecutive phases, which took place between May and September 2008:

- The first exploratory phase involved desk research in order to gain insights into the existing research on this topic as well as into the market. This phase resulted in the development of a standardized questionnaire on which to base the qualitative research.
- The second phase included pilot interviews as well as an expert panel survey, which was conducted by questionnaire as well as by interviews with more than thirty Family Office experts.
- The third phase consisted of the analysis and interpretation of the information gathered as well as the writing of this report.

Interviewees and confidentiality

In the course of the expert panel survey, we were able to interview more than thirty Family Office experts with domiciles in Singapore, Hong Kong, Dubai and Europe. We specifically want to point out that our experts are all very senior market participants and are thus in an excellent position to assess the further development of the Asian Family

Office market. All interviewees have a profound knowledge of the Asian Family Office market gained through various positions held with different market players in the fields of:

- private and universal banks
- Single and Multi-family Offices
- independent advising and external asset management
- law
- regulatory authorities

The composition of experts was chosen so as to create a representative cross-section of the market players involved in the field of Asian Family Offices. This multi-perspective approach facilitated gaining a holistic overview of the market without neglecting important aspects of the topic.

Due to reasons of confidentiality, the interviews have been kept anonymous and no interviewee is directly quoted in this study. The interviewees wished to remain anonymous in order to share with us as much information and as many insights as possible, which would have been rather difficult under the terms of full disclosure.

At this point, we would like to thank all of the experts for sharing their valuable insights into and knowledge of the Asian Family Office market with us and for giving us the opportunity to discuss our ideas with them about the Asian Family Office concept.

About the University of St. Gallen

The University of St. Gallen was founded as a "business academy" in 1898 – at the heyday of St. Gallen's embroidery industry – and opened its doors to students in 1899. Ever since its foundation, practice-oriented education and an integrative approach have been the hallmarks of the University of St. Gallen. Today, the HSG educates some 5,000 students in Business Administration, Economics, Law and Social Sciences with great success: the HSG is among Europe's leading business universities. Its holistic education, which meets the highest academic standards, has earned it the seal of approval represented by the EQUIS and AACSB accreditations.

The Swiss Institute of Banking and Finance was founded in 1968 as a center for bank management. In 1990 it gained its present status as one of over thirty institutes at the University of St. Gallen. Since its foundation, the institute has enjoyed an extraordinary reputation for research in the fields of banking, finance and capital markets.

About VP Bank

VP Bank – one of the largest banks in Liechtenstein – was founded in 1956 as "Verwaltungs- und Privat-Bank Aktiengesellschaft." Nowadays VP Bank is listed on the Zurich Stock Exchange, and its global presence includes locations in Zurich, Luxembourg, Tortola (British Virgin Islands), Munich, Dubai, Hong Kong, Singapore and Moscow. As of June 30, 2007, VP Bank has served clients from more than sixty different countries, with total assets under management amounting to CHF 39.6 bn.

VP Bank specializes in private banking. Its clients benefit from comprehensive financial advice in all aspects of asset management. Due to its relatively small size, the bank is able to offer personal, direct contact between the client and the advisor. It is also large enough to provide a broad package of products and services, which can be customized to meet the individual needs of its international clients.

Executive Summary

This report aims to provide an introduction to the current status and development potential of the Asian Family Office market up to 2015. The geographical scope encompasses eleven emerging economies in Asia (China, Hong Kong, India, Indonesia, Malaysia, Singapore, South Korea, Taiwan, Thailand, the Philippines and Vietnam), which are home to approximately 10,000 wealthy individuals or families each of whom have at least USD 30 mn at their personal disposal. As this population of wealthy people has benefitted from tremendous growth rates in the last few years, mainly driven by thriving economies and booming stock markets, and as it is expected to grow at the same pace for the next few years, the Asian region has become a promising market for Family Office solutions.

However, emerging economies are also at an early stage of wealth management activities in general and the Family Office market in particular. This holds true for all of the economies listed above, with the exception of the two main financial hubs and offshore centers in Asia, Singapore and Hong Kong. But even in these two melting pots of the Asian financial service industry, the Family Office concept is barely known and even more rarely implemented. Due to cultural issues that have a strong impact on the demand for Family Office solutions, it does not seem appropriate to analyze the Asian market from a Family Office perspective shaped by European or American Family Office concepts. In particular, high price sensitivity and a strong need for confidentiality (and hence an unwillingness to give anybody, not even family members, full disclosure about wealth) are the main reservations about setting up a Family Office solution. In addition, Asian wealth management clients are known for being more aggressive investors and for exhibiting a greater appetite for risk in the course of the allocation process. However, from our perspective, this seems to be a misinterpretation, as it only holds for one slice of the wealthy population and neglects the fact that Asian clients tend to hold considerable parts of their total wealth as deposits.

Nevertheless, it would be premature to conclude that these factors indicate a non-existent Family Office market in Asia both on the demand and supply side. Contrary to this first impression, there is a broad spectrum of players, mainly global financial service providers (banks) as well as some local asset managers and law firms, which are trying to gain a foothold in the Family Office business and are already serving wealthy families. This leads to the conclusion that the Family Office concept or model has to be redefined so as to match the current situation in the Asian market.

We therefore propose a “Hybrid Family Office Network Model” in order to illustrate the variety of Family Office concepts already implemented as well as to suggest future evolution of these Family Offices towards more structured models that might be better comparable with the European or American model. The key point of our model is the concept of different players teaming up in order to provide services as a virtual Family Office. The composition of this hybrid network structure is flexible and dynamic and is

often managed by some sort of agent who is either a family member or a trusted advisor to the family. On the basis of interviews with an expert panel conducted for this report, we have identified five different configurations of hybrid Asian Family Offices that are already in place:

- the Family Office network that is led by the current or previous CFO of the family business
- the Family Office model that is mainly dominated by global (private) banks
- the Family Office network that is guided by independent advisors and/or lawyers
- the Family Office model that is led by external asset managers
- a formalized and well-structured Single Family Office model

This list indicates that different providers use their core competencies and existing relationships from their core businesses to enter the Family Office market. This view also holds with respect to the services provided. Whereas lawyers and independent advisors tend to focus on financial advisory services, banks and especially external asset managers capitalize on investment-related services. The services are provided on both an in-house as well as an outsourcing basis, depending on the provider type and the relevant competencies. On the other hand, professional services that are less dependent on fully-fledged professionals (e.g. concierge, life management and real estate services) are mostly provided by personal employees of the family for reasons of cost. However, from the perspective of Family Office experts, investment-related services, which will always be the heart of every Family Office, are the main driver for Family Office solutions.

In addition to the need for professional asset management services, we have identified further determinants of the demand for Family Offices. The most important ones are overall economic growth as a proxy for the development of the ultra–high-net-worth-individual population, education as a proxy for the need for sophisticated asset management solutions, and the awareness of Family Offices, wealth transition and the family business, which impact the availability of free assets and the lifecycle of the family wealth. Taking into consideration the current number of Single Family Offices (about 20) as well as all of the determinants for the future growth, it is estimated that there will be approximately 40 (minimum) to 120 (maximum) Single Family Offices in the Asian market in the year 2015. With respect to Multi-family Offices, we do not see any significant potential yet, mainly due to cultural issues.

From the perspective of private banks, a few key points are important for entering the promising market of Asian Family Offices. These strategies range from educational programs for the principals to new approaches for structuring Multi-family Office solutions (e.g. equity participation) in the Asian market. However, it has to be noted that successful entry into the Family Office business is highly dependent on relationships and trust, both of which are factors that can only be achieved over a long period of time. The Family Office business should therefore only be considered as an additional and very specific segment with some characteristics of both institutional and private clients.

1. Introduction

There is a Chinese saying, "Fu Bu Guo San Da (富不 三代)," which states that the wealth of a family never lasts for more than three generations. As a large proportion of Asia's current wealth has been recently created and is still held by the first-generation entrepreneur, it seems as if wealthy Asian families are not yet showing concern for issues of systematic wealth preservation and succession planning in particular. It is therefore unsurprising that the concept of the Family Office – an institutionalized and well-formalized model that is dedicated to the financial, corporate and personal needs of wealthy families – has not reached a high awareness level among Asian ultra-high-net-worth individuals. This assessment, however, should not lead to the conclusion that there are no professional or sophisticated means of asset management in the Asian market for truly wealthy families.

Starting from an evaluation of the Asian wealth management market and a definition of the highly structured European or American Family Office concepts, we propose a framework that facilitates the understanding of Asia's current hybrid Family Office models as well as their potential future evolution towards more structured Family Office concepts.

The Asian Family Office market in 2008 is characterized by a plurality of players that independently (e.g. global banks) or collaboratively (e.g. asset managers, lawyers and independent advisors) provide Family Office services for wealthy Asian clients. As most of these structures function as a dynamic network of different players, we call our Asian Family Office concept the "Hybrid Network Family Office Model."

Increasing levels of education and financial sophistication as well as triggering events like wealth transition or the sale of the family business will clearly drive the future demand for Family Office solutions in the Asian market. Therefore, it can be expected that the number of Family Offices as well as solution providers will grow significantly, especially since the Asian region is the most thriving region of the world in terms of GDP growth as well as wealth accumulation.

From a methodological perspective, our assessments and evaluations rely on existing literature and research on Family Offices as well as information from an expert panel. The latter in particular made it possible for us to gather valuable insights into the market as well as giving us the opportunity to discuss our ideas about the Asian Family Office concept with practitioners. We thank all of the Family Office experts interviewed for their willingness to share both their knowledge and their precious time in order to enable this report on the Asian Family Office market.

Indeed, the Asian Family Office market is a fascinating, quickly evolving and very promising market that will continue to draw the attention of both researchers and practitioners. However, we are very optimistic that this report, as one of the first that is dedicated to this specific region and market, will provide experts with some valuable insights into the Asian Family Office concept.

2. The Asian Wealth Management Market

Driven by substantial GDP growth rates and increasing market capitalizations, many emerging economies in the Asia-Pacific region have benefitted from accrued private wealth over the last decade. At the same time, the region has been identified by various banks, asset managers and other financial intermediaries as a growth spot. These players have already gained a foothold in the markets or are on the verge of entering the market. The development of the two main financial centers – Hong Kong and Singapore – in particular reflects the boom of the financial industry in Asia. The following paragraph provides a definition of the scope of the Asian market for the purpose of this study and then describes the wealth management markets in the region, focusing on wealthy individuals with more than USD 30 mn in assets.

2.1. Scope of the Asian Market

Since Asia encompasses about one-third of the global landmass and two-thirds of the world's population, it seems reasonable to focus on a few emerging countries that constitute promising markets in the next few decades.

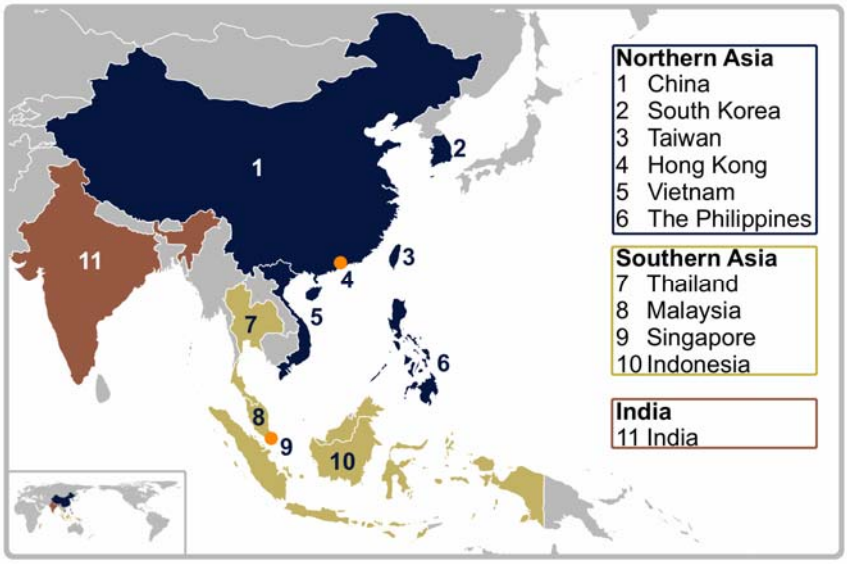

Figure 1: Geographic scope of the Asian market for the purpose of this study

Figure 1 depicts the geographic scope of the Asian market for the purpose of this study: it consists of (i) the "Asian Tiger" countries (China, Hong Kong, Singapore, South Korea and Taiwan), (ii) the "Panther" nations (Indonesia, Malaysia, Thailand, the Philippines and Vietnam) and (iii) India as an independent category. Whilst this classification reflects the economic development of those countries, we distinguish more broadly between three regions: northern Asia, southern Asia and India. These three geographical entities have their respective financial service hubs in Hong Kong (northern Asia) and Singapore (southern Asia and to some extent India). India is treated as an exceptional case in this classification due to the fact that non-resident Indians (NRI) are known to be important clients in both of these hubs, whilst the Indian onshore mar-

ket is still distinguished by strong regulation and a low degree of activity by global financial service firms.

This perspective on the Asian market incorporates a heterogeneous range of countries, not only with respect to the economic level of development but also with respect to demographic issues, to the ethnic, cultural and religious backgrounds of potential Family Office clients and to the political regulations in each of these jurisdictions. A comprehensive approach to Family Offices has to encompass these heterogeneities.

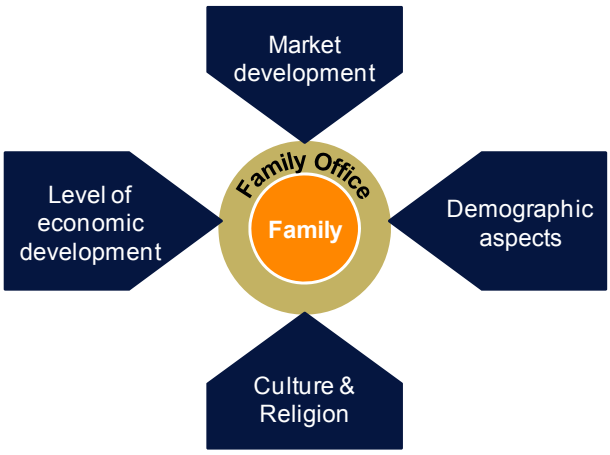

Figure 2: Macroeconomic impact on Family Office functions

Level of economic development

An initial indication of economic development starts with the analysis of a sector's contribution to the gross domestic product (GDP). This approach is motivated by the theory that economies evolve through different stages: the first stage is characterized by the dominance of the first sector (agriculture), while the second stage is shaped by industrialization (secondary sector). The third stage then is characterized by the transition from labor-intensive manufacturing to the higher-value areas of a service-oriented economy. Figure 3 illustrates the current sector contributions organized by the decreasing contribution of the tertiary sector.

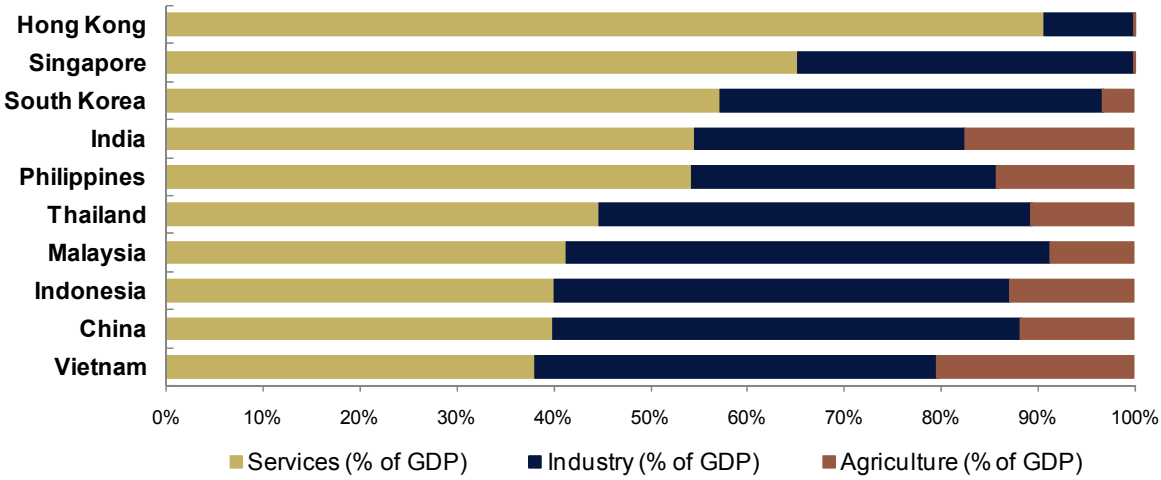

Figure 3: Sector contribution to the GDP (in %) (Source: World Bank)

Gross domestic product per capita

The GDP, as a measure of national income and the output of an economy, provides an insight into the economic power and significance of a nation. Instead of using the absolute GDP, however, this study adheres to GDP per capita, as this figure provides better insights into the relative wealth level of an economy. Figure 4 shows the level of GDP per capita for the years 2000 to 2008 for all economies in the Asian market, with the exception of Taiwan, in terms of numbers calculated using purchasing power parity (PPP). The usage of PPP is motivated by of its usefulness in comparing the relative wealth of individuals.

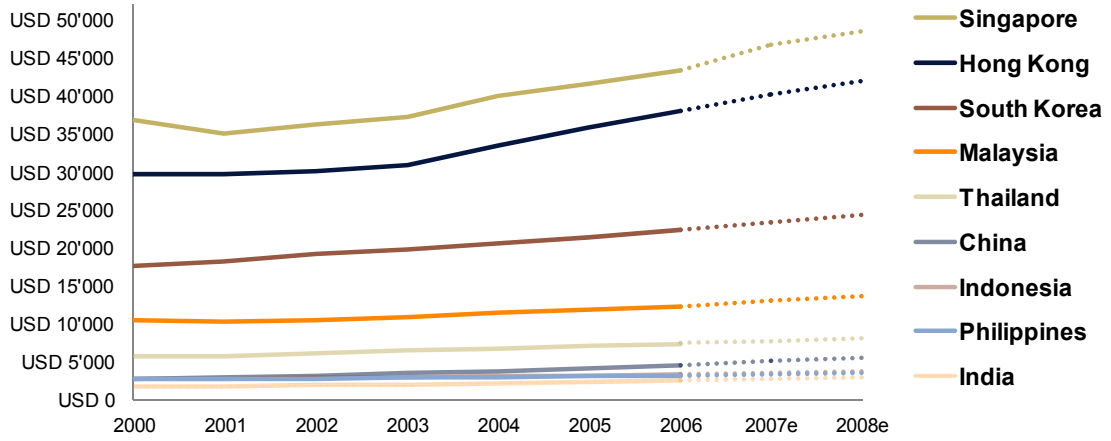

Figure 4: GDP per capita (1990 constant PPP, USD) (Source: World Bank)

This figure also shows evidence for a trifurcation of the market: the first section consists of developed small economies that are at the same time the financial centers of the Asian market, namely Hong Kong and Singapore. The second section consists of South Korea, which is one of the most developed larger economies in the market. The third section consists of the emerging economies in the Asian market, although this last section lends itself to further differentiation. Not surprisingly, there is a correlation between the structure of an economy, its overall GDP and the level of the GDP per capita.

Wealth accumulation as function of GDP growth and inflation

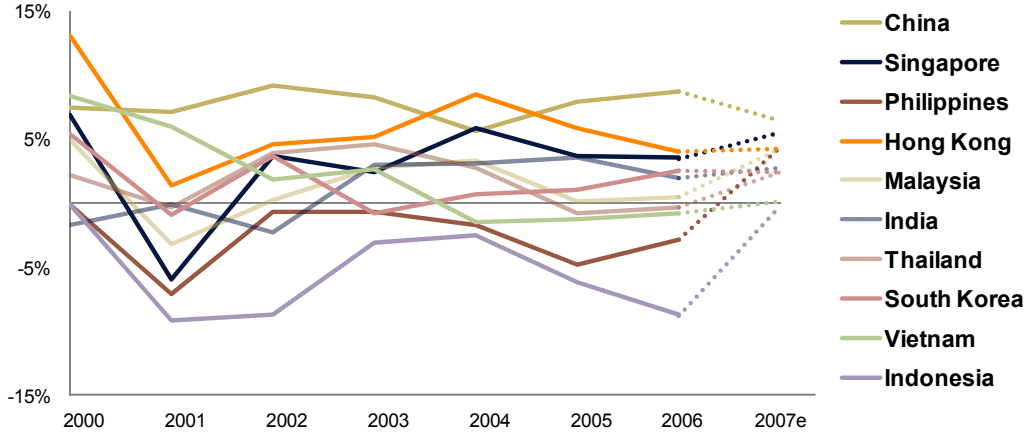

Figure 5: GDP per capita growth rate (inflation-adjusted) (Source: Euromonitor)

In contrast to Figure 4, which is unable to show wealth accumulation processes within the illustrated period of time, Figure 5 provides some information about this process. This figure depicts the GDP per capita growth rate, which is a proxy for the per capita income growth rate, adjusted by the average inflation. As inflation is a proxy for increasing prices and therefore for increasing costs of living, the subtraction of the inflation rate from the GDP per capita growth rate may be used as an indicator of wealth accumulation within an economy.

National saving rate

Another important factor for assessing the structure of national wealth is the individual saving rate. The GDP per capita as a proxy for the individual income in connection with the saving rate allows conclusions to be drawn about national wealth in terms of the assets that are held by individuals. Figure 6 provides some insights into the saving rates in terms of the proportion of disposable income within the different economies that have been selected for this study.

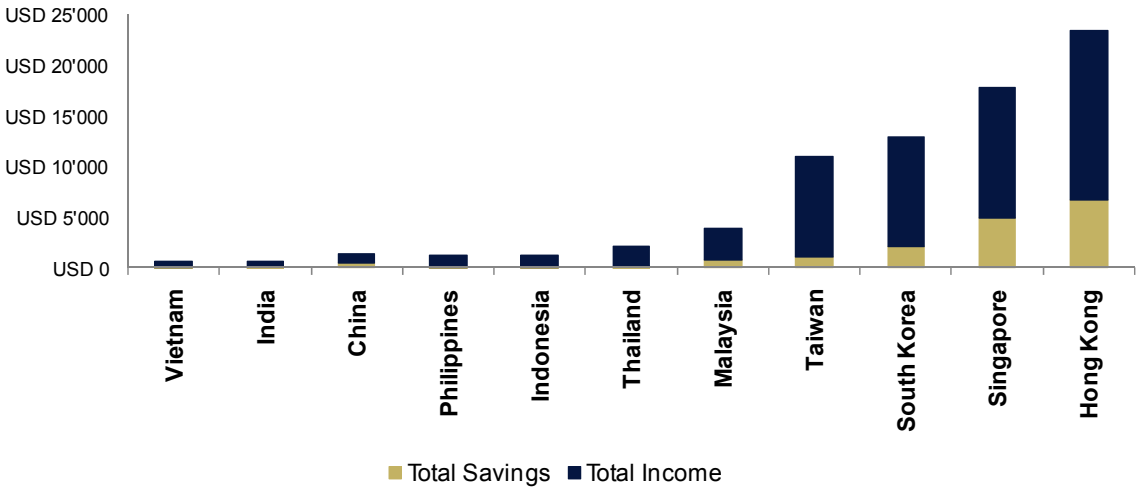

Figure 6: Disposable income and saving rates in the Asian market (Source: Euromonitor)

Gini Coefficient as an indicator for wealth and income distribution

The final factor that helps to provide an overview of a wealth management market is the Gini Coefficient. This coefficient extends from 0 to 1 and indicates the equality of wealth (Wealth Gini) or income (Income Gini) distribution (cp. Figure 7). The Gini Index is calculated using Lorenz curve analysis and corresponds to a ratio between equal and nation-specific distribution of wealth and/or income. A Gini of 1 corresponds to an absolute equal distribution, whereas a Gini of 0 means total inequality in distribution. In most economies the Gini Coefficient is in the range of 0.5 to 0.8. Since the Gini Coefficient is only a measure for the equality of distribution and does not describe precise forms of distribution, it can only be used as a proxy. Therefore, lower Gini Coefficients indicate a higher wealth concentration and thus a larger population of very wealthy people. On the other hand, the Gini Coefficient does not describe percentages of national income according to the different percentiles of the total population.

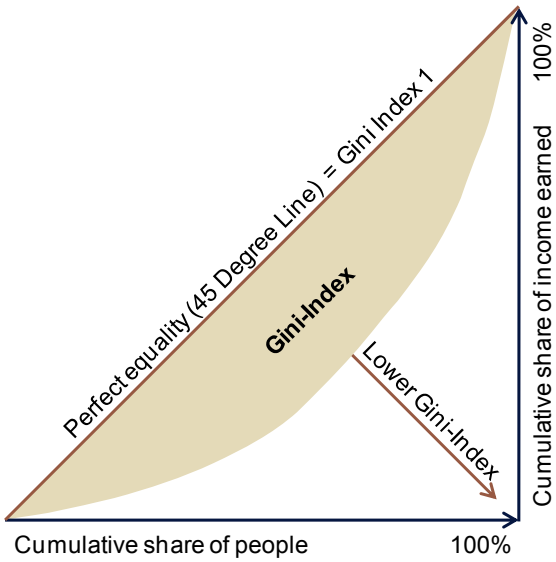

Figure 7: Gini Index

Demography

Demography indicates a population's size, structure and economic dynamics. It is therefore an important factor in weighing the demand for Family Office solutions, as it is an indicator of the availability of a labor force and hence of future economic growth, as well as of the need for wealth planning solutions and succession planning services once a certain cost-of-living threshold has been surpassed. Figure 8 shows the demographic situations of the two biggest economies and of the two most mature financial service hubs in the Asian market – India, China, Singapore and Hong Kong – for the years 2005 and 2015.

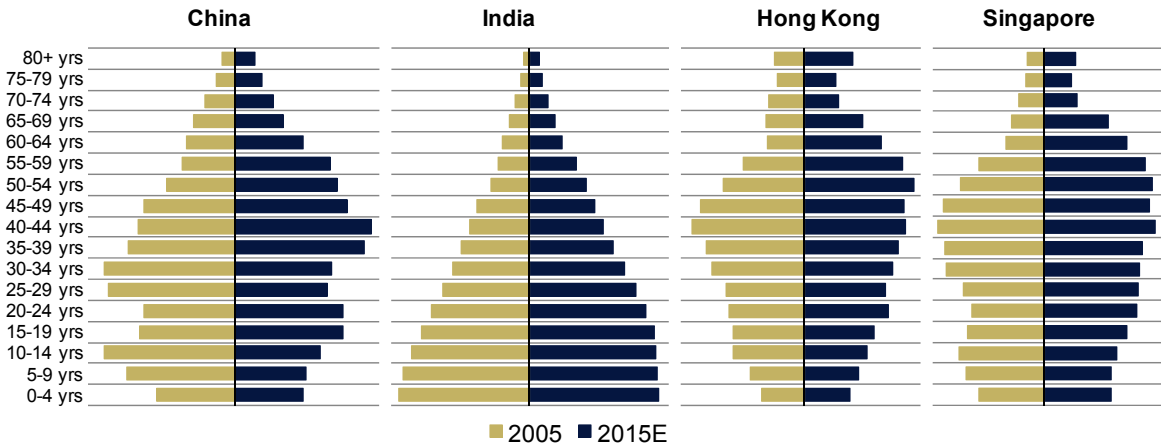

Figure 8: Population pyramids of four selected Asian countries (Source: Euromonitor)

At first glance, these graphs indicate that the four economies are at different stages: China's, Hong Kong's and Singapore's population pyramids are quite similar to those of the European countries or the United States. These economies are in a stage of contraction, which means a low birth rate, higher life expectancy, high median age and large working proportion of the population. South Korea and Thailand also belong to this first type. The second type is represented by India but also includes countries like

the Philippines, Indonesia, Vietnam and Malaysia. These economies are still in a stage of expansion that is mainly characterized by high birth rates, low median age and an increasing proportion of the population in the work force. Both types of demographic developments have an impact on the future economic development as well as the needs of a population with respect to financial planning.

Culture and religion

Ethnic and cultural origins may also have an impact on family structure, the handling of heritage issues and the distribution of information and control regarding family wealth. As we will elaborate in this study, all of these factors help determine the demand for and therefore the potential of Family Office solutions in the Asian market. For example, the religious background of an individual may have an important impact on his financial affairs and asset allocation, as the financial products have to adhere to certain religious rules (e.g. Islamic finance). However, this study does not elaborate on the cultural or religious specificities of the different nations, as the very wealthy people tend to form a more or less homogenous group. This tendency is supported by the assessment of the expert panel, which indicated that most wealthy people in Asia, except for the Indian market, are Chinese or at least have a Chinese background.

2.2. Market Size and Development

Understanding market size and the development of the Asian wealth management market requires describing the current market size as well as its future potential development up to 2015. This study thus focuses on ultra-high-net-worth individuals (UHNWI), i.e. individuals with more than USD 30 mn in assets, as this is the most important target group for Family Office solutions. The following explanations rely on primary as well as secondary sources. The latter can be divided into studies on global or regional wealth (MERRILL LYNCH & CAPGEMINI, 2007; THE BOSTON CONSULTING GROUP [BCG], 2007a) and reports on national wealth management markets (DATAMONITOR, 2006, 2007a, 2007b, 2007c, 2007d; THE BOSTON CONSULTING GROUP [BCG], 2007b). All figures and forecasts for the next few years are based on models and assumptions.

2.2.1. Market Size

The “Forbes Rich List” indentifies 108 individuals or families in the Asian market as billionaires. India leads this list with respect to absolute numbers, whereas Hong Kong and Singapore represent the highest density of billionaires in this region. Both of these financial centers are also top ranked on a global scale.

Overall, the billionaires in the Asian market have about USD 400 bn of assets at their disposal, which equates to an average of about USD 3.6 bn per individual, which in turn makes all of them potential clients of Family Office solutions or even owners of Single Family Offices (cp. chapter 4.1.1).

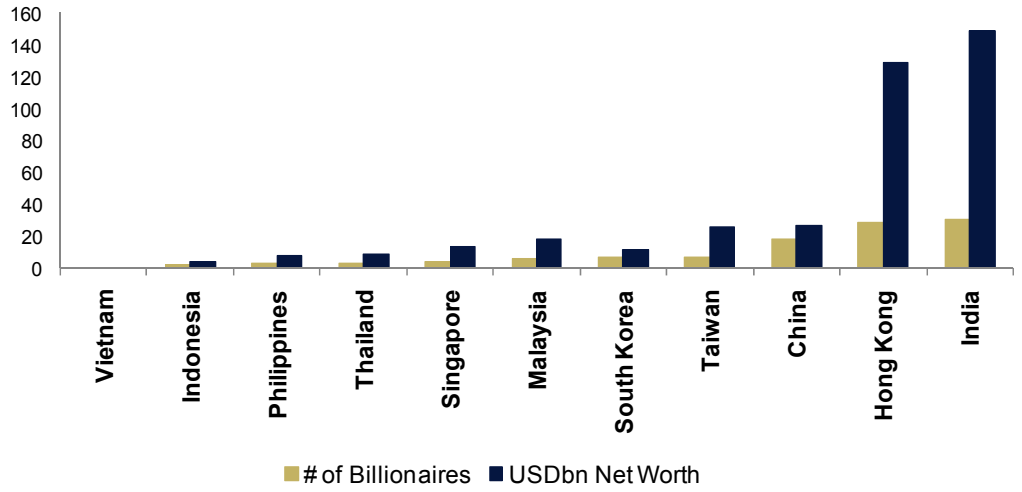

Figure 9: Billionaires in the Asian market (Source: Forbes Rich List)

Market overview

Table 1 provides a short overview of the Asian wealth management market with respect to the economic development, population and particularly the number of HNWI with more than USD 1 mn net worth, UHNWI and billionaires resident in the different nations in the Asian market. The background of this summary is described in the following paragraph.

	GDP (2007)		Population		HNWIs		UHNWIs		Billionaires	
	(USDmn)	(%)	(people)	(%)	(people)	(%)	(people	(%)	(people	(%)
China	3,250,827	45.5%	1,325,544,000	43.5%	400,000	43.0%	4,900	49.6%	18	16.7%
Hong Kong	206,707	2.9%	6,963,100	0.2%	90,000	9.7%	1,300	13.2%	28	25.9%
India	1,098,945	15.4%	1,136,750,000	37.3%	100,000	10.7%	900	9.1%	30	27.8%
Indonesia	432,944	6.1%	231,627,000	7.6%	21,000	2.3%	175	1.8%	2	1.9%
Malaysia	186,482	2.6%	27,170,000	0.9%	40,000	4.3%	400	4.1%	6	5.6%
Philippines	144,129	2.0%	90,457,200	3.0%	15,000	1.6%	150	1.5%	3	2.8%
Singapore	161,349	2.3%	4,588,600	0.2%	60,000	6.4%	900	9.1%	4	3.7%
South Korea	957,053	13.4%	48,224,000	1.6%	100,000	10.7%	450	4.6%	7	6.5%
Taiwan	383,307	5.4%	22,990,000	0.8%	68,000	7.3%	500	5.1%	7	6.5%
Thailand	245,659	3.4%	63,038,247	2.1%	28,000	3.0%	200	2.0%	3	2.8%
Vietnam	70,022	1.0%	87,375,000	2.9%	8,500	0.9%	n/a	n/a	0	0.0%
Total	7,137,424	100.0%	3,044,727,147	100.0%	930,500	100.0%	9,875	100.0%	108	100.0%

Table 1: Overview of the Asian wealth management market

China

China is clearly the largest and most thriving economy in the Asian market. With about 1.3 billion people and ranked as the fourth largest economy worldwide in terms of nominal GDP, China will be the most promising market for the financial service industry for the next few decades:

- China mostly benefits from its strong secondary sector, which contributes about 50% to the GDP, while the tertiary sector seems to be lagging behind.

- However, with the evolution of the market and the deregulation of private ownership, a shift towards the service sector can be expected.
- In order to analyze the Chinese wealth management market, distinguishing between the rural and the urban part of China is crucial. This can best be illustrated by the relatively unequal distribution of wealth (Wealth Gini of 0.55).
- While the disposable income of the Chinese population is more equally distributed than in other economies in the Asian market, it lags behind its neighbors despite high growth rates in the last few years.
- Chinese saving rates, however, are among the highest in the Asian market and are equivalent to almost 30% of the disposable income.

China's large HNWI population

All of these factors, combined with the extraordinary GDP growth rate and tremendous boom in stock markets, are the basis for the huge Chinese HNWI population, which is estimated at about 400,000 individuals, most of whom have generated their wealth as first-generation entrepreneurs. This situation is also reflected in the fact that about 75% of the Chinese HNWIs are younger than 55, which is by far the lowest level in the market, with the exception of India.

China's UHNWI population

The wealth concentration in China is very high, as less than 1% of the Chinese people are in control of about 50% of China's wealth, which is also reflected in the proportion of UHNWIs to HNWIs. Approximately 1.3% of the 400,000 HNWIs, or about 28% of the estimated 17,500 UHNWIs in the Asian market, are Chinese UHNWIs, which is equivalent to about 4,900 UHNWIs in the Chinese market.

Future development of the Chinese wealth management market

Even though China is a highly attractive market, it is still very difficult for global players to gain a foothold in the Chinese market. Due to strict regulations, which have been slightly eased since WTO accession, it is difficult for foreign banks to establish full operations in China. Nevertheless, there are strong activities in the financial sector, mostly fueled by foreign banks that have begun to build up a branch network or have bought into local institutions in order to enter this promising market. With respect to the Family Office business, it is still hard to assess whether these clients prefer to establish a Family Office onshore or offshore in one of the two financial hubs in the Asian market.

Hong Kong

Hong Kong and Singapore are the two smallest economies with respect to population. They have strong common-law ties and a very free and open economy in common. Nowadays they are known as the two hubs of the financial service industry in the Asian market.

Hong Kong has about 6.9 million inhabitants and a GDP of about USD 206 bn, which makes it the 36th largest economy of the world, even larger than Vietnam, Malaysia or the Philippines. Hong Kong's economy mostly relies on the tertiary sector, with a highly developed banking sector which contributes about 91% of the GDP and has been growing by 5% or more in the last few years. Hong Kong's economic structure indicates that Hong Kong is the most mature and developed economy in the Asian market.

Hong Kong's HNWI population

A high level of GDP per capita and a high level of savings are the basis for the high densities of HNWIs and UHNWIs in Hong Kong as well as for the highest average net worth of HNWIs in the Asian market. The GDP growth rates and the continuous performance of the Hong Kong stock market are additional drivers for the wealth population in Hong Kong, which has grown steadily by 10% or more in the last few years. Today's models estimate that Hong Kong is home to about 90,000 HNWIs with a total wealth of more than USD 450 bn.

Hong Kong's UHNWI population makes it an attractive Family Office market

Hong Kong benefits from the highest density of UHNWIs amongst its population and the second highest level of HNWIs. Merrill Lynch & Capgemini (2007) estimate that Hong Kong encompasses 7.6% of the approximated 17,500 UHNWIs in the Asia-Pacific region, or about 1,300 in absolute numbers. At the same time, Forbes lists 28 billionaires with more than USD 125 bn net worth.

This high density of potential Family Office clients, combined with the maturity of the economy, makes Hong Kong a very promising market for Family Office providers. Therefore it is not surprising that some of the oldest Family Offices in the Asian market are located in Hong Kong, which seems to be the most mature financial center in Asia for Family Office solutions. Nevertheless, the fact that Hong Kong is a Special Administrative Region (SAR) of China may have an impact on whether or not Hong Kong will be able to position itself as the Family Office center in the Asian market.

India

India has the second largest population in the world, numbering 1.1 billion people, and is the twelfth largest economy in terms of nominal GDP on a global scale. Whereas India seems to be lagging behind in the competition with China, it has a completely different structure with respect to demographics and sector contribution to the GDP:

- First, India is a very young and booming economy with a population pyramid which very clearly indicates an increasingly available labor force.
- Second, the tertiary sector contributes to more than 50% of the GDP, which is only exceeded by the two financial hubs, Singapore and Hong Kong, and South Korea. However, this sector is strongly reliant on low-margin services such as IT providers, business-process outsourcing providers and call center services.

Overall, India's population has one of the smallest disposable incomes in the market and only average saving rates. However, the characteristics of income (Income Gini of

0.36) and wealth distribution (Wealth Gini of 0.66), in combination with the fact that most of the wealthy Indian people generate their fortune as entrepreneurs, indicate a HNWI population that consists of some 100,000 wealthy Indian individuals. Fast-growing capital markets and high GDP growth rates, which have been nearly 8% or more in the last four years, have supported the fast growth of the last few years, although the recent market downturns may have an impact on the future development of the Indian HNWI population.

India will be a promising future market for Family Office offerings

- Analyses of the Indian UHNWI population identified 30 billionaires with about USD 150 bn at their disposal. The overall number of UHNWIs is estimated to be approximately 1% of the India's HNWI population, resulting in 900 UHNWIs.
- This large population of wealthy individuals turns India into an attractive market for the financial service industry in general and for Family Office providers in particular. Since India's regulations on foreign banks are quite restrictive, however, it remains a challenge for global players to gain a foothold in the Indian financial services market.
- As the wealth of non-resident Indians (some 20 million people) is not affected by these regulations, NRIs remain an interesting target group for global financial service players.
- In addition, as NRIs are seen to be better educated, more sophisticated and more affluent than resident Indians, this global population of Indian background seems to be a promising target group for Family Office services.

Indonesia

Indonesia has a population of approximately 232 million, which makes Indonesia the fourth largest economy of the world with respect to population. At the same time, Indonesia has a GDP of about USD 432 bn, which makes it twentieth in the global ranking. Whereas the tertiary and secondary sector both contribute about 42% to the GDP, the biggest proportion of Indonesia's workforce is employed in agriculture. Indonesia thus has a low GDP per capita and an accordingly low level of disposable income per capita.

Low saving rates, an average GDP growth and a relatively equal distribution of wealth (Wealth Gini of 0.76) may be reasons for a low density of HNWIs in Indonesia. On the other hand, impressive stock market performances and the fact that the distribution of income seems to be quite unequal (Income Gini of 0.39) explain the presence of approximately 21,000 HNWIs in Indonesia.

UHNWIs of Indonesian background are promising clientele for Family Offices

There are two Indonesian billionaires with a net worth of USD 3.5 bn on the Forbes list. In addition, estimations suggest that the UHNWI population of Indonesia may consist of about 175 wealthy individuals. Here it has to be noted that a significant proportion of HNWIs and UHNWIs of Indonesian background may have migrated to other econo-

mies, particularly to Singapore. Furthermore, Indonesia's demographics indicate that a significant proportion of the wealthy individuals in Indonesia are of Chinese background, whereas the majority of the population is Muslim. This, of course, has some important implications for the service level, appropriate financial products and potential cultural issues involving these Indonesian clients.

Malaysia

Malaysia has a population of around 20 million and a GDP of about USD 186 bn, which positions it as 38th in the global ranking. With respect to economic development by sector contribution, Malaysia is one of the more service-oriented countries in the Asian market, while the secondary sector (mainly petrochemical industry) still contributes to a large extent to the GDP. The level of GDP per capita, however, is relatively low compared to more mature economies like South Korea, Hong Kong or Singapore.

The HNWI population consists of about 40,000 wealthy individuals. This number is growing by about 6% a year. With respect to the UHNWI population, Forbes lists six billionaires with approximately USD 18 bn net worth. Assuming a 1% UHNWI-to-HNWI ratio implies that there are about 400 UHNWIs in Malaysia, which is in the range of South Korea or Taiwan and makes quite a reasonable figure.

Like Indonesia, the majority of the Malaysian population is Muslim. Accordingly, it is not surprising that Malaysia is the largest center for Islamic finance within the Asian market, particularly with respect to product offerings, investor sophistication and the maturity of the financial market.

The Philippines

The Philippines is one of the smallest economies in the Asian market. With a population of about 90 million, the Philippines generates a GDP of USD 144 bn, which makes it 46th (one position behind Singapore) in the global ranking. With respect to its economic structure, the tertiary sector contributes most to the GDP (mainly from call centers and outsourcing for U.S.-based companies). However, the first sector still has greater importance in the Philippines than in most of the other economies in the Asian market.

Wealthy individuals in the Philippines

A low level of GDP per capita comparable to India and Vietnam, a moderate GDP growth rate and by far the lowest saving rate in the Philippines indicate a small HNWI and UHNWI population. Based on the available data, it can be estimated that the Philippines is home to between 15,000 and 17,000 HNWIs. Again assuming a 1% UHNWI-to-HNWI ratio implies a maximum of 150 to 170 UHNWIs. With regard to billionaires, Forbes lists three individuals with a net worth of about USD 7.5 bn.

Singapore

Singapore, with its population of about 4.5 million people, is one of the of the most developed economies in the region and one of the most booming financial offshore centers on a global scale. The tertiary sector and in particular the financial service industry account for the largest fraction in contribution to the GDP, while the secondary sector (additives, petrochemical processing, construction and oil rigs) lost some of its importance in the last decade. However, it should be noted that Singapore domiciles one of the world's largest container harbors, making it a preferred hub for the freight traffic between the Asian and Europe markets and for entrepôt trading activity that is linked to the secondary sector's contribution to the GDP.

A high level of GDP per capita combined with relatively high saving rates and a well-performing stock market are the basis for the highest HNWI densities as well as for one of the highest inequalities of wealth distribution (Wealth Gini of 0.55) in this region. Overall, the number of HNWIs is estimated to be approximately 60,000, although a significant proportion of this population has its origins in surrounding countries like Malaysia and Indonesia. In the last decade, the number of HNWIs in Singapore has benefitted from one of the largest growth rates in the Asian market and is estimated to continue along this path for the next few years.

Singapore's UHNWI population makes it an attractive Family Office market

- There are four billionaires with a total of USD 14 bn of net worth listed in the Forbes list.
- Since the density of UHNWIs is higher than in most other economies in the Asian market, Singapore is home to approximately 900 UHNWIs from heterogeneous ethical and cultural backgrounds.
- A significant proportion of this population are migrants to Singapore, reflecting the nation's population diversity throughout the top tier as well.

In the last few decades, Singapore has been able to position itself in the front row of global financial centers. As Singapore seems to be one of the most promising on- and offshore financial centers in the Asian market, all major global players in the financial service industry have established a foothold in this market. Even if only a few Family Offices are identifiable in Singapore today, the market will clearly play an important role in the Family Office business for Asian clients in the future.

South Korea

South Korea (or the Republic of Korea) has a population of 48 million people, which generates a GDP of USD 957 bn. This makes South Korea the thirteenth largest economy in the world and the third largest economy in the Asian Market (excluding Japan). Overall, South Korea has one of the most developed economies in the Far East with a high availability of the well-educated labor force. With respect to economic structure, South Korea exhibits patterns similar to Singapore and Hong Kong, as the tertiary sector contributes by far the largest proportion to the GDP.

South Korea's UHNWI could be a promising segment for Family Offices

In terms of South Korea's level of economic development, GDP per capita is significantly higher than in most of the other economies in the Asian market. Moderate GDP growth, average saving rates and a well-performing stock market are further factors that promote the HNWI population, which has grown by double-digit percentages over the last few years and now consists of about 100,000 individuals.

In the Forbes list, there are seven South Korean billionaires that have about USD 12 bn at their disposal. Estimations suggest that the UHNWI population in South Korea consists of approximately 450 wealthy individuals.

Taiwan

Taiwan (or the Republic of China) has a population of about 23 million people and a GDP of USD 383 bn. The tertiary sector, with about 64%, and the secondary sector, with about 33%, contribute most to the GDP.

Overall, Taiwan's HNWI population is estimated to consist of about 68,000 wealthy individuals including approximately 500 UHNWIs and seven billionaires. Due to strong market performance and a stable GDP growth rate, this population has grown by double-digit percentages over the last few years and is expected to grow at the same rate in the future.

Thailand

With a population of 64 million people and a GDP of USD 245 bn, Thailand is the sixth largest economy of those included in this study. The tertiary and the secondary sectors each contribute about 44% to the GDP.

In 2002 the HNWI population was estimated to consist of approximately 21,000 wealthy individuals. Assuming that this population would have increased by an average annual growth rate of 5% (which is a rather conservative estimation) suggests that the population now consists of about 28,000 HNWIs. Based on a 1% UHNWI-to-HNWI ratio, the number of UHNWIs can be estimated at approximately 200, including three billionaires according to the Forbes list.

Vietnam

Vietnam is a very young economy that is sometimes referred to as "the next China." For Vietnam, there is a lack of available data regarding the wealth management market. The following numbers are estimated on the basis of comparisons with other economies in this study. India and Vietnam are quite comparable with respect to GDP per capita as well as to the equality of wealth distribution (Wealth Gini of 0.67 versus 0.68), but they differ with respect to economic structure, saving rate as well as political background. This leads to the conclusion that the proportion of HNWIs in the total population could at maximum be similar to India's 0.01%, which suggests approximately 8,500 HNWIs for Vietnam. Due to the lack of data and the fact that Forbes does not identify a single billionaire in Vietnam, it is probably best not to attempt an estimation of the UHNWI population.

2.2.2. Market Development

The future development of Asian wealth management is dependent on numerous intertwined macro- and microeconomic factors as well as on politics and the economic behavior of the people in these markets. Nevertheless, there are two important determinants that are easy to identify:

- First, GDP-growth rate as a proxy for the evolution of the wealth of an economy, and second, the stock market performance as a proxy for the attractiveness of an economy and as an important driver for wealth accumulation within a nation.
- The market capitalization may give some insights into the current public activity in an emerging market, which is a major source of wealth.

Future GDP development in the Asian market

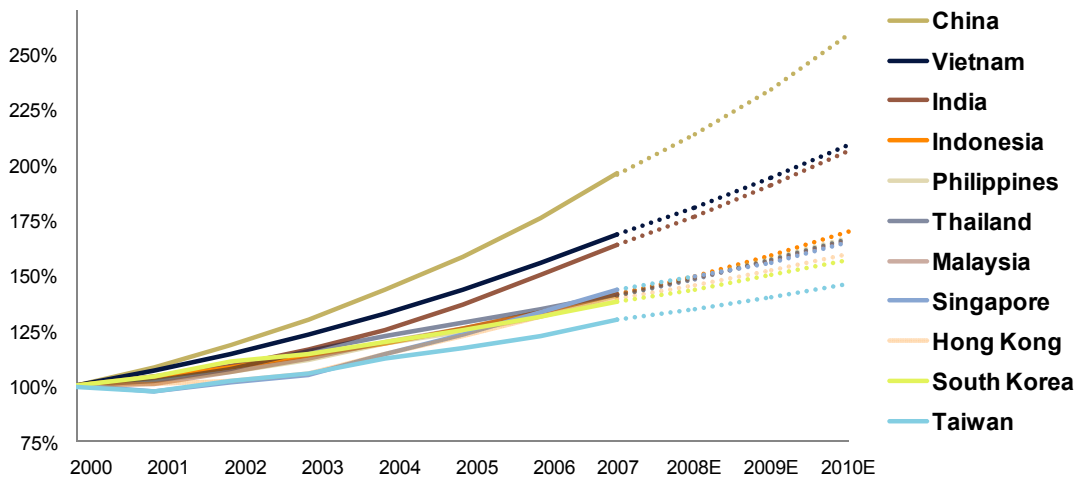

Figure 10: GDP-growth rate in the Asian market (in %) (Source: IMF)

Figure 10 illustrates the GDP growth in the Asian market on the basis of levels in the year 2000. The source of the data as well as of the estimations for the years 2008 to 2010 is the International Monetary Fund (IMF). A few patterns can be distinguished in this graph:

- Less developed economies like China, Vietnam or India exhibit a clearly higher GDP growth rate than developed countries like Taiwan, South Korea, Hong Kong or Singapore.
- Whereas the former achieved a constant positive growth rate, the latter had to deal with a few years of negative or barely no GDP growth.
- China clearly leads the ranking, as in 2010 it will have more than doubled its 2000 GDP level. The second section, which consists of India and Vietnam, will also double its 2000 GDP level but is lagging behind China.
- The third section and the developed economies will continue to have lower GDP growth rates, but it has to be kept in mind that, from a GDP-per-employee perspective, these countries are still leading the ranking.

Performance of the Asian stock markets

Figure 11 illustrates the stock market performances of some of the most important indices in the Asian market (excluding Japan). The stock markets of China, India and Indonesia in particular posted impressive performances before the downturn in 2008, which brought them back to the same level they had reached at the beginning of 2007. Nevertheless, it has to be noted that these indices almost doubled in the period between 2005 and 2008, which is equivalent to a compound annual growth rate (CAGR) of almost 26%.

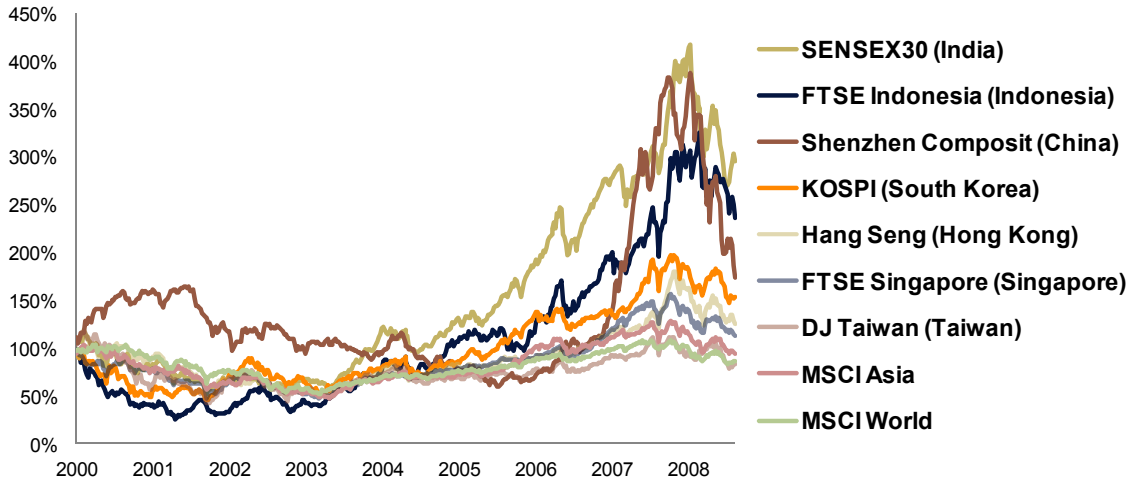

Figure 11: Asian indices' performance since 2000 (Source: Thomson One Banker)

These two joint factors provide the basis for the very fast HNWI and UHNWI growth rates in the Asian market. Since the GDP and the stock markets are expected to grow further, perhaps with a somewhat less impressive growth rate, the Asian wealth markets overall are expected to grow in the next few years. In addition, it has to be kept in mind that this market is still not developed with respect to financial services offered to wealthy clients.

3. Characteristics of Family Office Clients in Asia

"These days man knows the price of everything, but the value of nothing." Oscar Wilde

3.1. Motivations for Setting up a Family Office

There are numerous motivations and reasons for setting up a Family Office, which are highly dependent on the specific characteristics of each family. In Asian families, the role of the "patriarch" is taken to be extremely important. This must be taken into account when assessing the likelihood of setting up a Family Office structure to manage the family wealth. In general, it is the patriarch, the most respected member of the family, who makes the final decision whether or not to set up a Family Office framework. However, various motivations impact his decision-making process. On the basis of interviews with our expert panel, we have identified four main factors that favor establishing a formalized Family Office structure:

Figure 12: Motivations for Family Office solutions (Source: Expert Panel)

Creation of family governance structures, reducing internal disputes and smoothing the wealth transfer between generations

It is particularly interesting to note that family governance and succession planning were among the most frequent reasons given by the experts for establishing Family Offices. 34% of the answers were directly relating to the creation of family governance structures, reducing internal disputes and smoothing the wealth transfer between generations. Our experts explained the high importance of this motivation factor primarily by the fact that most wealthy Asian families are still ruled by the first or second generation. Some opinion leaders even estimate that in the next ten years no less than 80% of family wealth will be transferred to the next generation.

Against this background, it becomes clear why the issue of successful and smooth wealth transfer between generations is an important topic. Only a successful wealth transfer will guarantee sustainable wealth creation for the consecutive generations (cp. Figure 13). Recent press coverage increasingly reports quarrels in wealthy Asian families due to unresolved succession plans. One may argue that succession in the family

hierarchy is not a new topic and has dominated individual Asian families with significant wealth for generations.

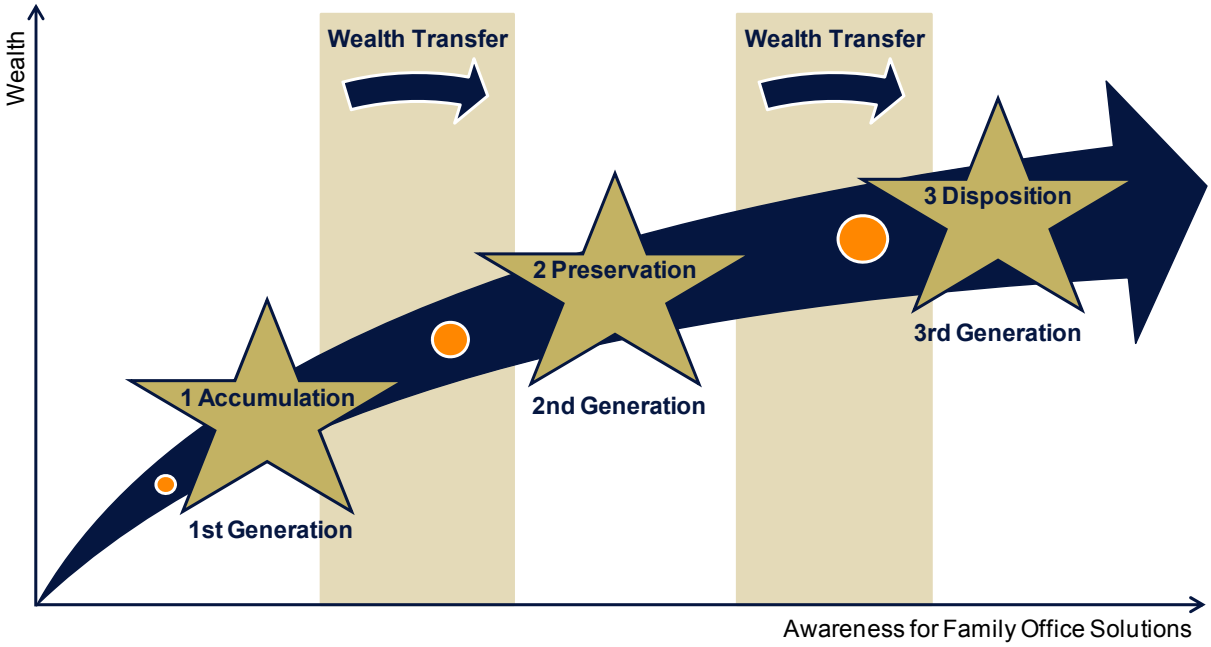

Figure 13: Lifecycle of family wealth

However, we should not ignore the fact that a large portion of the current wealthy families cannot look back on a history of several generations. As the number of family members inevitably increases from one generation to the next, the transfer of wealth becomes more and more complex as well. Therefore, transfer of wealth is proving to be a new and complicated process for these families, which is not only a new experience but also a situation in which external help might be appropriate and appreciated. To resolve such difficulties, Family Offices can be viewed as one possible solution.

Professionalization of the families' asset management activities

The second motive for Asian Family Office clients is related to the professionalization of services and represents 25% of the answers from our expert panel. This is also in line with the results of previous studies on Family Offices (MERRILL LYNCH & CAMPDEN RESEARCH, 2008, p. 5 et seq.).

With the set-up of a Family Office structure, wealthy Asian families are able not only to centralize information flows but also to significantly professionalize the management of their wealth and consolidate wealth management activities. The Family Office experts view the centralization and consolidation of information in this context as a key motivation for clients intending to set up an institutionalized Family Office structure.

Trust and long-standing relationship with bankers or advisors

The third factor in favor of Family Office structures centers around trust and longstanding relationships. These features are viewed by our experts as a key prerequisite in setting up a Family Office.

In the course of establishing a Family Office, external managers/parties become involved and gain detailed insight into the family's wealth. Wealthy Asian families, especially from a Chinese background, are noted to be extremely secretive. A long-standing stable relationship must thus be in place before a Family Office structure can emerge. Relying on the responses of our expert panel, we can also report that, when it comes to the set-up of a Family Office, trusted, long-term employees of the family business are often assigned to implement the necessary organizational structure.

Younger generation's increased openness to formalized Family Office solutions

The fourth reason is also closely linked to the transition of wealth: the openness of the next generation (e.g. second or third generation). Many members of the younger generation have attended renowned universities abroad or participated in education programs with a strong affiliation to the field of finance. The younger generation has likely spent some time working for international banks, law firms, consultant agencies or international corporations.

Once in power, these experiences make them more aware of the specific advantages of professional and integrated wealth management solutions. In our expert panel, this reason accounts for 12.5% of the given answers.

Other motives for setting up a Family Office

Other motives mentioned by our interviewees are the prestige factor of having one's own Family Office as well as the sale of family business activities:

- Prestige goes along with the creation of a Family Office structure, since it indicates a certain level of family wealth. However, this argument contradicts the above-mentioned preference for secrecy and confidentiality on the part of Asian families.
- As we will discuss in more detail in chapter 4, the sale of family business activities, which still represent large parts of many Asian families' wealth, can be viewed as a motivation for setting up a Family Office. Once parts of the family business are sold, the cash proceeds need to be properly invested, which in turn can be accomplished through a Family Office structure.

Differences between India and China

In comparison with wealthy people from a Chinese background, Indians tend to be more eager to learn about Family Office solutions and more enthusiastic about setting up their own Family Office. This behavior is based on the fact that Indians (particularly NRIs) tend to be better educated, more sophisticated and less concerned about confidentiality than the Chinese, who have often made their wealth as entrepreneurs within a closed network.

3.2. Reservations about Setting up a Family Office

In the interviews with our expert panel, we have identified not only the motivations for setting up a Family Office but also the reservations about establishing a formalized

structure. The main arguments against taking a holistic wealth management approach in the form of a Family Office are as follows:

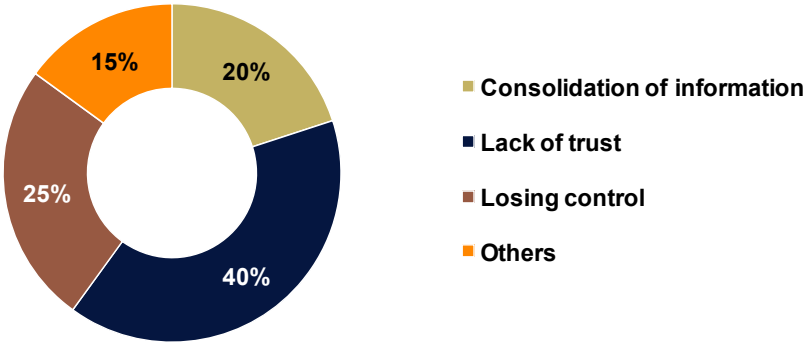

Figure 14: Reservations about Family Office solutions

Lack of trust / mistrust of external professionals

In more than 40% of the answers given by our interviewees, a lack of trust was cited as one of the major reservations about setting up a Family Office. This is consistent with the motivation side, as trust and a long-standing relationship are ranked equally amongst the most important reasons. It is not surprising that the issue of trust gains so much importance and has to be considered when setting up a Family Office. Trust can be seen as a starting point for any significant development towards a formalized Family Office structure. However, trust is based in long-standing relationships, which in turn are time-intensive and therefore act as a natural limit for future growth in the field of Family Offices. This issue is closely related with the constraints on the client's side about not sharing inside information with external sources.

Consolidation of information in the process of setting up a Family Office

Besides the lack of trust, potential Asian Family Office clients are suspicious about a major aspect of the classic Family Office solutions: the consolidation of information. Obviously, the fear that a Family Office structure might lead to a high level of information consolidation corresponds with the specific and pronounced characteristic of secrecy on the part of Asian Family Office clients. A high degree of information transparency does not make wealthy families in Asia feel at all comfortable. These reservations also become apparent when analyzing the number of banking relationships maintained by wealthy Asian families. According to our expert panel, it is not unusual for UHNWIs to maintain relationships with twenty or even more banks in order to manage the family's wealth.

Fear of losing control over the family wealth

In addition to the lack of trust and the unwillingness to allow information to be consolidated, the fear of losing control over one's own assets is the third main reservation about setting up a Family Office structure. This point gains importance when we compare this finding with the established Family Offices in Europe or the U.S., where dis-

cretionary asset management services belong to the core competency of Family Offices.

Other reservations about setting up a Family Office

Other reservations mentioned by our expert panel are cost aspects, which relate to the high price sensitivity amongst clients, as well as a simple lack of knowledge about what exactly a "classic" Family Office is and what services it offers. The last reservation can be overcome by information offered by established service providers. Due to their size and marketing power, international private banks play a major role in this context.

Conclusion

We have found initial evidence that it might be difficult to use the established Family Office frameworks as a model for the Asian Family Office market. The demands of Asian Family Office clients are not the same as the demands of their wealthy counterparts in Europe and North America. In what follows, we therefore analyze in more detail how these results impact the market structure for Family Offices as a whole, and we offer a specific model for the Asian market.

3.3. Wealth of Family Office Clients

According to the statements of our experts, Asian families' wealth allocation is closely linked both to the family business and to the seniority of the family's wealth. The greater the number of wealthy generations in a family's history, the lower the share of the family's business in the family's overall wealth.

Entrepreneurship and family business

The majority of wealthy Asian families have accumulated their assets by entrepreneurial activities. This clearly holds for a majority of wealthy families on a global scale, but since most of the wealthy Asian families are still ruled by the first or second generations, all patriarchs have an entrepreneurial background and by definition large parts of the family's wealth are represented by the family business.

Therefore, asset allocation in terms of the family's overall wealth is dominated by the core business activities. Core business activities vary from country to country but have a strong focus on traditional industries such as shipping in Singapore and Hong Kong or tobacco and wood processing in Indonesia. Only a small portion of UHNWIs in Asia accumulated their wealth only by acting as asset managers or stock market investors.

Figure 15 visualizes the decreasing importance of core business activities across the emerging generations. With a decreasing share of core business activities, asset allocation changes and investments in asset classes like equities, bonds, etc. become more important.

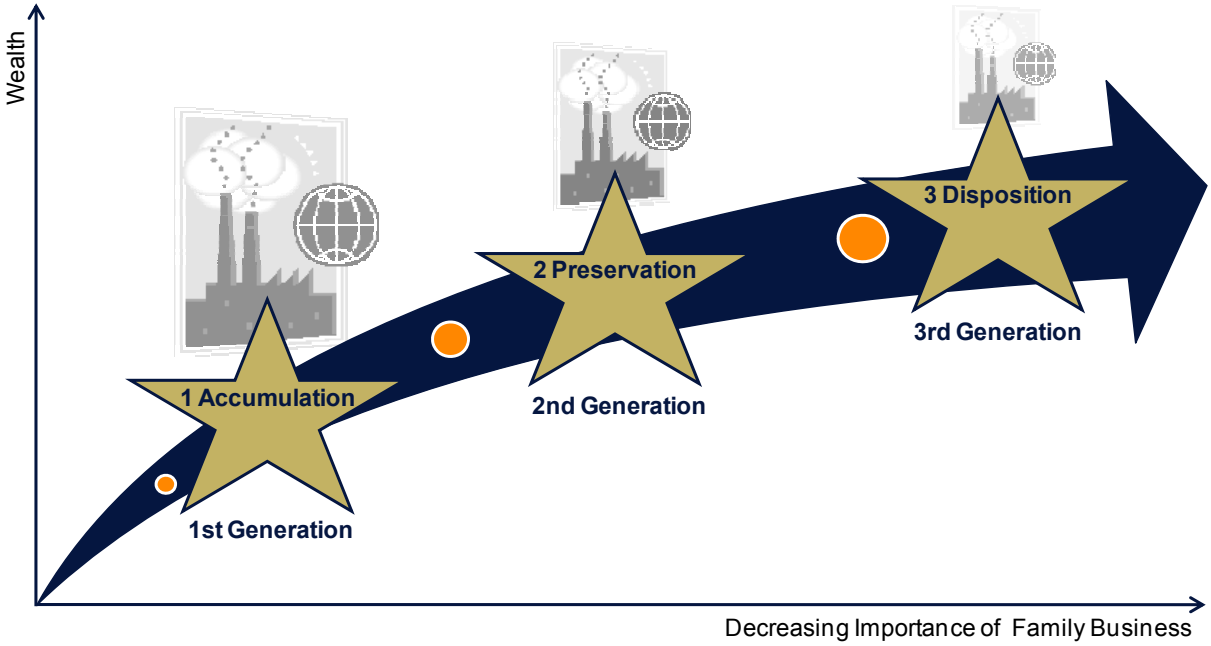

Figure 15: Decreasing importance of the family business

In addition to these general remarks on the importance of core business activities for wealthy Asian families, there are also some specific characteristics regarding asset allocation of the wealth which is not tied up in the family business. Our interviewed experts were able to agree on some basic hypotheses, which are also confirmed by the data on asset allocation (cp. Figure 16).

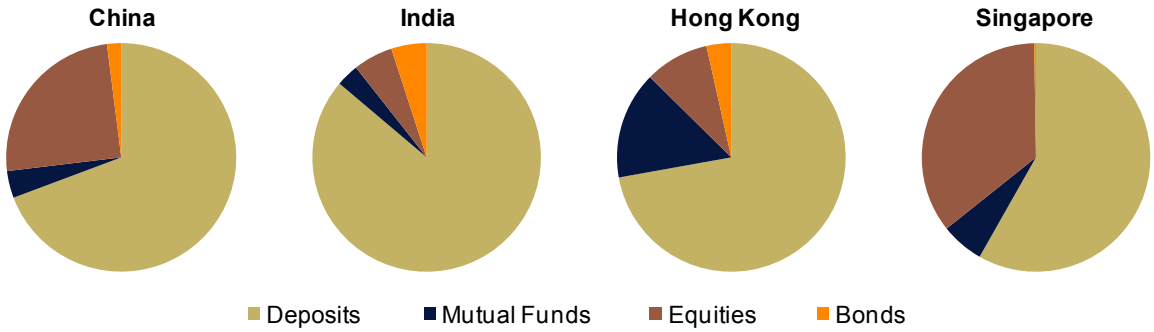

Figure 16: Onshore liquid asset balances within Asian regions in 2006 (Source: Datamonitor)

Risk appetite

Asian UHNWIs are generally perceived to have a high risk appetite. But this is only partially true, since they also allocate large amounts of their portfolio to risk-free investments (e.g. deposits). Therefore, the profile of risky investors in reality holds only for the share of the portfolio which is not bound by risk-free investments. In northern Asia (e.g. China, Hong Kong), deposits amount to about 70% of the total assets, leaving the rest for investments in equities, mutual funds or fixed income. In southern Asia (e.g. Singapore), the share of deposits amounts to 60% of the overall portfolio, which is significantly lower, whereas in India, with more than 85% of the portfolio in deposits, the portion of wealth allocated to deposits is comparably high. Taking into account that

Asian UHNWIs hold large parts of their wealth in deposits, their profile in terms of risky investments and willingness to make "big bets" can be viewed from a different perspective.

Nevertheless, the question still remains why wealthy Asian people have such a high risk profile for assets allocated to investments. Our expert panel could not agree upon one possible reason and provided us with different explanations for this behavior:

- One strand argues that it is not about pure risk appetite but about a lack of risk awareness. Asian investors are not that sophisticated with regard to the different asset classes and therefore may not assess risky investments properly.
- According to another group of our experts, this pattern correlates with the stage of the economy in which the wealthy families operate (e.g. the higher the level of industrialization, the lower the risk appetite).
- Other interviewees argue that wealthy Asian families, or rather their patriarchs, rely on their entrepreneurial background when it comes to investment decisions and thus are more eager to take risks than their counterparts in Europe or the U.S., who on average do not have much of an entrepreneurial background.

We can conclude that besides their investments in the family business, wealthy Asian families tend to be more conservative with large parts of their assets by allocating them to risk-free investments. On the other hand, they are willing to take certain risks and accept volatility for the part of the family's portfolio that is specifically reserved for risky investments. These findings are also supported by other studies on UHNWIs (THE BOSTON CONSULTING GROUP [BCG], 2007b, p. 11).

Investment horizon

In addition, our experts who have a background in private banking repeatedly reported that wealthy Asian individuals are not only willing to engage in "big bets" but that their investment horizon is short-term-oriented with a preference for continuous trading activities. This holds especially true for investors from a Chinese background. Compared to other Asian UHNWIs, mainland Chinese are eager to take higher risks but in turn also expect higher returns than their counterparts in the southern part of Asia, for example. In terms of exposure to international investments, we can add that, on the basis of our expert panel, the Chinese in Singapore are viewed as the group of investors with the largest exposure to international investments. UHNWIs in China, Hong Kong and Singapore are specifically interested in equity-linked investments. However, a short-term investment horizon and a fondness for trading are also correlated with a product focus rather than with a long-term-orientated approach towards building up a portfolio structure which takes into account all of the specific family needs.

Asset allocation

In addition to a high risk appetite, another specific pattern concerning the investment philosophy of wealthy Asian families is the straightforwardness of their asset allocation, both in terms of the number of asset classes and complexity of investments. Wealthy

Asian families are attracted by asset classes they understand or at least they think they understand. In this context, our expert panel repeatedly mentioned the high interest of wealthy Asian families in private equity (PE) as well as real-estate-oriented investments.

The great interest in PE investments can be explained by the entrepreneurial background of the families, since PE is often defined as direct investments into business opportunities and companies. Or to quote one of our interviewees: "Wealthy Asian families do not make deals or investments they do not understand."

In general, the interest in products based on fixed income is moderate, with the exception of Malaysian and Indonesian families, who are more open to this asset class. At this point we can only speculate about this pattern changing in the future, since, for example, large U.S. PE funds are raising capital for funds specifically set up to invest in (distressed) debt. The fondness for PE investments may lead to an increased interest in fixed income.

Plurality of banking relationships

So far our attention has been focused on asset allocation in terms of different asset classes. The majority of our experts, however, agreed upon another specific characteristic regarding the asset distribution of wealthy Asian families. In addition to pure asset diversification, wealthy Asian families also apply the diversification approach to banking relationships.

In this context, the number of banking relationships seems to be positively correlated with the family's overall wealth. Increase in wealth often leads to an increase in the number of (private) banks offering services to these families. It is not unusual for a wealthy Asian family to have the family's portfolio allocated to twenty or more banks. The rationale behind this approach is to avoid dependence on a specific bank as well as avoid one bank having an overview of the entire family's wealth. This in turn is closely linked to the reservation about setting up a formalized Family Office (e.g. consolidation of information). These findings are also supported by the results of other studies (THE BOSTON CONSULTING GROUP [BCG], 2007b, p. 11 et seq.).

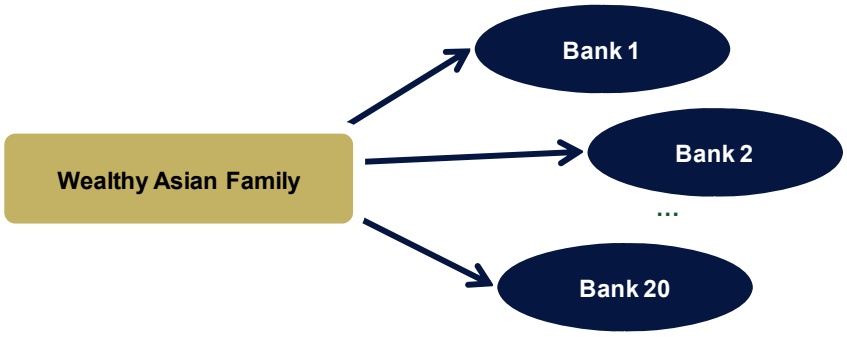

Figure 17: The plurality of wealthy Asian families' banking relationships

3.4. Involvement of Family Members

Control culture

Assets are predominately held by the first generation, who in most cases earned their wealth as entrepreneurs and thus are used to acting as decision makers (cp. Figure 18). Therefore, most patriarchs of wealthy Asian families want to be involved in managing their own assets. The organizational set-up of a Family Office solution therefore needs to accommodate the direct influence of family members – with the final authority being on the patriarch's side. This "control" culture works against the set-up of a Family Office structure in the traditional sense as we know it from Europe or the U.S. Family Offices have to act more as information providers and less as decision makers, since this is reserved for the family or its patriarch. This argument is supported by the low number of discretionary asset management mandates, which, with approximately 8% of the assets, fall well below the levels in Europe or the U.S. The interest in direct involvement also reduces the likelihood of opening up the structure of Single Family Offices towards a Multi-family Office solution. However, our expert panel sees initial signs of change taking place in the two Asian financial hubs, Singapore and Hong Kong. According to the interviewed experts, the involvement of family members may decrease over the generations. Some experts even expect the third and fourth generation to allow their wealth be managed by external professionals, so as to place more weight on enjoying their wealth.

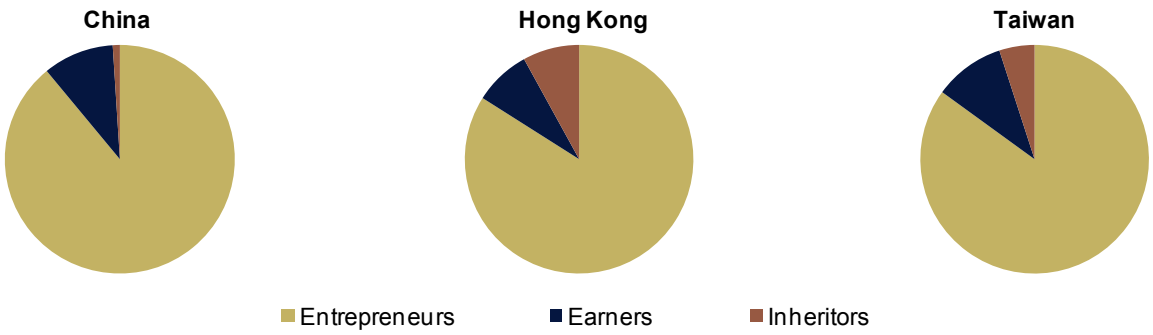

Figure 18: Estimated source of HNWI wealth (2005) (Source: BCG, 2007a)

Direct involvement

In addition, relying on their own experience, our experts reported that most Asian UHNWIs, even those with assets in the billions, are still in contact with their brokers on a daily basis. Often these are long-standing relationships, which go back to the very beginning of the family's entrepreneurial success.

Thus, over time it is not only the investor's portfolio that has grown but also the relationship and trust between broker and client. The contact with external advisors and professionals is of great importance especially for the first generation, as they often do not have an extensive academic background and are rather self-educated about capital markets and asset management issues.

However, all of our experts agree that the next generation has higher levels of education in terms of overall academic background and attendance at renowned universities.

As mentioned earlier, a lot of wealthy families are in or on the verge of a transition period which involves shifting control over the family's wealth from the first to the second or from the second to the third generation. As part of this wealth transfer, patriarchs promote their direct descendants (children) into high positions within the family orbit.

Thus, in the case of Family Office solutions, it is often the second generation that is involved in managing the family's wealth. Typically, a son or a trusted employee of the family business is put in charge of building up the structure of the Family Office. These findings are supported by the results of other studies (e.g. MERRILL LYNCH & CAMPDEN RESEARCH, 2008).

It is not uncommon for the operative work to be performed by the trusted employee while the family member acts as a sort of board of directors and supervises the Family Office in its entirety.

Role of female family members

In this context, our expert panel disagrees about the role performed by daughters. Some argue that female family members (daughters) are put in control of a Family Office solution, while the male family members (sons) take control of the family business activities in cases where they still dominate. Others view the daughters' involvement as being more on the side of managing the family's philanthropic activities. We assume that the role female family members play in managing the family's wealth is heavily dependent on the individual structure of the family as well as the patriarch's attitude towards women in business in general.

4. The Asian Family Office Concept

This chapter aims at defining the special characteristics of an Asian Family Office model in comparison to the well-known European or U.S. American Family Office models, which in most cases have comparable clear structures.

As the Family Office concept is still little known in the Asian market, and as the majority of the wealthy individuals are "nouveau riche," this clear structure approach does not hold for the Asian market. In order to elaborate the Asian Family Office model, this chapter is structured as follows:

- The first paragraph provides some definitions of well-known models like Single Family Office (SFO), Multi-family Office (MFO) and Family Office solutions from other providers like banks or law firms (FOSP). This approach allows a definition of the Asian model in contrast to the well-known models.
- The second paragraph is devoted to the services Family Offices may, depending on the specific model, offer to their clients or owners, focusing on the particular needs of Asian clients.
- The third and fourth paragraphs define and elaborate the Asian model as a framework based on what has been worked out in the preceding paragraphs.
- The last paragraph is devoted to the benefits and costs of the Asian Family Office model.

4.1. Plurality of Family Office Definitions

The Family Office Exchange (FOX) defines a Family Office as a multi-disciplined firm that offers integrated financial advice to its clients in eight or nine key financial planning categories.

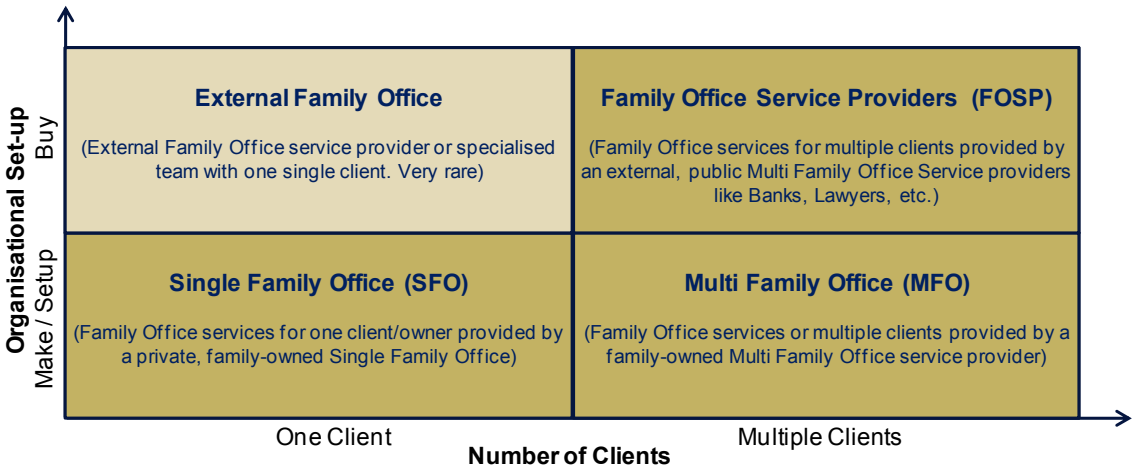

Figure 19: Segmentation of Family Office models (Source: Ehlern, 2006)

However, the Family Office term remains ambiguous, whether in this or any other definition of a Family Office. The reason for this is grounded in the perception of the Family Office concept, which is rather seen as a philosophy of how to serve the needs of very

specific clients than as a particular business model or institution. Therefore, it is not surprising that there seem to be as many Family Office definitions as Family Office providers.

Despite this situation, there is agreement about a widely accepted segmentation of the Family Office models, which can be illustrated by means of two main criteria for potential Family Office clients, namely organizational set-up and number of clients (EHLERN, 2006, p. 250).

Common characteristics of Family Offices

However, common characteristics are common to all Family Office models.

- First of all, the term itself consists of the two parts "family" and "office." The term "family" refers to a sociological concept that is heavily affected by cultural and ethnical influences. It is also related to the private life and personal matters of a community of mostly relatives. The term "office," on the other hand, is devoted to the business or entrepreneurial side. It is important to keep in mind that the Family Office mainly focuses on the business needs of the client without neglecting the private issues of the family. As such, the Family Office becomes a key player in the family's financial matters and is therefore a gatekeeper between the family and the external providers and specialists.

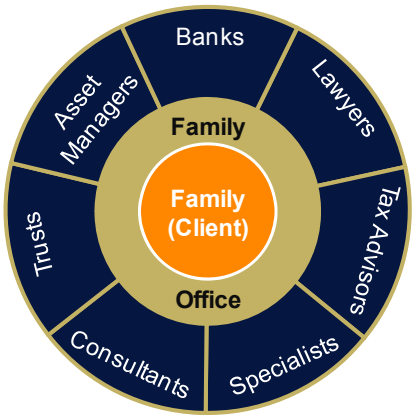

Figure 20: The Family Office as a gatekeeper for the family

- This also implies that a Family Office, like all other enterprises, has to deal with a make-or-buy decision. Not all services demanded (cp. chapter X4.2X) have to be provided in-house; they can also be outsourced to external partners or specialists. Therefore, the Family Office can be perceived as an integrator of all kinds of services for the satisfaction of the family's needs. It is built on the premise that very wealthy families require more sophisticated, independent services and a higher level of confidentiality than average HNWIs in order to achieve their financial (asset growth and preservation) and personal (philanthropy, succession and heritage) goals.
- The coverage of services, the number of clients as well as the specific Family Office model are the intertwined determinants of the operative costs of a Family Of-

fice. In order to maintain these costs at a reasonable level, as calculated by means of a fraction of the assets under management (AuM), the minimal wealth that is needed to set up a Family Office or to buy Family Office services varies widely. Whereas the services of a public MFO are often available for all UHNWIs, the set-up of an internal, family-owned SFO will need at least a family net worth of more than USD 250 mn in order to keep the costs below 50–100 basis points of the AuM, which seems to be a reasonable level according to different surveys and the expert panel interviewed for this report.

4.1.1. Single Family Office (SFO)

Single Family Offices are professional organizations that have been set up as a family-owned, private entity. They focus on the needs of one single family, namely the owner of the Family Office. Depending on the service coverage, the SFO consists of, in addition to the family members who in most cases are involved in an SFO, at least eight to ten employed professionals who focus on providing investment-related and financial advisory services to the family.

Therefore, recruiting and maintaining a fully-fledged staff is the key success factor for SFOs. The retention of employees can be achieved by monetary (e.g. profit sharing and the possibility of co-investments) as well as by other incentives (e.g. flexible working hours and educational opportunities). A higher complexity of the family or family wealth as well as broader service coverage calls for more internal staff or for a network organization that involves external specialists and partners. Without the involvement of external providers, the SFO may be confronted with the risk of not having the expertise or experience needed to manage certain issues.

Due to a variety of family-specific complexities (e.g. lifecycle and size of the family) and different situations of the family business (e.g. managed by family members or publicly sold), there is no such thing as a preliminary model of an SFO. The management of the SFO is mostly assigned to a family member, while the mission and strategic decisions are formulated by different kinds of committees that consist of family members as well as of experts in the respective field. Transparency, sophisticated reporting, confidentiality as well as clear family governances are other important topics for SFOs.

The literature on Family Offices indicates that families should have at least a net worth of USD 250–500 mn to set up an independent SFO. Despite lower average incomes, this range also holds for the Asian market, due to a scarcity of and subsequently higher wage demands by fully-fledged employees, which are crucial for running a successful SFO.

4.1.2. Multi-family Office (MFO)

Multi-family Offices in the narrowest sense of the term are SFOs that have given access to third parties like non-family members and other wealthy families. These MFOs are still private, family-owned Family Offices but they are willing to serve the needs of

more than one affluent family. The clientele of such an MFO may easily amount to more than forty clients.

The evolution of an SFO towards an MFO is frequently driven by costs, as a Family Office is often able to manage the wealth and serve the needs of several families at a cost base similar to that for one single family. The achievable economies of scale and the ability to spread the costs among several families gives the opportunity to enhance the Family Office's sophistication level by means of qualified staff, risk management and compliance management system.

These favorable attributes of an MFO come at the expense of a restricted exclusivity and confidentiality. In addition, a family-owned MFO bears the risk of conflicts of interests between the different stakeholders, as the owner family may have goals or ideas that might be opposed to those of client families. This issue includes the topic of the independence of an MFO that is owned by a wealthy family.

However, there are other types of Family Offices that have characteristics similar to those of MFOs without having evolved from an SFO. As these concepts do not have a Family Office background and are only seldom family-owned, they do not belong to the category of the MFO but rather to the other service providers.

4.1.3. Other Family Office Service Providers (FOSP)

The collective term "Other Family Office service providers" (FOSP) summarizes a wide variety of actors like (private) banks, lawyers, auditing firms, trust companies or consulting firms that provide services which are in some way very similar to those of family-owned Family Offices. However, those providers, since they developed from different directions into the field of Family Office services, focus on different parts of the Family Office business:

- For example, the banks focus, according to their core competencies, on investment-related and some financial advisory services but lack competencies in other topics, such as professional or legal services. Asset safeguarding and monitoring, custodian services, transaction services and the ability to offer consolidated reporting are the key services of banks both for in-house and external Family Offices.
- In contrast to banks, consulting and auditing firms entered the field of Family Offices driven by the fact that most wealthy individuals created their fortune as entrepreneurs, which in some cases need the services of those providers. Delivering high-quality services and becoming the trusted advisor of the entrepreneur offers the opportunity to widen the relationship in order to manage the financials as well.
- On the other hand, law firms are frequently involved in the foundation of Family Offices as this process mostly incorporates the set-up of an appropriate structure including trust and/or foundations. In order to provide full Family Office services, those providers mostly have to either build up or source competencies in the field of the investment-related services.

However, all of these players have in common that they might enter the Family Office market without really providing their own Family Office solutions. Since MFOs as well as SFOs are not able to provide all of the services in-house, they will always be dependent on external expertise. In addition, there is no model of a Family Office that is able to do business without a bank. From the perspective of a bank, this collaboration might take on the appearance of an external asset manager relationship but in a sense it is still some kind of Family Office service.

Overall, the Family Offices of FOSP clearly represent risks as well as opportunities that are linked to this specific business model. The advantages of FOSPs are:

- their qualified and very sophisticated staff;
- the independence of family members;
- their expertise with respect to quality, risk and compliance management;
- their long experience in business;
- their ability to spread the costs, which therefore requires a much lower minimal client net worth to gain access to Family Office services.

These advantages are at the expense of:

- low influence of the respective family members;
- sometimes low transparency with respect to hidden costs and fees;
- potential conflicts of interest, such as in the case of a product-driven bank and the subsequent issues relating to independence of the institute.

4.2. Service Offerings for Wealthy Families

Family Offices may cover a broad range of different services that go from financial services to legal services or even to concierge and residence services. The following paragraph provides a brief insight into a non-conclusive list of services of Family Offices, derived from the Merrill Lynch and Campden Research report on SFOs (MERRILL LYNCH & CAMPDEN RESEARCH, 2008, p. 15 et seq.), in order to reach a conclusion about the importance of the different services in the context of Asian clients.

Investment-related Services	Financial Advisory Services	Professional Services
Asset allocation	Financial planning	Life management/concierge
Manager selection/oversight	Tax planning	Family counseling
Traditional investment	Legal services	Family governance
Alternative investment	Insurance planning	Philanthropy
Real estate investment	Trust and estate planning	Residence management
Financial accounting/reporting	Trust monitoring/management	

Table 2: Family Office services (Source: Merrill Lynch / Campden Research, 2008)

At the same time, the following paragraphs aim to establish a connection between the different Family Office models and the services they might provide to their clients. Table 2 illustrates the different services, grouped in three different categories.

4.2.1. Investment-related Services

Asset allocation and asset manager selection/oversight are two intertwined services. The asset allocation sets some limits on the selection of asset managers by means of global diversification, sector competence and asset class, where the asset manager has to either gain insight into the total family wealth in order to appropriately manage his proportion of the family wealth or he has to receive strict guidelines in order to be compliant with a holistic asset allocation.

According to the experts' opinions, Asian clients tend not to follow a strict asset allocation, which also includes an absence of a clear diversification strategy. In addition, as Asian clients are more concerned about confidentiality and information distribution, it is sometimes challenging for asset managers to provide a proper asset allocation because they have full information only about their proportion of the family wealth without knowing either the total wealth of the family or the investment strategies pursued by the other asset managers.

Asset manager selection

An SFO has the choice to manage the assets actively in-house, to select external asset managers (EAMs) or to run a blended model. The latter offers the opportunity to set the internal and the external asset managers in competition with each other in order to achieve better overall performances and to avoid moral hazard issues. On average, a Family Office employs up to twelve asset managers that are mostly selected in some sort of "beauty contest," which means that the different possible asset managers have to make an offer that consists of track records, investment strategies, fees, etc. The Family Office then compares these offers with a list of criteria in order to select the asset manager who is the best fit.

Financial accounting and reporting

Financial accounting and reporting services are crucial for Family Offices, especially as Asian clients tend to maintain a plurality of independent banking relationships. Therefore, the consolidated reporting can only be carried out by a Family Office or a family member that has full disclosure and not by a bank or an EAM that has only limited information. Nevertheless, it is precisely this service that is needed most in the Asian market, which should enable banks that can act as a global custodian and offer sophisticated reporting to enter the Asian Family Office market.

Overall, the investment-related services are the linchpin of a Family Office. However, the focus within this category depends on the sophistication level of the family and the Family Office. It must also be kept in mind that a Family Office has to be perceived more or less as an institutional client that is owned by a private person.

This complexity could make it difficult for new adherents, as they might perceive the Family Office business as some special case of the wealth management business, but it is not.

Nevertheless, it is particularly the investment-related business that most banks use as an entry point into the Family Office market. Starting from these services, which are close to their natural core competencies, they widen the offering first towards the financial advisory services and in a second step perhaps even towards selected professional services.

4.2.2. Financial Advisory Services

"Financial advisory services" is a collective term for services that are related to the life-cycle management of the Family Office clients (e.g. financial and insurance planning) or the structure of the Family Office (legal services and trust planning/management).

As most of these services are to some extent intertwined with the investment-related services, they are, especially in the European and U.S. American Family Office models, an important cornerstone of the Family Office. Whereas financial planning and trust monitoring focus more on financial issues, the other services tend to be connected to legal problems. This dichotomy within the category of services can also be observed with respect to the question of in-house provision versus external sourcing of services.

- The financial-related services are mostly provided on an in-house basis, whereas the legal-related services are mostly provided by external specialists or in a blended mode, which means by internal as well as external lawyers.
- Overall, the latter (tax planning, legal services and insurance planning) are considered as important services that show the greatest potential for outsourcing solutions (MERRILL LYNCH & CAMPDEN RESEARCH, 2008, p. 19).

Awareness of financial advisory services

Financial advisory services in general require an awareness of some important issues and a readiness to deal with sometimes unpleasant topics connected to the clients' transitoriness. However, these services actually play an inferior role in comparison with the investment-related services. Cultural issues and the fact that most wealthy individuals in the Asian market are entrepreneurs who are still in a mode of wealth creation are the established explanation for the current state of these services. But there are some additional reasons for this situation:

- Being an entrepreneur and controlling one's own business sometimes carries the risk of blurring the borders between private and corporate wealth as well as between private and corporate employees. This leads to the situation that, for example, legal services are often provided by the corporate lawyer, which clearly has an impact on the legal services that are provided by Family Offices.
- On the other hand, there are services like tax planning that are often not very important for Asian clients due to relatively low tax burdens in Asia, especially in financial centers like Hong Kong or Singapore.
- Increasing sophistication of a maturing market and increasing family complexity might be enablers that help to move these services more into the focus of Family Office clients.

4.2.3. Professional Services

"Professional services" is a collective term for a variety of services that range from life management services (e.g. family education, travel planning and event management) to philanthropic services and family governance.

In general, these services play an inferior role for Family Offices, especially for FOPS. The reason is two-fold:

- First, professional services are considered less important for Family Offices because they are very cost-intensive and in general have only a few toeholds in the other services.
- Second, the larger part of these services is not provided by Family Offices but by the personal staff of the wealthy family. This holds especially for the Asian market because the labor force in general is very cheap and professional services, in contrast to investment-related or financial advisory services, are not that dependent on fully-fledged employees. In addition, some of the professional services are provided by corporate staff, analogous to the situation in the financial advisory services.

Some services in greater detail

Our expert panel expects professional services to gain in importance over the course of the next few years. Thus, it seems worthwhile to analyze the three most promising services in more detail, namely philanthropic, family counseling/governance and educational services:

Philanthropy

Philanthropy is actually a hot topic in the Asian Market. The Monetary Authority of Singapore (MAS), for example, is specifically addressing this topic. It seems that Asia's wealthy families do care about how to leave a legacy behind and that they are therefore interested in professional philanthropic services. Philanthropic services include providing support, advising and understanding the donor's needs as well as executing, tracking and reporting on the philanthropic projects. Whereas some major banks have started to serve this specific need, for most of them it seems unclear how to capitalize on philanthropy. This leads to the conclusion that philanthropy may be used as a door-opening service that might lead to a deeper relationship between an advisor/institution and its clients.

Family counseling and governance

With respect to capitalization, this is also true for family counseling and family governance. Nevertheless, these two services seem to be significantly more important in the Asian market than in the rest of the world, because Asian families are, as already mentioned (cp. chapter 3), organized in a patriarchal way. This leads to the situation that the family head is the only person in the family who has all of the important information and can decide on how to organize his succession. Nevertheless, most of the patriarchs (according to the expert panel that has been interviewed for this report) are postponing the decision or leaving it to the cultural order and social heritage rules, which

mostly favor the eldest son. This is not necessarily the best solution for preserving the family business as well as the family wealth. On the other hand, it seems very difficult for an international bank or other Family Office service providers to address this delicate issue.

Education

There are two types of educational services:

- First, as Asian families are eager to guarantee the best education for their children in order to prepare them for their duties within the family business, they like to send their sons and daughters abroad to international, renowned universities. It is therefore the Family Office that is in charge of screening, assessing and organizing the educational programs and facilities for the patriarch's children.
- Second, as the Family Office concept is relatively unknown in the Asian market, Family Office service providers like banks try to get family members into educational programs in order to train them in financial issues as well as to raise their awareness of Family Office solutions.

Overall, educational training is provided by external specialists like universities rather than by the Family Office.

In-house versus outsourced provision of professional services

Professional services are only provided by a minority of SFOs and an even smaller proportion of MFOs or FOSPs. Cost-intensive services like concierge services in particular are considered to be less important. Indeed, a bigger part of the SFOs in Europe estimate that these services will even decline in importance in the next few years (MERRILL LYNCH & CAMPDEN RESEARCH, 2008). Quite interestingly, the professional services are mostly provided either in-house in combination with independent advisors or not at all, which leads to the assessment that the need for those services is dependent on the Family Office client and that the client appreciates confidentiality if he needs professional services.

4.3. Model for the Asian Market

4.3.1. Concept

On the basis of the characteristics of (potential) Family Office clients as defined in chapter 3, we will now take a closer look at the market structure and the existing business models for Family Office solutions in Asia.

After extensive discussions with the members of our expert panel, we came to the conclusion that the Asian market for Family Office solutions significantly differs from the more established Family Office markets in Europe and the U.S. In the course of our research, we did not find a dominant Family Office solution that followed the classic, formalized definition of Single or Multi-family Offices as they are known from Europe or the U.S. In turn, we realized that there are a lot of hybrid structures which basically

perform the very same services offered by formalized and well-deed Family Offices; however, they would never label themselves Family Offices and they are not even registered as a legal entity.

In line with the comments of our expert panel, we suggest that for Asian Family Offices hybrid structures should be predominant because they are better aligned with the specific needs and characteristics of wealthy Asian families as identified in chapter 3 (e.g. trust multi-bank relationships, reservations about consolidation of information as well as the issue of trust and transparency).

As we will see in the following, confidence in long-standing employees of the family business may evolve into a concept in which a well-trusted and long-standing employee acts as a kind of independent advisor or even as a Family Office manager. The patriarch's reservations about transparency and information consolidation support the predominance of hybrid structures in the market of Family Office solutions in Asia.

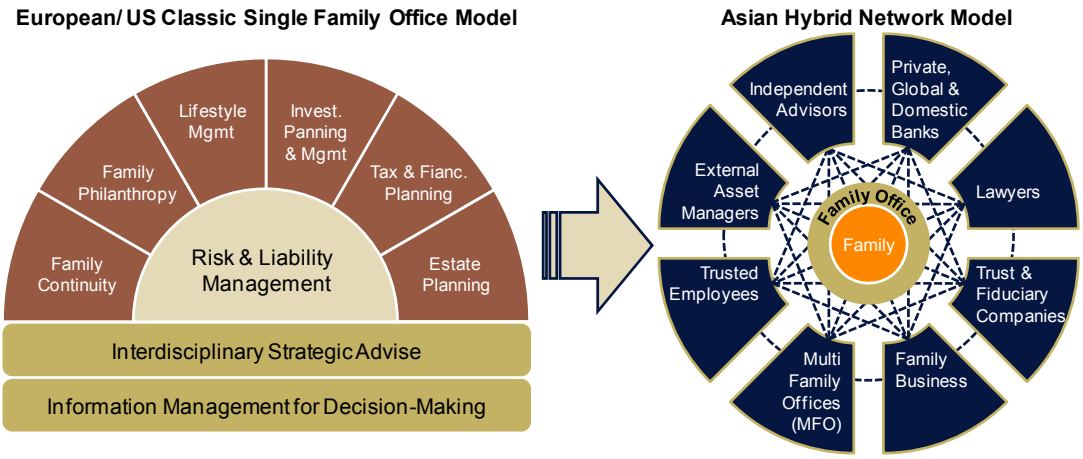

Figure 21: Classic Family Office model versus Asian Hybrid Network Model

These hybrid structures consist of different players, each performing different services for wealthy Asian families. However, since the composition and the role of the players involved take second place to the needs of the individual family, there is no specific pattern of a hybrid structure. In the following, we will call this approach a "Hybrid Network Model" and will present its individual features in detail.

4.3.2. Hybrid Network Model

Having presented an alternative concept for evaluating the Asian market for Family Office solutions, we will now elaborate on this specific idea of hybrid structures and formulate a model for an Asian Family Office. This model relies on a hybrid network structure and tries to capture the dynamics within the comparatively young market of Asian Family Offices.

As a starting point, our Hybrid Network Model is geared to describing the set-up and structure of an SFO in Asia. Later, this model might be opened up for MFOs. However, for reasons of clarity, we will start with the very basic concept of an SFO. The model

tries to take into account the comments made by a majority of our interviewed experts that a traditional SFO rarely exists nowadays in the Asian region. In turn, the Asian Family Office market is dominated by more flexibility and a resistance to defined structures. Against this background, chapter 5 will discuss in more detail how the market of Asian Family Offices may evolve. However, in this chapter we want to focus on the status quo.

Basic structure of the (hybrid) Asian Family Office model

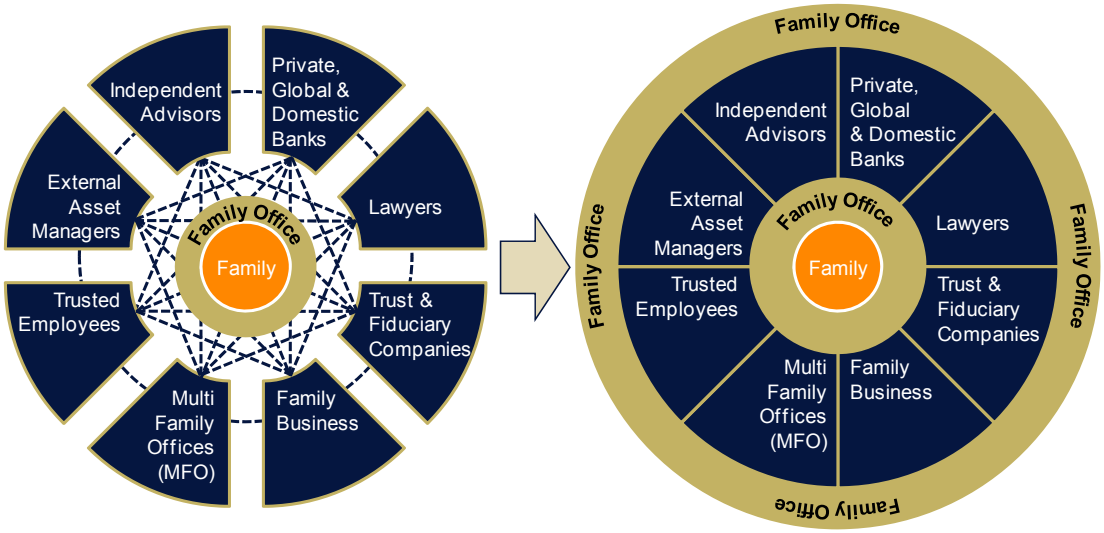

Figure 22: Asian Family Office solutions – a Hybrid Network Model

Figure 22 illustrates the very basic set-up of our model for an Asian Single Family Office. Since the whole structure is focused on the family's needs, demands and decision-making competence, the Hybrid Network Model centers around the wealthy Asian family and its assets. In addition to the family, which might be represented by the patriarch alone or several family members and siblings, we have identified the following network partners:

- Private, global & domestic banks
- Family business
- Trusted employees
- Independent advisors
- Trust & fiduciary companies
- External asset managers
- Multi-family Offices
- Lawyers

Thus, the illustrated Hybrid Network Model consists of various network partners. Each of these network partners provides specific services on behalf of the wealthy family along the lines of investments, financial advice and various professional services. A Family Office solution does not necessarily consist of every network partner. In addition, there is also no economic rationale for always incorporating all network partners

within a specific Family Office solution. The various network partners can work together and indeed do so, as was confirmed by our expert panel. It is possible that, in addition to the family itself, one network partner (e.g. independent advisors) can have a great impact on the whole structure and thus even act as a kind of gatekeeper for the other network partners in a specific Family Office. In this context, transparency issues arise.

Issue of transparency

We have already mentioned that the disinclination towards total transparency can be viewed as one of the dominant reservations about the set-up of a classic Family Office structure. In the context of our Hybrid Network Model, transparency in turn is important for assessing the individual performance of network partners. Benefits and costs can be measured and, due to the flexibility of the network structure being open to new partners, the pressure on the established partners is higher than with purely internal Family Office solutions.

The ease of integrating new network partners shows why these hybrid Family Offices are still evolving and in most cases may not have reached their final stage. Of course, some network partners are easier to replace than others (e.g. having relied on an independent advisor, the family will not replace him on a frequent basis).

In the case of banking relationships, the network structure can be viewed as a more complicated issue because of the constant intense competition between the banks involved. Keeping in mind, for example, the high level of price sensitivity on the side of Asian UHNWIs, we can easily see why banks clearly prefer playing a dominant role in a well-structured U.S.-style Family Office rather than being one among many partners in a Hybrid Network Model.

In a network model approach, the replacement of a partner is clearly more likely and more easily executed. Wealthy families in turn benefit from the competition between their network partners since they decide on the composition of the whole structure. From a client's perspective, competition on the supply side is of course always appreciated.

Issue of independence

In addition to transparency issues, the family's need for independence in relation to individual network partners is a second issue in favor of a network approach. Since the whole structure relies on a number of network relationships and new partners are easy to integrate, the family's exposure to a specific partner can be assumed to be lower than in the case of a more formalized set-up (e.g. Family Office as a limited company with many internal professionals).

At this point we want to stress that the Hybrid Network Model may ultimately end up in a formalized European- or U.S.-style Family Office. However, our hybrid approach does not necessarily rely on this assumption. For the purposes of defining a Hybrid Network Model, we have abandoned the idea of very strict and clear Family Office solutions and in turn significantly opened up the definition of Family Offices. Opening up a

new basic framework for Asian Family Offices also broadens the market segment of Family Offices in Asia in terms of size. The notion of network structures multiplies the conventional count of Family Offices in Asia and extends both the discussion of business models as well as the competition. Since the market of clearly formalized Family Offices is so small and immature in Asia compared to Europe and the U.S., the majority of our experts relied on the new network perspective. One of the reasons for a specific model of Asian Family Offices is that the network approach is better able to take account of the various dynamics currently going on in this part of the world in relation to wealthy families.

Using the Hybrid Network Model definition, we will illustrate in the following the Asian model for Family Office solutions in more detail and present both the network partners as well as existing patterns of specific networks.

4.3.3. Family Business

The expert panel already repeatedly identified the strong importance of the family business to the overall assets of wealthy Asian families. One of the predominant reasons mentioned in this context was that a huge portion of wealthy Asian families are still in their accumulation phase and ruled by the first generation. Accumulation of wealth in turn occurs mostly through successful core business activities (e.g. tobacco, shipping, etc.). In view of the proposed network structure for the Asian model, the significance of the family business becomes crucial.

As we can see in Figure 23 and Figure 24, there are two basic schemes which document the position of the family business within the total family's assets. At this point, our aim is not to discuss the precise structure of the (hybrid) Family Office but to assess the position of a (hybrid) Family Office solution in relation to the family's business activities.

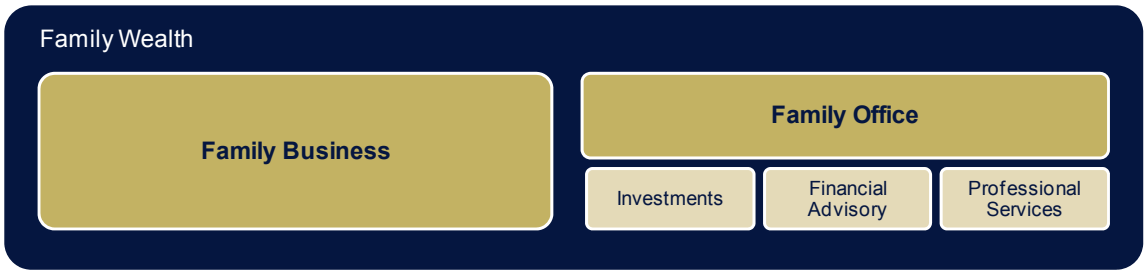

Figure 23: Family wealth dominated by family business

Figure 23 shows a distribution of family wealth in which the family business is predominant and absorbs the largest part of the family's assets. In most cases, the (hybrid) Family Office and the family business are at equal levels.

According to the comments of our expert panel, this ratio is more likely to advocate family businesses. Our interviewees remarked that in such a structure the task performed by the Family Office is to manage the dividends and any excess cash flow of the family business. It was even reported that the assets allocated to the Family Office

are not perceived as being independent of the family business but are viewed as a kind of cash cushion and liquidity reserve for the core business activities.

Thus, there is a structure in place in which the Family Office acts only as a service provider on behalf of the family business. Certainly, the primary focus and involvement of the leading family members are on the business side. The power allocated to the Family Office is therefore rather limited.

This type of positioning of the family business, in terms of total impact and influence on the family's wealth both from an organizational as well as from a size perspective, is typical for families which are still in the very early stage of accumulating wealth. These families are just beginning to put Family Office structures into place in order to manage assets which are not directly reinvested into the family business.

Typically, these families start off by working closely with different private banks and brokers. Nevertheless, as their wealth mostly consists of new money that has been generated in an immature market, the concept and idea of a Family Office has not yet been embraced by entrepreneurs and their families in Asia.

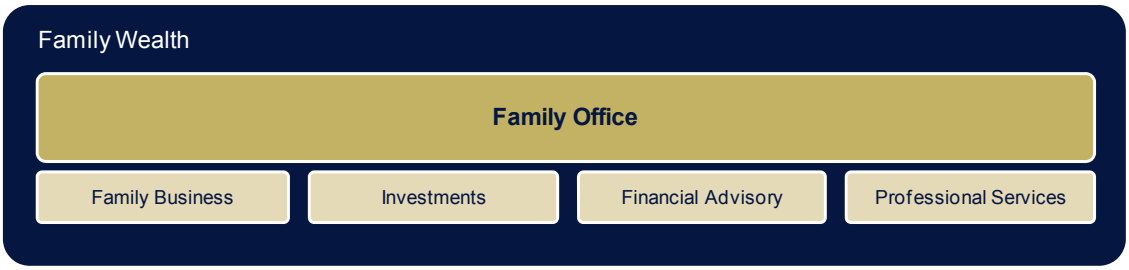

Figure 24: Family wealth controlled by a Family Office

In contrast to the structure presented in Figure 23, the schema in Figure 24 is much more focused on the Family Office solution. In this set-up, the family business might still represent large parts or even the majority of the family's wealth, but in terms of reporting structures, the Family Office enjoys a much more prominent role. In this context, the Family Office duty is not limited to managing the family's business excess cash flows, but incorporates large aspects of the family's governance issues.

Our experts reported that in practice it even happens that the Family Office acts as a board of directors on behalf of the family business. Thus, the core business managers have to report to their internal "shareholders," which in turn have well-articulated return demands.

It is obvious that in Figure 23 the position of the Family Office is much more sophisticated and the family's assets are consolidated at the level of a (hybrid) Family Office. If we think in terms of a classic Family Office, this reporting structure of course can be seen as a prerequisite for any formalized solution. Often, the shifting competency relating to the Family Office correlates with the decreasing impact of or even exit strategy for the family business.

Therefore, we can conclude that the longer a family has possessed significant wealth, the higher the likelihood of exiting the family business and setting up a structure as

presented in Figure 24. Depending on the role assigned to the family business, the structure of the whole Hybrid Network Model of course may vary significantly.

4.3.4. Network Players

In the following, we will briefly present the network partners involved in our Hybrid Network Model approach for Asian Family Offices. The illustration will focus on describing each individual group and its specific features as well as its individual characteristics from a content perspective. In some cases, however, we will not limit the network partner presentation to the content perspective but will name a selection of relevant players for the Asian Family Office markets. We want to acknowledge that this listing is neither comprehensive nor in any way linked to the members of our expert panel, who are treated in the course of this study with the upmost level of anonymity.

As mentioned above, not every hybrid Family Office has to rely on every network partner. However, as we will describe later in more detail, the typical solution does rely on a selection of network partners. Since the market for Asian Family Office service providers is in its early stage, so far no dominant players can be identified by our expert panel. However, among the players that perform certain functions within the offered range of services, “classic” banks are currently absorbing a large share of the whole value chain due to their sheer size.

Private, global & domestic banks

By definition, banks play an important role within our Hybrid Network Model. Their importance is primarily based upon their knowledge, international presence as well as their large portfolio of services offered to wealthy Asian families. On the basis of these services offered, banks, especially global and private banks, attempt to capture large parts of the value chain offered to the network partners.

At this point it is reasonable to divide the network partners – as indicated above – into three different groups: private banks, global banks and domestic banks. The following description aims not to illustrate the different types of banks in general but rather in relation to their exposure in the field of Asian Family Offices.

Banks have a clear advantage as they already offer all of the important services for upcoming Family Offices, like global custody, consolidated reporting and succession planning. Especially for small banks it is hard to enter the market independently, since the environment is dominated by the major competitors while the smaller players do not provide all of the services demanded (or do so only at high cost levels).

Private banks

Together with global banks, the majority of our interviewed experts view the private bank as the dominant network player in the Hybrid Network Model of Asian Family Office solution providers:

- A huge range of different private banks is currently providing, or is aiming to provide, services to wealthy Asian families. Among them are of course the well-known internationally active private banks, including various Swiss firms (e.g. Julius Bär).
- Typically, private banks domicile their operations in Hong Kong and/or Singapore and use these financial centers as hubs in order to offer services to UHNWIs in other Asian countries.
- The organizational set-up of their Asian offices ranges from a purely representative office to a separate banking unit with a local banking license. According to our expert panel, it has been a typical market-entry strategy to set up a representative office, followed by an operative wealth management unit, which then leads to filing for a local banking license.
- A common pattern in this context is that, once a banking license has been granted, a booking center can be installed that serves not only Asian UHNWIs but offers additional opportunities for existing relationships all over the world.
- The utilization of booking centers by existing clients allows the private banks to leverage on their international presence and to fund part of the cost right from the beginning for setting up new operations in Asia. It further seems possible to distinguish amongst banks that run a booking center either in Hong Kong or Singapore.
- Some private banks limit their banking activities to specific niches (e.g. only targeting UHNWIs), whereas others offer extended private banking activities.
- In terms of services offered to Asian families, it is helpful to clearly distinguish between general banking services that are also demanded by traditional private banking clients and specific service packages that are tailored accordingly to the specific needs of Family Offices in Asia. Whereas the former is offered by nearly all private banks in one way or another, the latter is more difficult to find.
- Up to now, only a few private banks (e.g. Julius Bär) have launched services specifically tailored to the needs of wealthy Asian families and their (hybrid) Family Offices. These findings are also true for the global banks, which in contrast to the private banks are even better equipped to leverage on well-established service packages launched worldwide for Family Offices.
- According to experts, it is not unlikely for more banks to come up with solutions that account for the regional distinctions of Asian Family Offices (cp. chapter X3X) in the future.
- In this context, the experts point out that in addition to the defined model of Asian Family Offices, it is quite helpful to view the Family Office market not from a product perspective but from an advisory perspective. Wealthy Asian families expect inde-

pendent and transparent advice on an equal level, which includes the prerequisite that advising bankers have a background comparable to their counterparts (e.g. in terms of education, social standing and seniority).

- At this point, it is important to keep in mind that in most cases the first or second generation controls the family wealth, while Family Office structures and banking relationships – especially on a daily basis – are often managed by the second or third generation. The new generations have an excellent academic background, acquired at renowned universities, and often also have international business experience. These younger family members expect the same level of professionalization on the banker's side or at least regard it as a huge advantage in consolidating their relationship with the bank.
- In general, most private banks active in Asia are foreign banks. Private banks can thereby rely on their image of exclusiveness, discreetness and individuality. In direct contest with the large (American) global banks, which primarily focus on the short-term transaction level, individuality becomes more important. (European) private banks rely on a long-term approach to successfully manage assets.
- Experts see transparency as becoming a second dominant issue for wealthy Asian families in the future. Thus, private banks need to incorporate this awareness when structuring their offerings for Family Offices in Asia, particularly if they are to overcome potential sources of conflicts of interest (e.g. sale of mutual funds only).

Global banks

In addition to the private banks, there are also many international banks offering solutions that go far beyond the services offered by private banks. Besides the sheer size of the balance sheet and an international network, this includes offering various investment banking activities. We will call such international banks with asset management activities as well as investment banking activities "global banks."

For the Asian market of UHNWIs, Deutsche Bank, Citibank, Merrill Lynch, Goldman Sachs and HSBC are established players. This list also includes Credit Suisse and UBS, which, in addition to their strong private banking activities, also have significant investment banking operations. All of these banks are by nature strongly attracted to the Family Office sector and are in different stages of penetrating the market and preparing sample offerings.

The existence of investment banking activities and large balance sheets gives the global banks credit in order to grab a fair amount of the whole value chain. Investment banking contacts via the family's business (e.g. IPO activity) are potential entry strategies for cross-selling additional asset management services.

However, some of our experts doubt that this is a successful approach, since Asian families prefer a low level of transparency concerning their wealth and do not want to work with the same banks on both sides of their fee wallets (investment banking and asset management). Since the family's business is such an important part of their

overall wealth, balance sheet activity is not only a strong driver of credibility but also allows global banks to show commitment by providing the family business with loans.

Importance of international brands

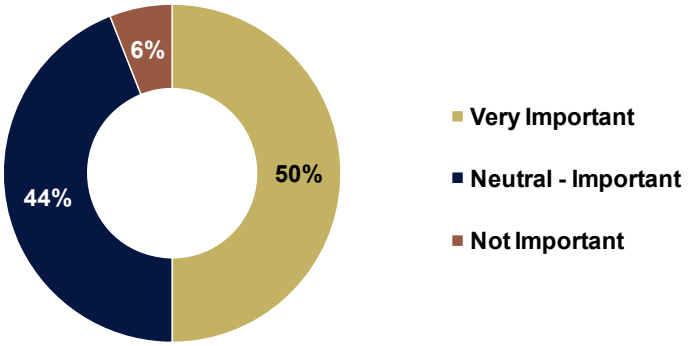

Figure 25: Importance of international brands

Asked about the importance of an international brand, a majority of the Family Office specialists view the advantage to lie on the side of international banks (both global and private banks). 50% of the experts deem the existence of an international brand to be very important. However, some experts argue that overall business success is positively correlated with a strong international brand, but other elements may also have strong impact on successful offerings in the field of Asian Family Offices.

In addition to the issues already discussed relating to transparency and independence, experts explicitly name continuity as a key challenge for global banks. Fluctuation of bank employees is perceived to be very high in Asia. Relationships with UHNWIs and wealthy families in turn need continuity and not the continuous change of client advisors. Thus, a high fluctuation ratio makes it difficult for global and private banks to leverage on their strong brand.

Transparency and potential conflicts of interest weigh more heavily on the side of global banks, since their product portfolio is even more diversified. Our experts therefore expect global banks acting in the market of Asian Family Offices not to play the role of the network partner controlling the Family Office entity (gatekeeper) but to act as providers of a broad range of different services and thus gain access to large parts of the whole value chain (e.g. providing an execution platform).

Furthermore, the limited flexibility of a large global bank can be viewed as a disadvantage. Global banks cannot easily customize their service offerings towards the regional characteristics, leaving niches for smaller players to prosper.

Domestic banks

In contrast to private and global banks, domestic or local banks are currently not of significant importance in the network model. Experts explain their absence by the fact that most domestic banks are still in the very beginning of building up private banking or are even still bound to retail banking activities only. Thus, it is quite unlikely that these banks are trying to enter the private banking market at the high end with services for UHNWIs and Family Offices.

Even if domestic banks do not play a significant role in the Family Offices sector yet, it is not unlikely that their importance will increase in the future. Through the close meshed branch network, the local banks have well-established client relationships and therefore may grow "together" with their clients' wealth into the high end of private banking activities. Thus, domestic banks may successfully evolve into fierce competitors for international banks in the mid- to long-range future. Due to a lack of product expertise, international banks might be promising strategic partners for domestic banks, which in turn can offer local expertise and a regional client base.

Trusted employees

Senior or trusted employees have worked for the family and mainly for the family business for decades and have proven to be trustworthy. As described by our expert panel, these employees are entrusted by senior family members (in the most cases by the patriarch himself) to manage the family wealth.

In a first step, this may not be labeled as a Family Office in the sense of a classic (European) definition. However, over time a hybrid Family Office and sometimes even a formalized Family Office may evolve around these trusted employees. Of course, freedom of action and discretionary mandates are rather limited even for these trusted employees. Family members closely monitor the employees' performance and will oversee the overall structure.

Independent advisors

In addition to the trusted employees, independent advisors do not have command over large operations or over a large balance sheet. Independent advisors offer their knowledge as well as their advice independently to the other network partners.

In this context, trust is the key issue. The independent advisor can only perform his role properly if he is respected by the patriarch and other senior family members on an equal level. In the most cases, respect comes with seniority and reputation.

Currently the quantity of independent advisors for Asian Family Office solutions is hard to assess, since the advisors – following their clients' preferences – typically act very discreetly and are not very visible in public. It is not surprising to note that a lot of independent advisors have a professional track record at one of the other network partners (e.g. private banks).

The position of an independent advisor may differ significantly, relying both on the specific family structure as well as on the knowledge and commitment of the advisor. There is no need for the independent advisor to belong to the Hybrid Network Model of Family Office solutions. Our expert panel reported to us that wealthy Asian families do indeed search for independent advice on certain issues (e.g. set-up of trust structure).

Trust & fiduciary companies

Trust and fiduciary companies are an important network partner for setting up a Family Office, which is often centered on a trust structure or some kind of "master" foundation. In this context, wealthy Asian families rely on the specific know-how of the trust companies, which are often not independent entities but are affiliated with private or global banks. Nevertheless, there are also independent trust and fiduciary companies (e.g. Portcullis TrustNet).

Due to the individual needs of Family Offices, only a very small number of independent trust companies can offer the services demanded by the Family Offices. These stand-alone players of course have a strong advantage over the affiliated competitors, both in terms of transparency as well as potential conflicts of interest. Another advantage is that trust companies in particular are viewed as permanent network partners, which wealthy Asian families – according to our expert panel – very seldom replace. Thus, once chosen by the client, trust and fiduciary companies are able to avoid competition both from their own peers as well as from other network partners and are able to capitalize on their relationships.

A safe position within the whole Hybrid Network Model for Asian Family Offices gives trust and fiduciary companies plenty of room to toy with the idea of diversifying their services. Due to their niche know-how, trust and fiduciary companies will gain in momentum with the increasing demand for tax planning advice.

One might argue that wealthy Asian families, who have, for example, allocated their capital to Singapore, do not have to deal with tax issues. However, our expert panel claims that internationalization of asset allocation will lead to an increased importance of tax planning advice. With investments on a worldwide scale, the tax issue cannot be ignored by wealthy Asian families.

Relying on our expert panel, we have come to doubt that trust and fiduciary companies will diversify far beyond these tax planning activities, since they would fear a loss of reputation as an independent party from the perspective of their clients, which is clearly one of the few USPs for stand-alone trust and fiduciary companies.

An interesting approach is to measure Family Office activity by the standards of private trust activity. Particularly in Singapore our experts see a lot of activity that in turn is related to a new Trustees Act as well as a new Trust Companies Act. Obviously, there is an interest on the Singaporean regulatory side not only to strengthen the position of trust companies but to further position Singapore as an Asian hub for Family Offices solutions.

External asset managers

A second network partner that operates independently is the group of external asset managers (EAMs). EAMs performing services for (hybrid) Family Offices in Asia are nowadays primarily boutique solutions with a strong focus on investment-related services.

Using the insight of our expert panel, two different groups can be distinguished: local and international players.

- International players are trying to diversify their already existing platforms (e.g. in Europe) into new regions and to bring along – like the private banks – a significant level of expertise. They often also act as on-site investment professionals for their international clients.
- Local EAMs typically have evolved over the last few years and have recently – according to the study's expert panel – experienced significant growth. It is not uncommon for local EAMs to be founded by senior private bankers or even trusted employees of wealthy families leveraging upon their existing relationships with UHNWIs.

As already mentioned in the context of trust companies, for EAMs independence is one of the key assets used to distinguish themselves from private and global banks. The long-standing relationship combined with the EAMs' independence allows the network partners to increase their impact on the whole Hybrid Network Model, since wealthy Asian families trust them and rely on them for independent advice. At this point the borders between EAMs, independent advisors and Multi-family Offices are somewhat fuzzy. Their specification is always closely linked to the individual wealthy Asian family.

However, EAMs need not only to act independently but also to behave neutrally in relation to different family members and siblings. Once a new mandate is acquired, different accounts for different family members have to be typically taken care of. In this context, the EAM not only has to manage the portfolio, but also has to be careful not to get involved in internal disputes and infighting, which would in turn damage his neutrality and take business away from him.

Since EAMs are quite small boutiques with a low public profile, it is rather difficult to compile a full and reliable list of EAMs. Nevertheless, banks in particular work closely with EAMs as they can offer the required trading and execution platforms. From the banks' perspective, EAMs are therefore an interesting network partner and collaboration amongst them will be a key topic for the future evolution of the Hybrid Network Model.

Multi-family Offices

Multi-family Offices are established players within the European and U.S. market of Asian Family Offices (e.g. Northern Trust, Gresham). MFOs have been able to estab-

lish well-known brands and position themselves as trusted partners for wealthy families. Often these mandates appear as discretionary ones. The reluctance of wealthy Asian families with regard to discretionary mandates as well as their reservations about transparency and information consolidation makes Asia a rather difficult region for acquiring new customers. In addition to such major drawbacks, the established MFOs also lack the local network to build up a relationship with the super-rich families. An advantage in turn is the existence of well-developed service packages and top-level know-how in terms of Family Office solutions.

Our expert panel sees the dynamics to be in favor of the established MFOs in relation to the increasing migration of assets that once were allocated by wealthy Asian families to Europe or the U.S. In this context, established MFOs of course can leverage on their existing client relationships and avoid an outflow of assets under management. Thus, Asian-based MFOs are still in their infancy, with some network partners starting to evolve and consolidate their positions continuously (e.g. Oaks Family Office). The majority of our experts view Hong Kong as being at the forefront of existing MFOs in terms of numbers; however, this amount is still very small compared with existing (hybrid) Family Office solutions.

Again because of a lack of market transparency, it is impossible to come up with a comprehensive and reliable list of all MFOs currently engaged in Asia. In the case of the Asian subsidiaries of established European or American MFOs, it is impossible to distinguish from an external perspective between those that only act as representative offices and those that act as true MFOs in Asia. Our expert panel assumes that, in most cases, established MFOs may want to enter the market but are still in a kind of standby position consisting of representative offices and some investment professionals that mainly service their wealthy clients in Europe and the U.S. through a local presence in booming Asia. Experts argue that these MFOs are simply waiting for the Asian Family Office market to evolve and become more open to MFO solutions.

Lawyers

The illustration of trust and fiduciary companies as network partners has revealed that a lot of Family Offices are constructed around some sort of super foundation or trust structure. It becomes obvious that this also includes a lot of legal issues, which in turn makes the involvement of lawyers crucial.

Lawyers are needed to properly set up the structure and represent their clients' needs to other external parties. In the course of their work, lawyers acquire deep insights into the family's structure as well as their wealth distribution. Thus, lawyers are not only trusted professionals but also network players who have the inside knowledge to leverage on and diversify their services or act as gatekeepers.

In this context, the role of independent advisors can be mixed with the role of lawyers. However, due to a lack of knowledge regarding asset management, our expert panel does not view lawyers as network players active in services beyond their legal compe-

tencies. As we will discuss in the following, lawyers could of course overcome this lack of knowledge by either hiring an investment professional or teaming up with a private bank or an EAM.

4.3.5. Patterns in Specific Network Models

In the following, we will illustrate some patterns in specific network models. These are hybrid network structures that currently exist in the market of (hybrid) Asian Family Offices. The degree of formalization as well as the number of partners involved may vary significantly. It is not unlikely that over the next few years the current structures will change and a different business model will be regarded as best practice. However, relying on our experts and their deep market knowledge, we have identified the following business models as being currently dominant and will apply them to our Hybrid Network Model approach of Asian Family Offices:

- The hybrid Family Office network led by the chief financial officer of the family business
- The hybrid Family Office network dominated by banks
- The hybrid Family Office network guided by independent advisors and lawyers
- The hybrid Family Office network led by external asset managers
- The formalized Single Family Office

Hybrid Family Office network led by the chief financial officer of the family business

The first business model typically relies on the dominant position of the family business. Thus, we assume that the family business still represents the largest part of the family's wealth and that the family is in an early stage of wealth accumulation. Nevertheless, successful core business activities have generated excess cash flows that have to be managed properly.

At this point, the chief financial officer (CFO) of the family business steps in. For the patriarch, the CFO seems to be a natural choice for overseeing the family's private asset management activities. The CFO has himself proven to be both trustworthy and competent in terms of financial issues. Of course, we can speculate whether the skills required for corporate finance topics are sufficient for becoming a successful asset manager. However, for the present business model we assume that the patriarch does not distinguish between professionals in corporate finance and professionals in asset management and views his CFO as a financial expert in general.

Thus, the CFO is put in charge of managing the family's assets. The business model we have described goes through different stages of evolution with an increasing number of network partners:

- In the beginning, the accumulated excess wealth is not large enough to require its own trust structure. The CFO and the private/global banks, in addition to the family itself, are the only partners involved in this specific Hybrid Network Model. Banks

offer research/advice as well as trading, execution and custodian services.
The CFO acts as the delegated decision maker, who in turn is closely monitored by senior family members or by the patriarch himself. In some cases, this even involves getting permission for every trade to be carried out. At this stage, the Hybrid Network Model is primarily oriented along investment-related services and follows a very basic structure.

- Triggered by increasing wealth or by a transition period between different generations, the Hybrid Network Model reaches the next stage of professionalization. On the family's direction, the CFO enlarges the Hybrid Network Model by including additional partners in the hybrid Family Office. Layers and trust companies are required to properly set up a reasonable legal structure (e.g. Private Trust Company) under which the portfolio (with the exclusion of the family business) is consolidated. Since managing the portfolio becomes increasingly time-consuming, the patriarch – induced by the CFO – permits the inclusion of a third group of network partners: trusted employees.

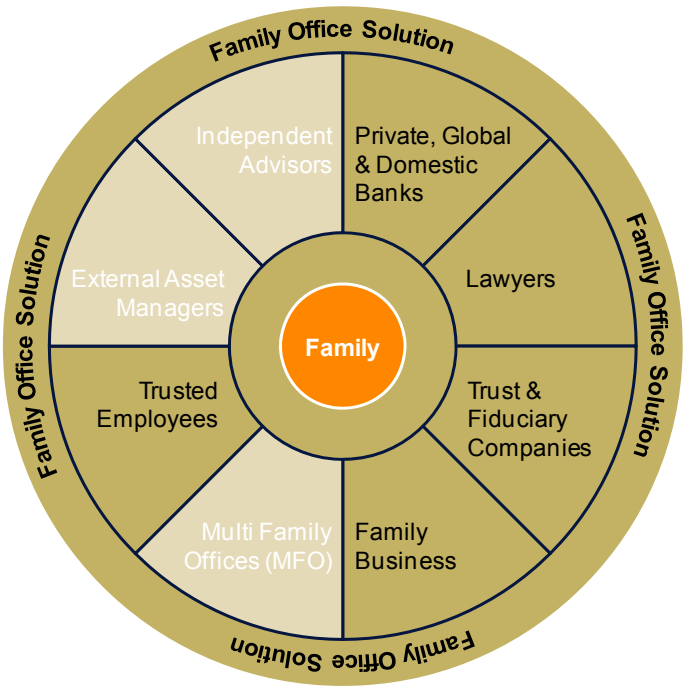

Figure 26: Hybrid Family Office network led by the CFO

The CFO adds other trusted employees of the family business to support him in managing the family's wealth. At this stage both the network structure and the portfolio size have reached a significant stage of evolution.

According to our interviewed experts, it is not unlikely at this point for the CFO to turn his sole attention to managing the hybrid Family Office and to be replaced as CFO of the family business. Due to potential conflicts of interest, some of our experts take a critical view of the CFO's role in serving both the family's core business and the family's "private" wealth and therefore do not accept this business model as an ideal model

for Asian Family Offices. Conflicts of interest of course are eliminated if the CFO resigns from his original job as the family business CFO.

Hybrid Family Office network dominated by banks

Private and global banks are viewed by our expert panel as the most important players with regard to Family Office services. Due to the range of services offered, they are a natural choice for dominating a hybrid Family Office network. Since they offer a broad variety of services, this business model consists of a rather limited number of network partners.

However, this does not mean that there is only one bank performing all of the services demanded. Plurality goes along with a variety of different banks serving the wealthy Asian family, which typically maintains banking relationships with a number of banks.

Thus, each bank has to position itself within the hybrid Family Office network and find its niche or try to become the leading banking relationship for the whole family. However, the latter is difficult to achieve and usually requires building up a trusted relationship with the family.

So far we have not seen many solutions in which individual banks have been able to successfully offer complete "packages" which allow them to build a strong position within the network structure. Private banks in particular have enlarged their services in some cases to include financial advisory services as well as professional services. Far more often banks are faced with intense competition from rival banks.

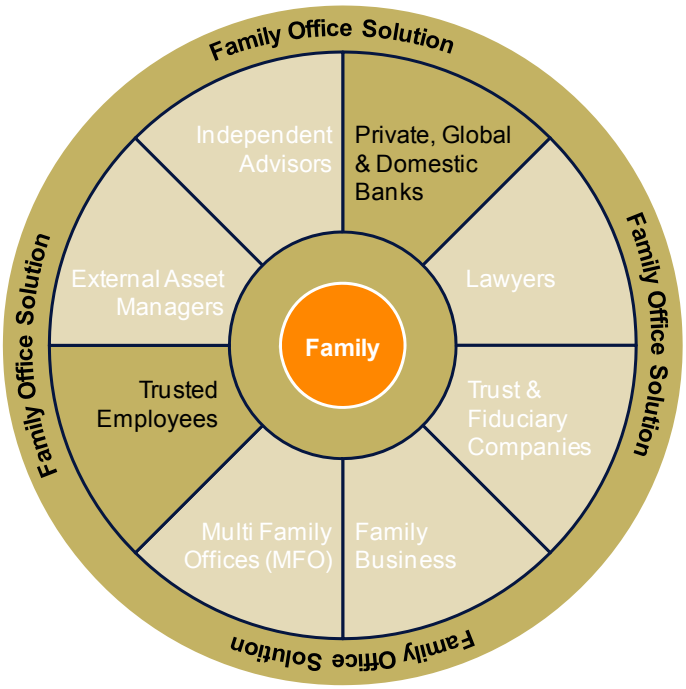

Figure 27: Hybrid Family Office network dominated by banks

Banks control a large portion of the market for Family Office services in Asia. But families are becoming more and more suspicious. Wealthy families tend to build up in-

house expertise and are demanding transparency on the side of the service providers. In-house expertise is required to compare the product offerings of the different banks in order to find the cheapest solution or product and not be ripped off by the banks.

At this point, the second partner illustrated in Figure 27 is integrated into the network structure. On the family's side, the required expertise is provided by the involvement of trusted former employees from the family business. Some experts on our panel reported that the task performed by these employees is basically to consolidate the bank offerings, allowing the patriarch to decide which investments should be made with which bank. From the bank's perspective, these trusted employees act as gatekeepers and are therefore of great importance. Together with the wealthy family, banks and employees form a hybrid Family Office. Besides the strong position of trusted employees, banks as a group are able to dominate the structure due to their broad range of services.

In this business, the wealthy family exclusively relies on the banking sector for Family Office services. Exclusivity on the group level does not, however, represent exclusivity regarding an individual banking relationship. In the fewest of cases, a wealthy Asian family will cooperate with one bank only.

It seems as if the wealthy Asian family attempts to optimize the network structure's efficiency, fostering competition between the banks on a high level by maintaining more banking relationships than are actually needed. The comparable high price sensitivity has even made some banks reduce their commitment to Family Office services significantly or even shift their attention completely to other fields of private banking activities.

Hybrid Family Office network guided by independent advisors and lawyers

In comparison with the hybrid Family Office dominated by banks, a more sophisticated network structure can be reached with a formalized Family Office by adding independent advisors and/or lawyers as new network partners to the original hybrid Family Office dominated by banks.

This balances the network structure and reduces the influence of the banks, since some of the services (e.g. professional services) are now also performed by other third parties. The banks are thus losing the monopoly on offered services and have to compete with others than just their peer competitors. This does not necessarily include the investment-related services like custody but rather particular services which either require substantial legal expertise or senior management competency (e.g. succession planning). The latter in particular requires a trusted cooperation and exchange with the family's patriarch and thus influences the bank's position within the whole network structure.

Banks have to acknowledge the new network partners and establish contacts with them in order not to lose earning opportunities. It is not unlikely that the family's patriarch will also consult the advisors relating to investment-related services. A good relationship with the independent advisors and lawyers puts the individual bank into a good

position for offering additional fee-based services. The inclusion of independent advisors and lawyers reduces the role of trusted employees and may even leave them in the role of pure information-collectors who forward the different bank offers to the family's patriarch or other senior decision makers within the family.

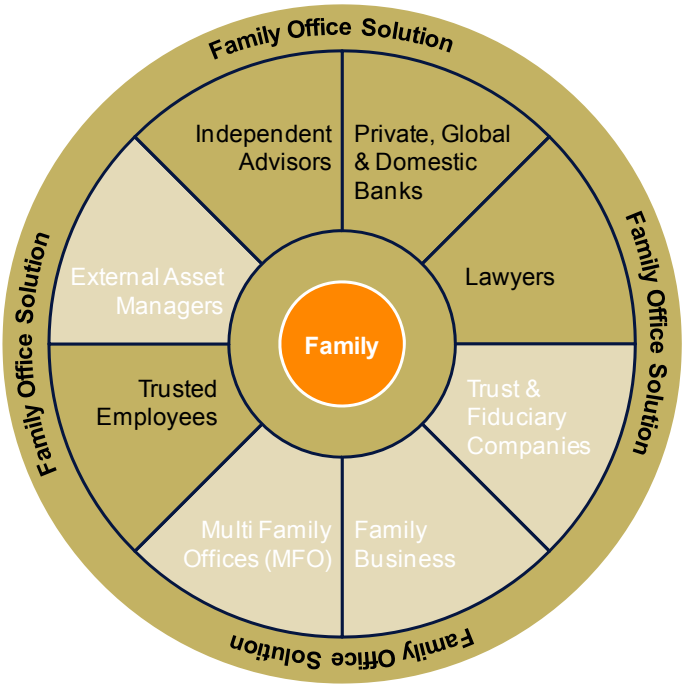

Figure 28: Hybrid Family Office network guided by independent advisors and lawyers

On a day-to-day basis, the influence of the independent advisors is rather limited, since their advice should be focused on "big picture" issues like family governance or long-term asset allocation. Nevertheless, due to the importance of their field of consultancy, they acquire both great insights into the family's structure as well as trust from senior family members. Lawyers are either represented by local specialists or international law offices. The background of independent advisors in turn may vary significantly in relation to the fields in which advice is given and could range from former private bankers to veteran corporate managers.

Hybrid Family Office network led by external asset managers

A different approach is followed in a hybrid Family Office network led by an EAM. In contrast to the approach with the involvement of the CFO, the EAM-led business model is opened up to external parties right from the start. EAMs serving Family Offices in Asia are typically highly specialized and overwhelmingly under local management control. Local management in turn is often a necessity for building up trusted relationships with wealthy families.

Concerning the professional background of the active EAMs in the market of Asian Family Offices, our expert panel mentioned three different types: former private bankers, former employees of the core business activities of a wealthy Asian family, as well as foreign EAMs with established operations in other countries (e.g. Switzerland, Eng-

land). Whereas the first two categories are related to EAMs who use their network and established relationships to set up their own enterprise, the latter category relates to EAMs who can leverage on existing expertise but have a rather limited local network.

In order to overcome this disadvantage, these EAMs often try to recruit local asset managers, which – according to our expert panel – is currently rather difficult due to a shortage of fully-fledged professionals with a local background. In contrast to a classic Family Office, the services offered by the hybrid Family Office Network led by an EAM are primarily focused on investment-related services.

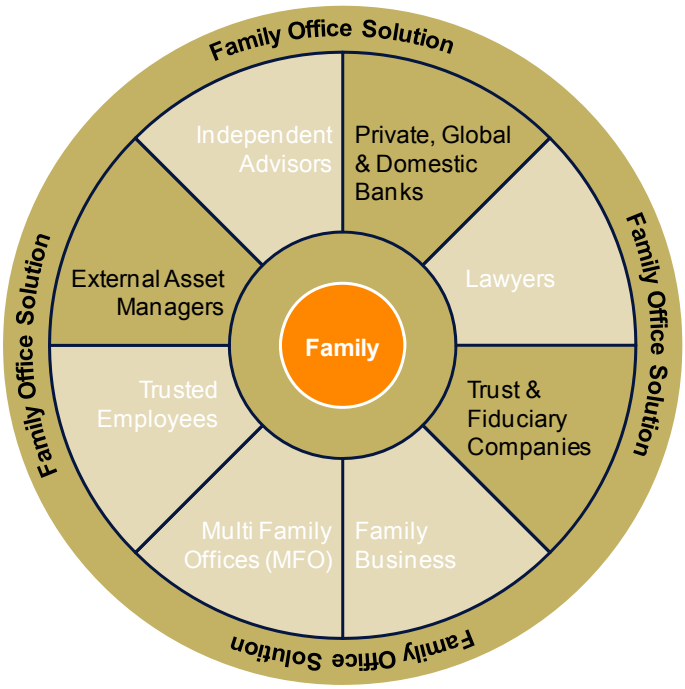

Figure 29: Hybrid Family Office network led by EAMs

This business model assumes that the EAM primarily performs investment-related services, while professional or financial advisory services are offered on an informal basis. From the perspective of services offered to wealthy Asian families, this business model is rather limited and should thus be primarily viewed as a first stage towards a more sophisticated hybrid Family Office solution. Our expert panel acknowledges a tendency for EAMs to widen their services towards a classic SFO. The reasons for EAMs to offer a rather limited range of services are a lack of resources as well as the risk to their independence. In the interviews with the expert panel, some EAMs explained their reluctance, for example, to offer certain professional services (e.g. succession planning) for fear of automatically getting involved in family conflicts (e.g. between siblings).

In addition to the EAM, the identified hybrid Family Office network may also consist of banks and trust companies as additional network partners. Banks are part of the network since they provide essential services (e.g. custody) for managing the family's wealth. Due to size, costs and regulatory aspects, it is not possible for the EAM to offer all of these services. Thus, banks are a natural choice for inclusion in the hybrid network structure.

From the bank's perspective, EAMs are not only network partners but also clients – or at least important gatekeepers within the Family Office market. One member of our expert panel even claims that for private banks current growth is mainly driven by EAM-linked business. On the one hand, EAMs are clients of the banks; on the other hand, they are also competitors, since banks also want to manage the family's wealth. The structure of a hybrid Family Office network led by an EAM (cp. Figure 29) is not necessarily restricted to just one EAM nor does it rely on the assumption that the EAM is managing the total family's wealth.

On the basis of our expert panel, we have concluded that the EAM does not hold a monopoly over all of the family's asset management activities. The family's patriarch may also deal directly with the banks in terms of asset management. From the perspective of the wealthy family, the EAM's independence from other network partners is of particular value. In addition to managing the family's portfolio, independence and trust allow the EAM to establish himself as a kind of independent advisor to the family's patriarch regarding asset management issues in general.

The third network partner is represented by trust and fiduciary companies, which enter the network to set up a private trust company or a comparable legal entity for establishing an umbrella legal structure. Lawyers may also get involved within the network structure but only as temporary partners.

Formalized Single Family Office

We have already mentioned that the Asian market for Family Office solutions is in an early stage of evolution and that it is not appropriate to use the conventional definition of Family Offices. Thus, we have introduced and discussed a new Hybrid Network Model approach and on this basis presented some of the network structures that currently exist.

Even though they are not the dominant business model and are far below Europe or the U.S. in terms of the number of established structures, SFOs that follow the traditional definition can also be found in Asia. According to our expert panel, the exact number of these formalized Family Offices is difficult to estimate. Our experts believe that the majority of formalized Family Offices are established either in Singapore or in Hong Kong and are SFOs. So far wealthy Asian families have not been comfortable with Multi-family Office solutions. Therefore, we do not at this point need to go further into the idea of formalized MFOs in Asia. Against the background of our Hybrid Network Model, Figure 30 identifies a formalized Single Family Office, which on a very basic understanding consists of – in addition to the family – three additional partner groups: banks, trust and fiduciary companies as well as trusted employees.

In the beginning, trust and fiduciary companies are used to set up the legal structure of the new Family Office. Once established, the Family Office is run by professionals. One solution might be that the managers of the Family Office are former trusted employees

of the family's core business or even family members themselves. Since it is not possible to provide all services internally, Family Office professionals need additional external expertise and support. Banks are the natural partners of choice for providing the required infrastructure for the now legally formalized Family Office (e.g. trading platform). Again, it is not assumed that the Family Office will only rely on one banking relationship. It is more likely that the Family Office will maintain several banking relationships but not as many as we have identified in the business model dominated by banks. One reason for the lower number might be the increased degree of professionalization, realizing that, with each additional banking relationship, additional monitoring costs arise.

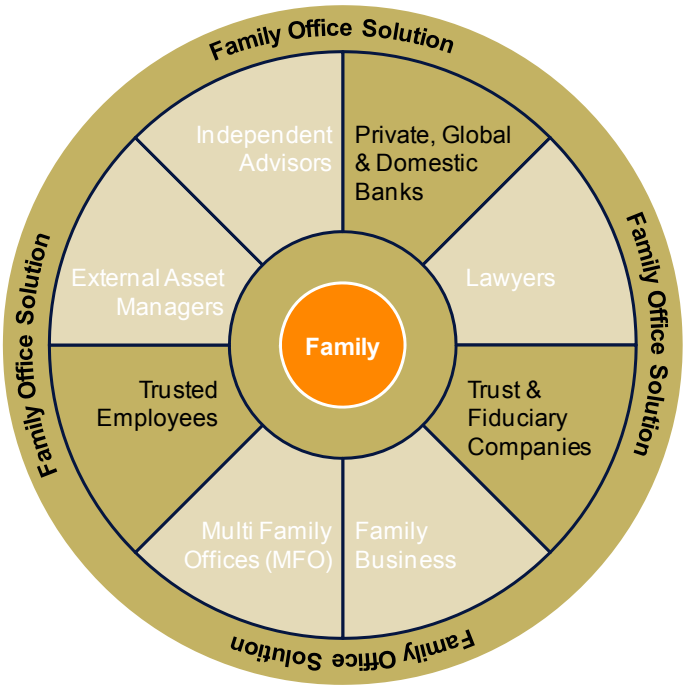

Figure 30: Formalized Single Family Office

Based on our expert panel, we anticipate that a formalized SFO comes at the end of an evolutionary process on how to manage the family's assets. Before establishing a legal entity and being able to label it as a true Family Office, the family has already had experiences with different structures regarding how to manage the family's wealth.

4.4. Family Offices in Asia

As outlined before, we differentiate between northern Asia, southern Asia and India. The northern zone is grouped around Hong Kong as the financial hub, whereas the southern zone is centered on Singapore. India in turn is focused on both Hong Kong and Singapore.

The few existing well-established and formalized SFOs in Asia are still predominately located either in Hong Kong or Singapore. Other markets have not yet proven mature enough to house Family Offices of any significant quantity (cp. Figure 31). As the

source of current and future dynamics, both financial offshore centers are the truly important pillars of the Asian Family Office market.

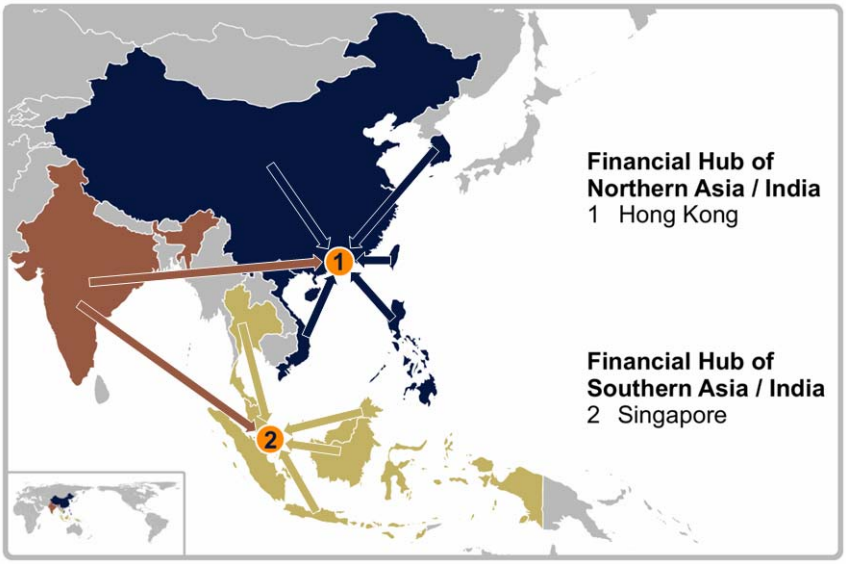

Figure 31: Hong Kong and Singapore acting as financial hubs for Family Offices in Asia

Since Family Offices are not financial intermediaries and do not have to be registered, it is difficult to estimate the number of existing Family Offices in Asia as well as their share of total wealth:

- In terms of total wealth allocated to formalized and well-structured Family Offices, part of our expert panel assumes that on average 3% to 7% are dedicated to formalized Family Office solutions. However, the current number of existing formalized Family Offices (e.g. Oaks Family Office in Singapore) is rather limited, with an estimated figure of 10 plus x Family Offices for the complete Asian region, where "plus x" varies significantly according to the expert approached and is highly dependent on the definition of Family Offices applied as well as the professional background of the interviewed expert.
- Experts with a strong international exposure tend to assess the market size of existing Family Offices higher than their peers with a strong affiliation towards either Singapore or Hong Kong and limited international experience.
- At this point, we only can speculate whether the optimistic group or the experts with a more conservative market perception are right. The survey's experts were asked to quantify the number of existing Family Offices in Asia according to the very strict international definition of SFOs.
- Figure 32 thus illustrates the estimated number of currently existing SFOs in Asia.

On average the number of existing SFOs is well above ten. Thus, we believe on a reliable estimation that there are around fifteen to twenty SFOs in Asia. A more bullish estimation would place the current number of SFOs around fifty. However, this figure may be biased by a less strict definition of formalized SFOs. Even for our expert panel, it proved to be a rather difficult task to estimate the current market size. Some experts

only gave a very basic range for the market volume, while others fully objected to giving an answer, arguing that it would be nothing but an imprecise guess.

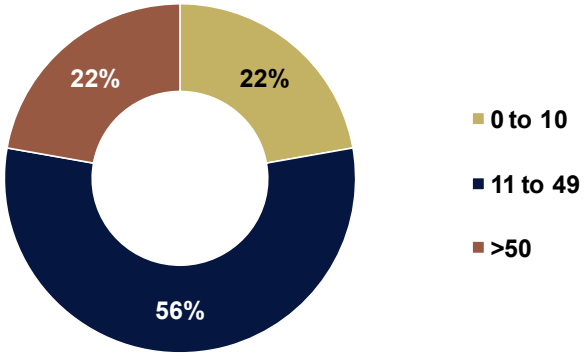

Figure 32: Estimated number of Asian Family Offices (2008)

Due to a lack of market transparency, it is unfortunately not possible to break down the number of Single Family Offices according to different regions.

All of our interview partners expect the Asian market for Family Office solutions in general to grow significantly in the upcoming years and thus predict a great future for the market of Family Offices with double-digit growth rates.

4.4.1. Northern Asia

For the countries belonging to the northern part of Asia, Hong Kong works as a magnet for Family Office solutions. In addition to several well-defined SFOs, Hong Kong can be viewed as the only financial center in Asia that is home to a very limited number of MFOs which have been able to successfully establish business activities.

Why is Hong Kong viewed as the platform for Multi-family Offices?

- The explanation is closely linked to the long history of Hong Kong as a financial center, which thus has a natural advantage in comparison to other Asian cities.
- In addition, the local wealthy families in Hong Kong are much more mature in terms of inherited wealth and thus it seems as if they are more open to MFO solutions.
- In contrast to Singapore, Hong Kong is viewed by our expert panel as “the place to be” from a corporate perspective. For families that still have a strong exposure to core business activities, Hong Kong is an interesting choice.
- Additional advantages of Hong Kong are its longer experience with Family Offices and its availability of professionals. Singapore in turn benefits from the fact that a lot of Chinese families prefer it to Hong Kong, although it has up to now been quite difficult to make offshore business with high-profile Chinese clients.
- The reluctance of wealthy Chinese families towards Hong Kong as an offshore center may be linked to Hong Kong being a Special Administrative Region of the People’s Republic of China. It seems as if wealthy Chinese families fear politically motivated interventions that would limit their control over the family’s assets.

- As a megacity in the south of China, Hong Kong acts as an important offshore center for other Asian countries (e.g. Taiwan, Vietnam). This also includes wealthy families from India transferring their wealth to Hong Kong. Families based in the Philippines are also assumed to locate their SFOs predominately in Hong Kong.
- In the recent past, we have also noted an additional trend: Taiwanese clients are learning from the western-style SFOs and are thus motivated to structure the family's wealth management comparably.

4.4.2. Southern Asia

Singapore, as the second financial offshore center in Asia, attracts wealthy families specifically from the southern part of Asia (e.g. Thailand, Malaysia and Indonesia), India and to some extent increasingly wealthy families from the Chinese mainland. In comparison to the financial hub of Hong Kong, Singapore distinguishes itself by actively promoting private banking activities with the aim of becoming the dominant financial center for private banking activities in Asia.

Thus, the market for Family Offices is a big opportunity for Singapore to further foster its leadership position in this field of financial services. Through increased offshore business activities, Singapore has been able to attract new investors and will gain additional momentum in the future. As an offshore center, the financial services firms domiciled in Singapore act as service providers for Family Office solutions. The players use the financial hub in this context not only to service Singaporean clients but also as a toehold for providing services to clients in other neighboring countries like Malaysia.

Service providers based in Singapore receive additional support from the regulatory authorities, which try to promote regulatory and legal conditions that facilitate the set-up of Family Office solutions (e.g. Private Trust Companies). It is worth to mention that net new money from wealthy Asian families is even coming from portfolios currently still allocated to Hong Kong.

Other interesting regions repeatedly mentioned by our interviewees in terms of new business opportunities for Family Office service providers were Malaysia and Thailand. Traditionally Singapore is used by wealthy Indonesian families as an offshore center for their significant portfolios. Today Indonesia is still one of the most important countries for the financial community in Singapore.

Another region, so far neglected by the survey, is Australia, which becomes an attractive partner not so much in terms of potential UHNWIs but in terms of interesting investment opportunities. Wealthy families increasingly demand international investment opportunities. Due to the geographical closeness, Australia in this context becomes a natural choice.

4.4.3. India

Onshore Family Office activities in India have so far been rather limited and can be best identified according to a "Very Hybrid Network Model." The Indian onshore market

for sophisticated Family Office solutions seems to be non-existent or – if it exists at all – it is at a very early evolutionary stage.

Wealthy Indian families looking for well-developed Family Office offerings need to turn their attention to service providers domiciled in Hong Kong, Singapore or Dubai. Clearly, these services bring with them an offshore-banking solution in one of the three financial centers. Due to the good cultural fit – specifically with Europe – wealthy Indian families can be assumed to be the most open-minded towards Family Office solutions of all the Asian countries. Not only do Indian families often know about formalized Family Offices (e.g. through education in England), but their cultural background in general is more compatible with the key features of a Family Office solution (e.g. transparency and consolidation of information) than the background of their counterparts in other Asian regions.

NRIs in particular have already had some experience with offshore Family Office solutions. This in turn may positively influence the development of onshore Family Offices in India (e.g. in Mumbai). However, in comparison with Singapore, the Indian market is still strongly regulated and therefore somehow problematic in terms of promoting onshore Family Office activities.

4.5. Costs and Benefits of Family Offices

The decision to set up a Family Office should be driven by the evaluation of two factors: the costs and the benefits of a Family Office. Whereas the costs are always a matter of financial reasoning, the benefits also include merit goods that cannot be fully valued in monetary terms. This situation makes it challenging to pinpoint the overall benefits of a Family Office solution in comparison with a conventional wealth management solution, especially bearing in mind that Asian clients are known to be extremely price-sensitive and not always willing to pay an adequate price for certain services.

Costs

The cost of running a Family Office depends on a broad range of variables: Family Office, AuM, asset complexity, reporting frequency, service coverage, fraction of services that are provided in-house, location of the Family Office, availability of fully-fledged staff, etc.

With this given complexity it is difficult to indicate costs for every Family Office model and constellation. Nevertheless, the literature provides some insights which indicate that the average operating costs of small SFOs should be around 90 bps of the AuM (MERRILL LYNCH & CAMPDEN RESEARCH, 2008). Assuming USD 300 mn as the minimal net worth for SFO solutions suggests costs of about USD 2.7 mn, whereas other sources estimate the minimal cost of running an SFO to be about USD 4–5 mn.

As larger SFOs are able to benefit from economies of scale by means of assets under management, the costs calculated according to a fraction of the AuM will be significantly lower. On the other hand, costs of MFO or FOSP services calculated by means of bps of the AuM do not necessarily have to be higher. These Family Office models

benefit, just like the larger SFOs, from economies of scale and the ability to spread the costs over multiple clients.

Benefits

The benefits of a Family Office solution are multifaceted:

- First of all, a Family Office is the only way to achieve a genuine tailor-made solution that is fully in line with the family's personal, financial and corporate situation and needs. The presence of a family business in particular leads to a complexity that mostly exceeds the capabilities of a typical wealth management relationship with a bank. Only a Family Office will be able to provide a holistic solution that is able to deal with this complexity with respect to family and corporate wealth as well as personal and financial needs.
- Second, in comparison with all other modes of wealth management, the Family Office enables the involvement of family members, which facilitates an enhanced transparency with respect to costs and performance of the investment management, as there is little room for hidden fees within a Family Office solution. In addition, the involvement of family members and only a few employees with full disclosure enables an enhanced level of secrecy and confidentiality. The family members involved might also play the role of a mediator between the Family Office and other family members as well as between the different family members in case of conflicts or disagreement.
- Third, a Family Office solution and the concurrent consolidation of the family wealth lead to asset-pooling effects. Representing a larger amount of assets fosters the level of bargaining power in course of negotiations with banks, asset managers and other service providers, which may result in better terms for fees and/or access to more sophisticated investment vehicles. Asset-pooling thus ensures that Family Offices are treated as institutional clients with respect to products that offer a fee structure.

  This rationale has to be highlighted, as Asian clients tend to maintain a wide range of independent banking relationships, which not only prevents a proper asset allocation but also blocks the opportunity of benefitting from bargaining power. This again has to be seen in the context of price sensitivity and the overall costs of Family Office solutions. However, the effect of asset-pooling can hardly be measured in absolute amounts, which again makes it difficult to argue for Family Office solutions. In addition, the existence of asset-pooling effects might facilitate the cohesion of the family wealth as well as the family unity.

5. Asian Family Office Market in 2015

5.1. Determinants of Future Growth

The preceding comments in this report lead to the conclusion that there is a gap between the potential and the effective number of Family Offices in the Asian market. As our findings regarding the number of Family Offices are in line with local experts' estimates, the explanation for this gap has to be located in particular on the demand side.

Determinant	Effect on Family Office demand
Economic growth	Increasing UHNWI populations and wealth management activities in the Asian market are the main drivers for the Family Office demand in absolute numbers.
Family business	The sale of the family business releases investment assets and turns the focus to asset preservation, which calls for Family Office solutions.
Wealth transition	The need for wealth preservation solutions is driven by the transition of wealth from one generation to the next.
Family complexity	Wealth transition from one generation to another increases the family complexity. At the same time, however, there is a decreasing readiness of the beneficial owners to take charge and to deal with the family complexity. As a Family Office is a potential solution to this situation, increasing family complexity fosters the demand for Family Office solutions.
Family governance	As the family complexity increases, setting up a family mission and guidelines on how to deal with issues such as heritage, succession and responsibility for the family business as well as for the family wealth becomes increasingly important and needed. The Family Office could contribute to these issues, as it is an institutionalized service provider for the benefit of all family members.
Wealth consolidation	Asset consolidation leads to increased bargaining power and a communicable family net worth that qualifies for Family Office solutions. The coherence of the family wealth might be an additional, favorable side effect.
Transparency	Due to confidentiality issues, services like performance tracking, consolidated reporting as well as those which require full disclosure can hardly be provided by banks or EAMs. Family-owned Family Offices are a possible solution for these needs.
Independence	Especially in the up-and-coming Asian markets, banks as well as asset managers are often known for their "product pushiness," which leads to a call for independence that can easily be provided by a (family-owned) Family Office.
Education	Education increases the level of sophistication both on the client and the provider side as well as the awareness of Family Office solutions. This might lead to a greater penetration of Family Office solutions within the UHNWI population.
Philanthropy	Asia's wealthy individuals are interested in leaving behind a legacy. The Family Office structures as well as its capability of executing, monitoring and reporting philanthropic initiatives are strong arguments for setting up a Family Office solution.

Table 3: Determinants of Asia's Family Office market growth

Considering the special characteristics of Asian clients (cp. chapter 3), in particular the fact that a large proportion of Asia's wealth is still in the creation and not yet in the preservation phase, it seems indeed reasonable to assume that the small number of Family Office solutions in Asia is mainly due to a lack of demand.

In the course of modeling an outlook for the Asian Family Office market in 2015, we identified a variety of factors that determine the future development of this market. Table 3 provides an overview of the different determinants, which are explained in more detail in the following paragraphs.

5.1.1. Economic Growth

The demand for Family Office solutions is clearly a function of wealth accumulation within an economy and hence of a number of wealthy individuals with a total net worth that justifies individual and tailor-made solutions on the grounds of benefits and costs.

As already outlined (cp. chapter 2), Asia is one of the most thriving wealth management markets on a global scale. This development is reflected in high GDP growth rates, even on a per capita basis, booming stock markets and hence a fast growing HNWI and UHNWI population.

In the long run, a growing number of UHNWIs will clearly lead to an increasing absolute number of Family Offices. At the same time, this does not necessarily mean that the relative number or the penetration of Family Offices will increase in this market, as this factor relies on other factors (e.g. education and sophistication) other than the economic growth rates.

This development has additional consequences that might be crucial for the future evolution of the Asian Family Office market. Benefitting from high economic growth also means an interesting investment opportunity for global investors. This will lead to an adjustment of the strategic asset allocation towards the Asian markets, which will in turn result in a need for local investment capabilities, adjunct analyses and local knowledge. With respect to the Family Office business, this means that established European or U.S. American SFOs or MFOs will have to diversify into the Asian markets, which will result to some extent in a knowledge transfer that might support the evolution of the Asian Family Office market.

In addition, it has to be noted that the increasing number of wealthy entrepreneurs could lead to compliance issues, as the banks are obliged to identify and verify the source of wealth. Especially in the case of enterprises that are not listed on any stock exchange, it sometimes might be hard, especially for smaller banks with little resources and/or capabilities, to fulfill the "Know Your Client" (KYC) requirements. Compliance capabilities might therefore be an important success factor for banks seeking to benefit from the fast-growing Asian wealth management market.

5.1.2. Family Business

The family business topic is strongly related to the preceding determinant, for two reasons:

- Strong economic growth is an indicator of a good environment for start-ups as well as for the activities of established enterprises. As most companies in the Asian market are still controlled by families, family wealth increases concurrently with the profits of the family business, which leads to performances (but also risk patterns) that are hardly ever reachable by well-diversified portfolios. This of course is a strong incentive to stay in the family business. Although this might lead to the conclusion that Asian families should adhere to their business as long as they are able to benefit from these investment opportunities, it has to be noted that going public is still the ultimate goal of every Asian entrepreneur.
- As booming economies found a good basis for IPOs too, this development might lead to more and more sales and subsequently to exits from the family business. Indeed, large amounts of assets which have been invested in the family business, are released in the course of this process. This again enables the foundation of a family-owned SFO and fosters the willingness to move the free assets into a Family Office solution.

Going public and M&A activities in the Asian market can therefore be considered as a trigger events that facilitate Family Office solutions. As the family and especially the entrepreneur is heavily focused on the family business, forming the main source of the family wealth, the personal and other financial needs of the family are often perceived to be secondary. Selling the family business is therefore a possible solution that changes patriarch's perspective, places wealth management in his focus and resolves the resource allocation problem between the Family Office and the family business. It is expected that the IPO activity will further increase in the next few years.

As illustrated in chapter 4.3.5, there are also Family Office concepts that take the existence of a family business into account. This, however, leads to a certain kind of competition between these two units – the Family Office and the family business – which in turn might lead to suboptimal solutions either for the corporate or financial needs of the family. Especially in the CFO-dominated Family Office model, it seems obvious that the family business might dominate the financial and personal needs of the family, which may lead to a situation in which the decision-making process is biased by the corporate needs.

Perceiving the Family Office as a PE firm that invests in an independently run family business might be another solution to this problem. However, according to the expert panel, the family business exit is indeed the best way to form a good basis for running a successful Family Office.

5.1.3. Wealth Transition

In the Asian market, the awareness of Family Office solutions widely differs between generations:

- Asia's current wealth is mostly held by first-generation entrepreneurs that are still involved in their family business. In order to be successful, they mostly needed to be very careful about spending their wealth. Accordingly, this generation focuses on running the business and on creating wealth, but not on spending it.
- The second generation is strongly influenced by the first generation's way of thinking and is therefore often called the "sandwich generation." As they have seen how their parents started the business and that they never wasted their wealth for the sake of being successful, this second generation feels deeply responsible for the family business as well as for the family wealth, resulting in an inability to enjoy the wealth. They focus on the preservation of the family business as well as the family wealth without taking any decisions that might be contrary to their parents' will or way of doing something. Nevertheless, the second generation already seems to be more open-minded with respect to Family Office solutions, which makes them to the first generation of wealthy individuals who are likely to make use of some kind of Family Office concept.
- The third generation has a different attitude towards wealth. They have often benefitted from an excellent education and from the opportunity to go abroad in order to make contact with other cultures and ways of thinking. As a consequence, the third generation is better educated and more sophisticated with respect to financial affairs as well as more open-minded towards Family Office solutions than their parents or even grandparents were.

Therefore, heritage and wealth transition, like selling the family business, can be perceived as a trigger event that facilitates the set-up of a Family Office. This is not only due to the different attitudes and backgrounds of the younger generation but is also driven by the transition of information about and control of the family wealth. The latter in particular might be a main driver for Family Office solutions as the business model needs some degree of willingness to cede control and to delegate the asset management process as well as discretionary wealth management mandates. The readiness to delegate the execution, tracking and monitoring of the asset management process is particularly positively correlated with the educational level as well as with the phase of the wealth lifecycle. This means that Asia's next generation will be more open-minded about Family Office solutions, which will lead to a stronger penetration of the Family Office concept in the Asian market.

5.1.4. Family Complexity

In a majority of Asian cultures it is customary for the eldest son to inherit the biggest part of the family wealth and to succeed his father as the head of the family. However, the influence of this social and cultural system is softening, which means that heritage

and succession are becoming fairer for the children, especially for the daughters, but also more complicated.

Therefore the transition of wealth from one generation to the next implies a multiplication of beneficial owners and subsequently a rise in family complexity that has to be dealt with. At the same time, the individual readiness to take charge and to deal with this complex family situation is decreasing. This situation is reflected by the statements of some Family Office experts who experienced certain family members' unwillingness to take control of the family wealth. These members fear that it might be too much trouble to manage it properly and to deal with the different and sometimes diametrically opposed needs of all of the family members. Such a situation clearly carries the risk that the family as well as the family wealth and/or family business could be torn apart, which is clearly not the first generation's intention.

The set-up of a Family Office solution is one of several possible solutions to this problem. It may exploit advantages that could lead to an increasing demand for Family Offices in the Asian market:

- A Family Office aims at the professional management of the family wealth as well as the satisfaction of financial or personal needs of the family members. Running a Family Office could (but does not necessarily) include the direct involvement of family members in the daily business. The Family Office therefore offers a professional and sophisticated management of the family wealth without the necessity of making one single family member in charge and responsible.
- In contrast to traditional wealth management relationships, the Family Office solution also offers the opportunity to include a wider range of family members into the strategic decision-making process, as members from different parts of the family might be involved in the different committees that set the guidelines for the asset management as well as for all other services and developments of the family-owned Family Office. Daughters might also play a more dominant role in family affairs (as it had been described in chapter 3).

5.1.5. Family Governance and Counseling

The need for family governance and counseling services is associated with the issues of increasing family complexity. The higher the complexity, the stronger is the need for guidelines that help to provide some structure within the family. Especially topics like heritage, succession, distribution of responsibilities for the business as well as for the wealth, conflict management and/or mediation have to be settled. A family mission and vision could be helpful in order to set the guidelines and the direction of development, whereas the Family Office could be an agent for the implementation of those family rules.

The Family Office governance is shaped by the family governance regarding the involvement of family members as well as of the different committees and their composition. Involving family members in the operational business of a Family Office has the

advantage that the family member might act a as mediator in cases of conflicts between family members and/or between the Family Office and family members. Strategic decisions are always made by a committee that should consist of members from all parts of the family as well as professionals from the Family Office in order to ensure the required expertise as well as democratic legitimization of the decisions.

According to the Family Office experts, the family governance and counseling services will benefit from an increasing demand in the next decade. For specialized service providers, this might be an opportunity to enter into or to widen the activities within the Family Office market. However, those services are, particularly for service providers who are not considered a part of the family (e.g. banks and other FOSPs), very delicate, hard to capitalize on and traditionally not perceived as core competencies of Family Offices.

5.1.6. Wealth Consolidation

We have indicated that wealthy Asian individuals tend to maintain several (up to twenty and more) local and/or offshore banking relationships, mainly due to worries about confidentiality and the unwillingness to give anybody full disclosure (cp. chapter 3). Furthermore, we have argued that, in contrast to the typical Asian pattern, asset-pooling fosters bargaining power, which could be one of the main Family Office benefits in terms of costs as well as access to certain asset classes or investment vehicles (cp. chapter 4.5). This again requires a willingness to abandon the need for absolute confidentiality and control of the family wealth to some extent (as described in the preceding paragraph on wealth transition).

However, a small number of wealth mangers need full disclosure in order to provide a professional asset management approach that includes professional asset allocation. This can either be an external service provider (e.g. bank, EAM) or a small number of internal specialists from a family-owned Family Office. The latter would be a superior solution with respect to a higher level of confidentiality. In addition, the Family Office's ability to enhance bargaining power with regard to the service providers will ultimately lead to better services and lower prices. Considering the high price sensitivity of Asian clients, a Family Office could therefore be a favorable solution for the wealth management of Asia's UHNWIs.

Consequently, a stronger cohesion in the family wealth and to some extent the family itself is another important side effect of wealth consolidation. This does not necessarily mean that the family wealth has to be managed as a whole but that the entire family wealth, which might be split up for different beneficial owners, should be coordinated from one single Family Office.

Family Office experts estimate that these insights will lead to an increasing demand for Family Office solutions, at least in the long run, as a consequence of the wealth transition to the next generations.

5.1.7. Transparency

The quest for transparency is related to the need for wealth consolidation. Maintaining numerous banking relationships makes it challenging to monitor and track performance as well as fees and commissions. In particular, capabilities that are needed to provide a consolidated reporting are crucial in this context. But here again, more transparency comes at the cost of a lower level of confidentiality and therefore requires an openness to change in the mindset of the Asian clients.

More complex products in particular are not known for being transparent. Even if Asian clients are price-sensitive and try to bargain on a majority of declared fees, there seem to be a lot of hidden fees in the Asian wealth management market. As the market gets more and more mature, the products will improve and hence their transparency, too. This will clearly lead away from product- and transaction-orientated private banking towards a more European model that focuses on holistic solutions and a long-term relationship between provider (in this case the bank), relationship manager and client, which is more aligned with the concept of Family Offices.

Transparency is also linked to the increasing family complexity. In particular, a higher number of beneficial owners who may belong to different parts of the family and different generations calls for an increased transparency. Only this can ensure that each member of the family understands and is able to follow the management of their wealth. A Family Office is not the only solution that ensures transparency with respect to costs, performance tracking and reporting, but it is a good one-stop-shop solution that is able to provide these benefits in connection with a high level of confidentiality.

5.1.8. Independence

The third issue that goes along with wealth consolidation and transparency is the call for independence. This issue is especially dominant in a traditional wealth management relationship, especially when it comes to the incentive systems of banks and/or asset managers. Since private bankers, especially in the maturing Asian market, are often incentivized to sell bank-specific products ("product pushiness"), it is possible that the products are not fully aligned with the client's needs. This issue, as a part of the moral hazard problem, can be resolved either by the providers or by the client.

From the client's perspective a Family Office solution carries significant lower moral hazard risks than a provider relationship, as the professionals within the Family Office are either family members or the patriarch's employees. In addition, a Family Office facilitates an open architecture asset management approach that actively selects the best-in-class products by means of performance as well as commissions and fees for the respective product.

5.1.9. Education

Education is an important facilitator of Family Office solutions for two reasons:

- Asia's wealthy individuals are still not familiar with the Family Office concept. Family Office providers therefore have begun to offer educational training programs in order to increase the awareness of Family Office solutions. However, these activities mostly focus on the second and/or third generation, which is not yet in a position to make decisions on how to manage the family's wealth (as shown in the paragraph about wealth transition).
- As the patriarchs are eager to send their children to the best educational facilities, the second or third generation has the opportunity to be educated in the United States or in Europe.

In addition, it could be the particular task of a Family Office to gather information on and to assess different educational facilities in order to support the decision-making process regarding which educational programs are best suited for the patriarch's children.

Overall education leads to financially more sophisticated clients. This again has various consequences for the demand for Family Office solutions:

- Sophisticated clients call for professional wealth management, clear asset allocation, more sophisticated products and a higher complexity of investments. This can only be offered by experienced and professional service providers or by fully-fledged professionals of a Family Office.
- Clients with financial know-how have a different attitude towards the costs and benefits of a service. They know that certain services are more costly than others and they are willing to pay an adequate price for a service if their needs get appropriately satisfied. This understanding of costs and benefits is crucial for the set-up of a Family Office solution.

As for banks and other service providers, educational programs are a valuable opportunity for making contact with the patriarch's descendants, building up connections and establishing the grounds for a long-term relationship that will be in place when the time is right to set up a Family Office solution.

5.1.10. Philanthropy

Philanthropy is already a hot topic, as wealthy Asian individuals are interested in how to leave a legacy. Up to now, philanthropy has consisted mostly of individual acts that focus on the home town of the family. However, there is an increasing need for professional and structured solutions that lead towards holistic, long-term projects.

In the context of philanthropy, the Family Office might support the execution and particularly the monitoring and reporting of the philanthropic initiatives of the family. In addition, using the Family Office as an agent for philanthropic services is a possible way to ensure that those activities are fully in line with the family's needs, mission and vi-

sion. Since in traditional families philanthropy is one of the only aspects which female family members are allowed to manage, this topic might also offer an opportunity to involve daughters in the Family Office.

5.1.11. Conclusion

- Overall it can be concluded, that most of these drivers do not ultimately lead towards the set-up of a Family Office model of any particular shape, as most of these needs could be satisfied to some extent by different service providers.
- The Family Office, however, is one possible solution for having an integrated approach that allows one-stop-shopping for the clients. This does not necessarily mean that the Family Office has to provide all services in-house but that its clients perceive it as an integrated solution for the satisfaction of the family's needs.
- Furthermore, the Family Office is the only way for UHNWIs to have a really tailor-made solution that is completely in line with their personal, financial and even corporate needs.

5.2. Future Business Model

Having illustrated the determinants of future growth, we will analyze how these drivers of change might impact the future market structure of Family Offices in Asia. We will link this analysis to the Asian model as defined in chapter 4 and show how the currently existing patterns of specific network models might further develop in the next few years. The evolution of future business models is of course also highly dependent on further developments on the demand side, which in turn is – as we will see later – taken by our expert panel to have a rather bright future.

To quickly adapt to all of the changes in a very dynamic environment, the future Asian model has to be very flexible. The six network structures described below, as well as the parties they involve, are seen by our experts as potential business models for future Asian Family Offices. Asset managers, investment and private banks are among the most important service providers for Family Office solutions. Not surprisingly, these service providers will also play a predominant role in the next few years. One of the main challenges for Family Offices and their service providers will be the recruitment and retention of employees as well as the management of both increased network structures and the range of services.

5.2.1. CFO → SFO

We will start our overview with the hybrid Family Office model led by the CFO of the family business, which currently exists. As indicated in chapter 4, the CFO-dominated network structure may change over time, leaving the CFO with both an increased exposure towards managing the Family Office and a reduced commitment towards the family business. In the very beginning, the Family Office in this context is nothing else

than a purely hybrid structure with no formalized settings. Over time, resources as well as attention allocated to the Family Office increase.

One specific resource that increases in this process is additional staff at the level of the Family Office in the form of trusted employees. Not only are the assets managed by the Family Office growing, but the degree of professionalization is also continuously improving. Management of the Family Office becomes a real alternative both in terms of the income perspective as well as prestige the and influence for the CFO in comparison with his role in the family business. We assume that the hybrid Family Office model led by the CFO will as a result transform by stages into a Single Family Office over some years.

In addition, over the years the job profile of the CFO will completely change until he is replaced as the CFO of the family business in order to take over the management of the Family Office. It is no longer possible to manage the Family Office and at the same time be the Chief Financial Officer of the family's core business activities. Thus, the CFO has to decide whether to stay at the helm of the family business or become a full-time manager of the Family Office.

In the next few years, this development will correlate with ongoing succession planning and wealth transfer between the generations along with a tendency to exit the family core business activities. Once this stage of evolution towards a broader Family Office model has been reached, the (former) CFO becomes a long-standing and well-trusted employee or is even a family member by birth. In either case, his loyalty will make him stay with the family and take over his new role in solely managing the family assets and representing the family's interests. In addition to loyalty, the former CFO may also accept his new position on monetary grounds. One potential way to offer such an incentive would be to allow him to set up the management of the Family Office as a limited company and give him a share (or even all) of the equity in such a constellation. The assets in turn may be pooled within a Private Trust Company and thereby of course be legally separated from the newly founded asset management company. However, incentive earnings can also be guaranteed through attractive bonus payments or additional benefits like joint investment opportunities.

The former hybrid Family Office led by the CFO of the family business now takes shape of an SFO. This model of SFOs does not automatically correlate with an increased degree of formalization but this does often occur. It can still act as a Hybrid Network Model as defined in chapter 4. However, we expect that with an increased degree of professionalization there is also a higher level of formalization. The other network partners will remain in place with an increasing number of professionals becoming involved in the network structure at the level of the Family Office. The group of trusted employees in particular will grow both in terms of size and impact on the whole network.

Global and private banks, lawyers and trust companies are still important service providers and will not be replaced by the newly established SFO completely. Neverthe-

less, in this future business model pressure on service providers will increase significantly. The management of the SFO will use its resources to monitor and evaluate each network player and replace him in case of unsatisfactory performance.

An alternative role for the long-standing CFO of the family business would be that he becomes an independent advisor to the family who is not involved in the day-to-day business of the Family Office. In this concept, the CFO could retain a rather active role within the family business and continue to be the CFO of the family business.

5.2.2. EAM → SFO/MFO

We have already identified EAMs as current network partners in a Hybrid Network Model. Relying on their independence and close relationships with their clients, EAMs have been able to establish an influential position in the model for Asian Family Offices. So far their service offerings are mainly focused on investment-related services and thus fall short of the full range of services demanded by a Family Office client.

However, as a result of our interviews we are able to conclude that there is a tendency for EAMs to extend – currently on a rather informal basis – their range of services and that this trend will gain in momentum over the next few years. At the end of this process, we expect EAMs to become Single or Multi-family Offices with a far more elaborate range of services. In order to understand the future business model for current EAMs, four important factors need to be taken into consideration:

1. **EAM's independence will be a key success factor:** In the upcoming transition process, the EAM's independence will be crucial for becoming the central point of the Hybrid Family Office Network Model and establishing himself as the gatekeeper.
2. **Mergers or affiliations between independent EAMs will lead to Multi-family Offices:** If the evolutionary process develops into the direction of a Multi-family Office, this will always happen through mergers or affiliations between independent EAMs. Often one EAM serves only one wealthy family. Combining the operations of two EAMs would thus merge the asset management activities of two wealthy families. In this context, it is important that the two former EAMs deal appropriately with their clients' fears concerning the increased level of transparency. One potential solution would be to install Chinese wall structures, which would reduce the likelihood of the wealthy families not trusting the newly established Multi-family Office and withdrawing their assets. In contrast to private banks, setting up a Multi-family Office structure allows the EAMs at this point to leverage on their longstanding relationship with their clients.
3. **EAMs will need to team up with existing network partners in order to overcome specific knowledge shortfalls (e.g. tax planning):** The knowledge of the independent EAM is (in comparison with large banks) rather limited by definition. For example it is impossible for a stand-alone EAM to maintain his own extended research division. Thus, from the EAM's perspective, it is necessary to establish

cooperations and relationships in order to cover the whole range of services and thus act as a true Single or Multi-family Office. The need for collaboration with additional network partners hence proves to be an opportunity for private banks, which can position themselves as service providers for the EAMs and future Family Offices.

4. **Even as the manager of a Single or Multi-family Office, the EAMs will not be able to consolidate the whole wealth of their clients under their discretionary management:** Even if the EAMs transform themselves into Single or Multi-family Office players, we doubt that they can successfully allocate all of a family's portfolio under their management. Nevertheless, we view this as an unlikely scenario, independent of the long-term basis of such a relationship. Secrecy and the rejection of transparency on the family's part are assumed to hinder consolidation of wealth under the umbrella of one network partner only.

In order to offer both control as well as a guarantee for their independence, the EAMs can still sell a portion of their equity to their wealthy clients, hence making them into their shareholders. However, this set-up comes close to a Family Office in the traditional interpretation. In conjunction with our experts, we conclude that EAMs might become MFOs, but it is also not unlikely that they will develop into SFOs. There is also a possibility that established MFOs from Europe or the United States will try to foster their position in the Asian market by acquiring local EAMs. From the EAMs' perspective this would be quite fruitful, giving them access to a wider knowledge base. The downside risk might be associated with the loss of independence, which in turn is highly appreciated on the client's side.

Increased competition in the Asian market for EAMs is to be expected due to the market entry of new players. Among these new market players, former private bankers are expected to be found.

5.2.3. Private Bankers → Advisors → SFO

We expect an additional business model to be set up around former private bankers. By nature these bankers are taking away part of the bank's business, but at the same time they become important network partners for their former employers. Since they are acting initially as advisors only to the wealthy family, they are able to exert a significant influence on the decision-making process and on how much of the value chain is allocated to which party.

For our model, we assume that the former private bankers will not initially set up an independent EAM (as illustrated in the preceding chapter) but will use their significant expert knowledge to act as an advisor to the wealthy family. The functions performed by the former banker are primarily long-term-orientated and are not focused much on day-to-day business. By acting as an advisor, the former private banker in this business model does not intend to set himself up as an EAM but rather to offer counseling on strategic issues (e.g. succession planning). The former private banker is thus focused on very high-end services.

The market for independent advisors to wealthy families is quite a secretive one. This exclusivity makes it extremely difficult for the former private banker to acquire new clients and – most important – to price them for his services. In many cases, wealthy families have not yet acknowledged the need for these services or simply do not trust the advisor.

The combination of all these factors rather limits the range of potential advisors. Only very senior private bankers have more relationships with more than just one wealthy family.

Besides being an advisor to a wealthy family, these former private bankers are involved in a variety of other jobs and services. Advisory services are only one part of the spectrum. If wealthy families decide to put the advisor into the middle of their Family Office solutions, this may change in the course of the upcoming years. Against this background, the advisor is able to leverage on his seniority and mutual trust with the wealthy family and thus becomes the center of a (hybrid) Family Office solution.

We expect the former advisor to act as the head of an SFO. Relying on our expert panel, we do not see a sufficient impetus for this business model to further evolve towards an MFO solution in the next few years.

The strong advantage of the advisor is his independence. His value proposition to the wealthy family primarily relies on this specific feature. In turn the exclusivity of the services offered implies that establishing a client relationship is very time-intensive and therefore should be – at least to some degree – a prerequisite for entering the market for Asian Family Offices as an advisor.

As outlined above, the advisory position may be subject to change and finally lead to the management of the whole Family Office. This strongly correlates with the client's overall wealth growth. We infer that senior private bankers nowadays often act as advisors to wealthy families, which in the best case scenario have an extremely hybrid Family Office in place. Once this hybrid network structure becomes more formalized, supported by significant growth in terms of family wealth, the likelihood increases that the independent advisor will be offered the formal head of the Family Office.

5.2.4. Trust Companies → EAM → MFO

A fourth existing network player who is expected to widen the range of offered services to wealthy families can be seen in the trust and fiduciary companies. Trust companies may diversify in the future by offering their own asset management services or by doing so in cooperation with strategic network partners.

So far trust and fiduciary companies have been focused on trust administration services in close conjunction with the family's lawyer. By definition their service offering is very trust-related, allowing them to gain deep insights into the family structure and ownership distribution. Up to now trust and fiduciary companies have limited their range of services offered strictly to their core competencies. The only exceptions are

trust companies affiliated with private or global banks. These trust companies are of course embedded in a wider product range at the bank level in general.

With the increasing importance of EAMs, independent advisors and even MFOs, we assume that trust companies will become increasingly important as active network players within different hybrid Family Office solutions. Since trust companies already have a good platform for offering services to wealthy families, the intimate insights into different hybrid Family Offices proves to be an ideal starting point to further expand their own range of services.

Against this background, a potential strategy is to diversify into the field of investment-related services, competing with EAMs as well as private banks. At this point, however, trust and fiduciary companies fall short in terms of existing expertise. Since investment-related services do not belong to their core competencies, trust and fiduciary companies need to find a way to acquire external know-how. This can be achieved either by hiring new staff, acquiring (or merging with) established EAMs or entering into strategic partnerships. Thus, trust companies will evolve from purely fiduciary service providers to EAMs or in a second step even to MFOs.

One aspect left unmentioned so far are the potential conflicts of interest that may be rooted in expanded product offerings. With a product range strictly limited to fiduciary and trust services, it is rather unlikely for conflicts of interest within the individual client relationship to arise. With an increased product range including investment-related services, trust companies may lose aspects of their independence. The question arising in this context is whether it is worth it for the trust companies to put their independence at risk over emerging conflicts of interest and thus jeopardize the business model of their core activities. It is rather difficult to assess the potential negative side effects for the core business model. Nevertheless, trust and fiduciary companies should keep imminent conflicts of interest in mind when diversifying their business models in the direction of asset management services. An alternative model would be an alignment with a more advisory-alike function within a hybrid Family Office. Specifically, this could include advisory services in the field of tax planning.

5.2.5. European MFO → Asian MFO

With the last two business models presented, we have looked at niche players expanding their product range. The next potential business model is centered on a network partner who does not need to change its product range but is nevertheless entering new markets in geographic terms, i.e. European/U.S. Multi-family Offices that are starting to do business in the Asian market.

In comparison with EAMs, advisors or existing trust companies, European and U.S. MFOs are already successfully active in managing fully-fledged solutions. On the other hand, they do not have a strong presence and stance in Asia and thus lack both local expertise and well-established a high-profile network to leverage on. The market activity of these new players remains mostly limited to representative offices with additional investment professionals serving primarily existing clients in Europe or the U.S. This is

primarily due to the fact that the market for MFOs in Asia is still in a very early stage and thus the market exposure is rather limited. It seems as if the purpose of these footholds primarily serves to build up brand awareness and a network structure in order to be well-positioned if market dynamics evolve for MFOs in the future. If established European or U.S. MFOs want to enter the market, they need a well-known Asian family as an anchor to successfully launch business activities beyond the level of a representative office.

On the basis of our expert panel, we can conclude that in the future we will see MFO solutions in Asia as well, but in a rather limited number and with different features than their European or U.S. counterparts. One of the key differences will be that – as already outlined – wealthy Asian families may appoint professional MFOs but will not allocate all of their money to one solution provider only. Thus, established European/U.S. MFOs need to incorporate the regional characteristics of wealthy Asian families (cp. chapter 3) into their offerings.

For instance, one could look at Indian-focused offerings. Since Indian families are not that much concerned about secrecy, future dynamics might come from this part of Asia. But for European/U.S. MFOs, it will be particularly difficult due to fierce competition on the part of the banks' side.

As we will see in the following chapter, private banks in particular try to position themselves as MFOs in the Asian market and thus act as direct competitors. From our point of view, there are two main strategies for European/U.S. Multi-family Offices in order to gain a foothold in the Asian market:

1. **Asian clients who have already had experience with Multi-family Office solutions in Europe or the United States:** This strategy centers around the trend in wealthy Asian families reallocating their wealth from Europe or the U.S. back to Asia. It is likely that there are some families among these which are also some, are already familiar with the concept of MFO solutions. Of course, this strategy is rather problematic, since in other terms it means that net new money to the group of established MFOs is limited: Families that did not like the idea of Multi-family Office solutions proposed to them in the offshore centers in Europe or the U.S. are unlikely to become suddenly enthusiastic about this kind of structure when it is proposed to them again. Thus, it is at best a strategy of business preservation rather than a real growth story.
2. **Teaming up with local partners:** More promising is the second strategy. Local partners can either be domestic banks or local EAMs. Both could benefit from the knowledge of MFOs in terms of how to set up and manage such a structure. The established MFO in turn would be able to leverage on the local partner's extended relationship and client network.

   However, it may take five to ten years before the idea of MFOs really takes off with wealthy families in Asia. This evolution clearly requires the transition of the family wealth from the first to the second or even third generation.

5.2.6. Private Bank → MFO

By definition, private banks are keen on entering the market of MFOs since it would automatically guarantee them a larger part of as well as a certain degree control over the value chain in terms of managing the assets of wealthy Asian families. Small and very exclusive private banks in particular are aiming directly at this market segment on a worldwide scale. In Europe, for example, Geneva and Zurich have proven to be off-shore centers for this kind of high-profile services offered to wealthy families.

- **The Asian market for wealth management solutions proves to be highly attractive for private banks:** As outlined in chapter 2, the Asian market for wealth management solutions is highly attractive for private banks. A large majority of well-known private banks have thus already set up their offices in Hong Kong and/or Singapore. Asian HNWIs and UHNWIs have become an increasingly interesting market segment for private banks.

  Family Office solutions can be identified as one exclusive niche within the whole Asian private banking market. Private banks in particular have identified this niche as a segment with significant growth potential. On the basis of our findings in chapter 3, we can conclude that so far private banks are primarily acting as (predominant) service providers with continuous attempt to extend their services to an MFO solution. Due to the broad range of services, deep knowledge and well-established brands, private banks in particular are in a good position to further extend their reach within the market for Asian Family Office solutions. Currently we are seeing the very first exclusive private banks to successfully implement MFO solutions.

  However, the implemented structures are not comparable to the models known from Europe or the U.S. The Asian structures currently launched act as MFO service providers rather than as discretionary asset managers. The few private banks setting up such structures are well aware of the different preferences of wealthy Asian families in terms of transparency, consolidation of information as well as decision-making competency. These MFO solutions do not aim at discretionary mandates nor do they proceed from managing the total wealth of a family.

  Within the next few years, we expect more private banks to successfully offer services to wealthy Asian families centered on an Asian interpretation of MFOs. These services may also be offered to existing SFOs.

- **Client advisors are crucial for the success of the future Asian model for MFOs controlled by private banks:** A key issue for the success of the defined Asian model for MFOs set up by private banks is the right choice of client advisors. Wealthy families do not expect the average private banker to become their partner. They are looking for advisors acting on an equal level with senior family members both in terms of social status and educational background.

- **Significant growth potential for MFOs controlled by private banks:** Backed by our expert panel, we view the MFOs controlled by private banks under the above-mentioned restrictions as a major source of future growth for Asian Family Office

solutions. However, the corresponding business models have to be carefully designed in order to fully consider the specific needs of wealthy Asian families. In addition to well-structured offerings, the private banks also have to convince the potential clients by repeatedly presenting the advantages of such an MFO solution.

From the client's perspective, the value proposition of an MFO is closely linked to the broad range of services offered. The wealthy Asian family can significantly lower the transaction and monitoring costs associated with managing the family's assets (e.g. one-stop shopping). Thus, future growth for MFOs is highly dependent on the willingness of wealthy Asian families to allocate their wealth to MFO structures.

Since these Multi-family Offices led by a private bank do not rely on a status of exclusivity in terms of managing the family wealth, it is not unlikely that the model described above will become one of the dominating business models. Wealth transition between generations as well as exits from family business activities can be regarded in this context as major drivers of growth.

5.3. Asian Family Offices in 2015 – a Regional Perspective

Having discussed the determinants of future growth, we will turn our attention towards the regional perspective in order to analyze potential future patterns within different geographic regions. However, before focusing on the different subregions within Asia we will direct our attention to the Asian Family Offices market in 2015 as a whole. The market for Asian Family Offices in 2015 is expected to be a very dynamic environment that will quickly adapt to all kind of changes.

- **Cultural difference impacting future development:** Based on the expert interviews, we can state that the future Asian model for Family Office solutions needs to factor in the cultural differences between various Asian nations and cultural backgrounds. There will clearly not be one single (hybrid) Family Office design that can be successfully rolled out all over Asia but a variety of different (hybrid) network models.
- **GDP growth impact future development:** Besides cultural differences, the future regional development is also highly dependent on the national GDP growth. Due to the size of wealth as a natural source of demand, families of countries enjoying high GDP growth rates are more likely to set up Family Office solutions than others.
- **Family business in 2015 will still have significant impact:** Relying on the determinants of future growth, the market for Asian Family Offices clearly features the potential for a very bright future. In this context, Family Office experts still perceive the family business as being an important impact factor in the overall structure of the family's wealth.

- **Expert panel assesses future market potential – Singapore and Hong Kong are also key markets in 2015:** As global financial centers, both Hong Kong and Singapore will play a predominant role as offshore centers for Family Office solutions in 2015. All of the interviewed experts assume that most of the Family Offices in 2015 will be run either from Hong Kong or Singapore. However, it is rather difficult to assess the future development of the market in terms of size and numbers of established Family Offices. Even the answers of the Family Office experts varied between 50 and more than 250 well-structured and formalized SFOs being expected in Asia in 2015. However, the broad range in these answers might be a result of different definitions of Family Offices as well as of differing perceptions with respect to the current market.

5.3.1. Northern Asia

It is expected that Hong Kong will not lose its importance in 2015 with respect to its current position in the Asian Family Offices market. On the contrary, the expert panel expects significant growth for the financial hub of northern Asia in the coming years. The outright advantages of Hong Kong are seen in its long-time experience with Family Office solutions as well as its availability of professionals. The latter in particular can become a scarce resource for other (domestic) financial markets in Asia.

- **Family Offices in Hong Kong – clients coming from Taiwan, Vietnam, the Philippines and India:** Clients setting up (hybrid) Family Office network structures in Hong Kong are expected to come from countries such as Taiwan, Vietnam, the Philippines and India. There is also a trend amongst Taiwanese clients to learn from the West and thus following a more structured approach in managing the family's wealth. The increased openness of Taiwanese wealthy families towards more formalized wealth management structures in turn strongly favors the development of Family Offices in general.
- **Regulation issues impacting offshore banking activities:** In addition to the mentioned patterns, the development of regulation laws – particularly with regard to mainland China – will impact the evolution of Family Offices in Asia as well as of the future financial centers. Surprisingly, the experts do not assign a prominent role to any major mainland Chinese city as a future center for Family Office solutions. This leads to the assumption that the expert panel does not expect the Chinese government to lower restrictions in terms of financial markets and regulation issues, which would allow a center for Family Offices to evolve in mainland China over the next seven years. However, wealthy Chinese families in turn are expected to provide an impetus for further growth in the Asian offshore centers. Singapore in particular will be in an ideal position to attract wealthy mainland Chinese families and benefit from the fact that most of the Chinese prefer the small sovereign country to Hong Kong. Hong Kong in turn will benefit from increased Indian demand for offshore banking activities as the Indian domestic market is strongly regulated and therefore a challenging environment for offering complex onshore Family Office solutions.

5.3.2. Southern Asia

For the southern part of Asia, Singapore will remain the dominant center for active Family Office offerings as well as demands at least in the medium or long term. Surrounded by thriving economies, offshore banking as well as Family Office solution activities in particular will prosper. Regarding Family Office offerings on the demand side, countries which nowadays fall short in terms of awareness and sophistication with respect to the Family Office concept will prove to be the significant drivers of future growth. These countries include Malaysia, Indonesia, Thailand, India and maybe Vietnam (which is assumed to be more focused on Hong Kong).

- **New (hybrid) Family Offices expected to be set up by Indonesian families:** New (hybrid) Family Offices are also expected to be set up by Indonesian families due to the fact that these families are benefitting from growing commodity markets and are generating excess cash flows. From the economic perspective of the Family Office experts, the Philippines, Indonesia and Malaysia are held to be among the fastest growing countries in Asia.

- In addition, Singapore is currently an attractive spot for wealthy mainland Chinese families and it will also benefit in the future from the geographic fact of not being too close to mainland China, even if it is rather difficult to conduct offshore private banking business with high-profile Chinese clients. Hong Kong's proximity to China in turn will be increasingly negatively perceived by wealthy mainland Chinese families.

- **Singapore and Hong Kong in competition to become the leading Family Office center in Asia:** Mainland Chinese preferring Singapore over Hong Kong shed light on an increasing competition between Hong Kong and Singapore. Each hub aims to dominate the Asian market for Family Office solutions. Due to different alignments of the two financial centers, the Family Office experts do not concur about which of the two cities will gain momentum in this competition. Hong Kong has a long history as a financial center with strong assets in the fields of corporate finance, whereas Singapore is more focused on private banking and is successfully attempting to facilitate the set-up of Family Offices from a regulatory perspective.

5.3.3. India

We have already concluded that wealthy Indian families are increasingly attracted by both financial centers in order to set up (hybrid) Family Office structures. Thus, offshore solutions seem to be their preferred choice. The reasons for this preference of Indian UHNWI are closely linked to domestic regulation and limited onshore banking activities, which are not in favor of (hybrid) Family Offices. Future developments of onshore Family Office dynamics in India are dependent on regulatory issues, which in turn are difficult to predict for the next few years.

Even if regulatory changes were to allow Family Office structures to evolve more easily, it is expected that the emergence of a domestic Family Office market would take

longer than up to 2015. Offshore wealth management solutions will therefore remain the dominant business model at least in the medium term. In addition to Hong Kong and Singapore, Indian families are also likely to allocate their wealth to Dubai as a third potential offshore center on the basis of proximity.

5.4. Expected Growth Model: Asian Single Family Offices in 2015

In addition to the qualitative assessment of the Asian Family Office Market in 2015, we will attempt to quantitatively estimate the future development of the Asian Family Office market. As a starting point, we will apply our expert panel's estimated figures regarding the current number of existing SFOs in Asia to our model. The documented expectations vary on average between 19 (minimum) and 53 (maximum), with 36 being an average expectation level for SFOs in Asia. Of course, we know that these figures are only vague expectations biased by our reliance on well-structured and formalized SFOs for their definition. However, these figures are the best estimation available for coming close to the effective number of existent SFOs in Asia.

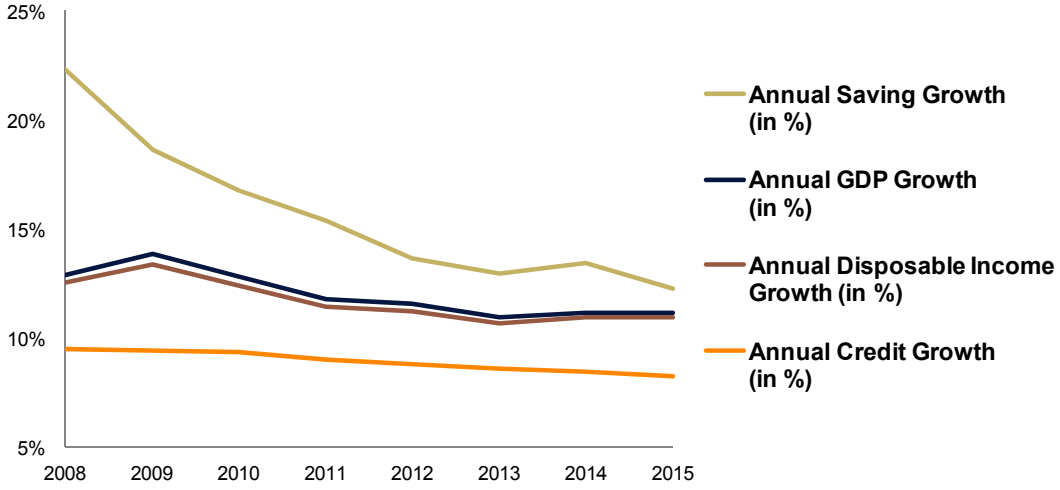

Figure 33: Macroeconomic forecasts: 2008 to 2015 (Source: Euromoney, PWC)

Based on this range of current expectations, we now turn our attention to the growth perspectives of selected macroeconomic variables on an annual basis: GDP, credit facilities, disposable income and domestic savings. Based on the corresponding figures for China, South Korea, Taiwan, Hong Kong, Vietnam, the Philippines, Thailand, Malaysia, Singapore and Indonesia, we have calculated the average forecasts of these variables for the years 2008 to 2015 (cp. Figure 33).

In a second step, we have assumed that these macroeconomic variables are reliable impact factors for describing the future development of SFOs in Asia. Thus, our assumption is that GDP, credit facilities, disposal income as well as annual savings are fairly good measures for estimating the future number of existent Single Family Offices in Asia.

We then computed the average annual growth of these four impact factors and applied the ratio obtained to our scenario analysis as the growth factor for SFOs in Asia. Rely-

ing on the expert panel's expectations (minimum, average and maximum), we have been able to calculate three different baseline scenarios (cp. Figure 34).

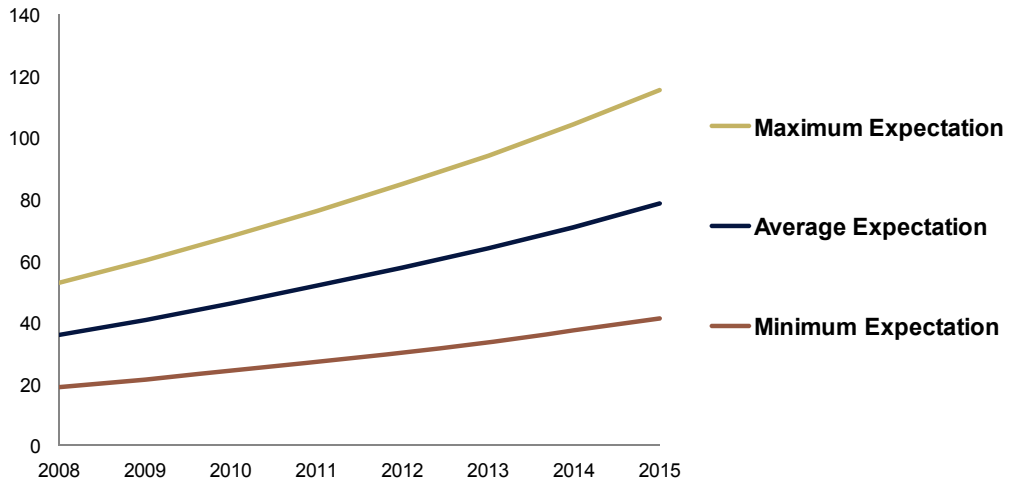

Figure 34: Scenario analysis of Asian Single Family Offices in 2015

On the basis of our quantitative analysis, these three scenarios put the expected number of SFOs in Asia in 2015 at a range between 40 and 115. Or, in other words, in the next seven years 20 to 60 new Single Family Offices will be set up in Asia, which is equivalent to a growth of more than 200% over the next seven years.

6. Conclusion

6.1. VP Bank's Offering in Asia

Relying on the expert panel's assessments as well as on our own resources, we have provided our perception of the current and future Asian market for Family Office solutions. Our analysis centers on the idea of a hybrid model approach as well as on specific regional patterns. In contrast to the established market for Family Office solutions in Europe or the U.S., the existent Asian network structures are less formalized and thus more open to ongoing market dynamics. In this chapter, we will briefly present potential offerings and business concepts for VP Bank's entry into the Asian market for Family Offices.

Finance seminars specifically customized for female family members

The education of family members is becoming increasingly important. Especially with the second or third generation taking over, the families' patriarchs are placing emphasis on education in the field of finance and asset management. Rival private banks have already picked up on this trend and are offering custom-made programs to the young descendants of wealthy Asian families. For VP Bank, a promising niche might be developed by offering high-scale seminars specifically tailored for female family members. This segment is not especially addressed by firms in the market, as the family business in this constellation is ruled by the male family members. A finance seminar specifically tailored to women would place VP Bank in a good position to build up relationships with future managers of Family Office solutions as well as their families. Ideally, such a seminar would also be hosted in Switzerland, bringing the exclusivity of a Swiss private bank nearer to the seminar's participants. In order to set up the seminar structure, VP Bank could possibly team up with a renowned academic institution to guarantee an attractive curriculum.

Cooperation with EAMs

In the course of our market analysis, we have identified EAMs as important network players within the hybrid model of Asian Family Offices. However, EAMs by definition lack the resource depth to offer a broad range of services. Thus, a potential strategy for VP Bank to further improve its position in Asia is to build up a network of partnership EAMs. In more detail, VP Bank would provide the EAMs with a trading platform and other transaction- or content-orientated services. In comparison with its competitors, VP Bank has to leverage on its rather small size, from which it benefits in terms of flexibility. This flexibility could be used to tailor specific offerings for the individual EAM. As it is also difficult for the EAMs to hire qualified employees, VP Bank could, in addition to the trading platform, offer the EAMs additional back-office functions which might even be carried out in Europe (e.g. 24 hours of trading availability).

Since VP Bank is not the first banking institution to identify EAMs as interesting network partners, it will be rather difficult to negotiate exclusive partnerships with EAMs. However, with the possibility of an attractive fee structure in place, it is still worthwhile trying to collaborate with EAMs. As we will see, it might also be a successful approach to focus not only on existing EAMs but to put more weight on recently founded ones and to offer assistance in the foundation process.

VP Bank: home port for advisors and former private bankers

Currently a lot of new investment and consultant companies are being established by former private bankers or independent advisors. The foremost assets of these start-ups are the valuable client relationships of their founders. However, these new market players lack a deep infrastructure, beginning with office premises. At this point, VP Bank can step in and provide the start-ups with the complete range of business infrastructure, not limited just to a pure trading platform. In exchange, these start-ups would be obliged to handle their trading activities primarily with VP Bank. Thus, VP Bank in Singapore would be able to leverage this exclusive relationship while the former private bankers and advisors would still be able to enjoy their independence to some degree.

This business idea replicates a concept that has already been successfully launched in other financial centers (e.g. New York), not in the field of private banking but within the hedge fund industry. During the hedge fund boom at the turn of the millennium, banks offered the newly emerging hedge funds – interestingly also founded by former bankers – the entire infrastructure, including offices, secretaries, etc. In exchange, the banks were able to absorb large parts of the hedge fund trading activities. In the case of VP Bank in Singapore, the hedge funds have simply been replaced by the recently founded investment boutiques, which in turn are serving wealthy Asian families. This business strategy has helped VP Bank to overcome one of its major challenges within the Asian market for Family Offices: trusted relationship with major families. Providing the recently founded start-ups with a kind of home base could bridge the present lack of existent relationships with wealthy Asian families. However, as VP Bank has to set up the relevant infrastructure itself, this strategy might be quite capital-intensive.

Targeting wealthy families in second-tier mainland Chinese cities

The interviewed experts repeatedly mentioned the Chinese mainland as being the home of numerous wealthy families and specifically assigned to this market a bright future with high growth rates. In addition, we also learned from our interview partners that a lot of Chinese families are more comfortable with allocating their wealth to Singapore rather than to Hong Kong (due to political reasons). Thus, VP Bank should also focus on mainland China. Due to business activities both in Hong Kong and Singapore, VP Bank should join forces with both units in order to successfully acquire new business in this market. The banking unit in Singapore in particular can be used as a booking center to overcome the fears of wealthy Asian families about the proximity of Hong Kong to China. Of course, internally VP Bank has to take care of properly arranging the

competence between the two branches with respect to the management of the individual client relationship.

Having defined the internal structures of VP Bank, it is worth taking a closer look at the mainland Chinese markets for Family Offices. This market is doubtlessly at a very early stage, if it yet exists at all. Existent Family Office solutions are best considered to be very hybrid ones, established either in Hong Kong or Singapore as offshore structures. As already outlined, in most cases the wealthy Chinese mainland families are still in the phase of wealth accumulation. Not only are they ruled by the first generation, but the patriarchs are in their fifties rather than their eighties.

Both global and private banks so far are primarily focused on acquiring clients in the tier-one cities like Shanghai, Peking or Shenzhen. Besides these major cities, China offers a number of other second-tier cities with inhabitants in the millions and significant entrepreneurial activity going on. Like their peers in Shanghai or Shenzhen, these entrepreneurs could also amass significant wealth over the last few years. Often the wealthy families in the second-tier cities are not even familiar with the concept of private banking and certainly not with Family Offices.

However, these second-tier cities like Taiyuan in Shanxi Province have not yet been targeted by VP Bank's international competitors, leaving a lot of opportunity for VP Bank to set up relationships with wealthy families. Certainly, this will change in the future and competing private banks will acknowledge the potential of these second-tier cities. Up to now, these cities have been served by domestic competitors with rather limited experience in the field of service provision to Family Office structures.

Independence in Multi-family Offices structures through equity participation on the client's side

One of the major constraints on the side of wealthy Asian families with respect to the set-up of a Family Office is the lack of trust and of information consolidation. In the structure of MFOs in particular, these issues are rather difficult to avoid, since the wealth of multiple families is allocated under one roof (in this case under the discretion of VP Bank). The different families do not know each other or, even worse, are competing in their core business activities. Another issue in this context is the independence of the MFO. As a division of VP Bank it is rather difficult to persuade the clients that the subsidiary "Multi-family Office" is acting independently from the other banking activities. One potential way to overcome these concerns would be to open the platform "VP Bank Multi-family Office" with other external partners and grant some part of the equity to the wealthy families. Equity participation would be structured as follows: in the structure of a "VP Bank Multi-family Office," each wealthy family would have its own legally independent subunit with all of the subunits allocated under the umbrella of "VP Bank Multi-family Office," which in turn would be owned 100% by VP Bank. Equity participation of the wealthy families would be restricted to the subunits. Besides VP Bank, each family would gain an equity share of its own Family Office. Equity participation would meet the families' affinity for entrepreneurial involvement. The difference from an SFO

is that VP Bank would be able to combine the advantages of an MFO regarding scale and size issues (e.g. consolidating back-office activities) with the advantages of an SFO (e.g. independence). However, a real commitment to independence implies that VP Bank needs to open its MFO structure to external partners. Due to the complexity and broad range of services demanded, VP Bank would in any case have to open its MFO structure to external parties in order to serve all of its clients' needs in the very best way possible. Thus, opening up the MFO model to third parties – if carefully selected – should be viewed as an opportunity rather than as a threat.

Offering loans to family business as door opener

The biggest issue for VP Bank in Asia is to make contact with wealthy families in order to build up the necessary relationship basis. Particularly wealthy Asian families act secretly, and it is rather difficult to be introduced to the patriarch without a known reference. However, we have seen that for most families, core business activities are still the most important source of wealth, absorbing the attention of senior family members. Thus, family business could be a potential channel to attracting the patriarch's attention. VP Bank could extend its lending business in Asia, giving loans to core business activities of wealthy families. This would lay the ground for cross-selling opportunities to set up Family Office structures in the future.

Unique products offered by VP Bank: fixed income and private equity

Another way for VP Bank to distinguish itself from its competitors could be achieved through the offering of unique product solutions. Throughout the discussions with leading Family Office professionals, we repeatedly found that wealthy Asian families are specifically attracted by private–equity-related investments. Our interview partners explained this preference in terms of the significant family business activities. It seems as if the families' patriarchs are keen on private equity investments, since they believe they understand the investment rationale behind the transactions. Their confidence goes along with their own roles as entrepreneurs in the family business. Offering private equity investments could thus put VP Bank in an interesting position to establish relationships with leading families. Asian private equity investments in particular are rare nowadays, but in turn they are in high demand on the investor's side. Therefore, if VP Bank were able to include exclusive private equity investments in their product offerings, it might allow the bank to distinguish itself from its competitors.

In contrast to VP Bank's European clients, wealthy Asian families are not only highly interested in active involvement with making investment decisions but also have a certain level of affinity to different product solutions. Thus, banks are perceived by their clients through the offered products, which are in turn assessed in terms of price and innovation factors. For wealthy Asian clients, equity-linked products in particular are of great interest. The primary reason why Asian investors favor equity-related over fixed-income products lies in a higher risk return profile. However, recent drawbacks on equity markets and widening spread levels in credit markets might lead to an increased demand for fixed-income products over the next few years. This development may ad-

ditionally be fostered by recent investments made by private equity funds in secondary debt instruments. As wealthy Asian clients are particularly fond of private equity investments, they might be willing to replicate their investment approach but aimed at fixed-income-related opportunities.

6.2. Outlook

The Asian Family Office market is driven by a broad range of determinants and dynamics. Therefore it is a challenge to assess its future as well as to give advice on how to gain a foothold in the market. Our hybrid Family Office network model should thus be perceived as an auxiliary tool for understanding the current combinations of players that form something like a Family Office structure. As for the future business model, we depicted possible evolutions, ranging from current Asian Family Office characteristics towards more formalized Family Office structures. However, this development might lead to other solutions than the ones we have described. We therefore suggest that the Asian market for Family Offices should be continuously monitored in order to assess and understand the dynamics that drive the evolution so as to be in the right position to exploit the opportunities in this thriving market.

This leads to the final conclusion that a private bank like VP Bank should not focus on rigid Family Office concepts, as Asian Family Offices might emerge in different shapes and configurations. Nevertheless, it is clear that, independent of a specific concept, a Family Office will always need some sort of banking relationships if only in terms of global custody or account management services. If the bank is able to identify the fact that the client is structured as a Family Office, this might provide an opportunity to widen and deepen the relationship. In addition, the bank always has to be as flexible as possible in order to be successful in the Asian Family Office market.

Overall, we perceive a focus on EAMs as one of the most promising and least capital-intensive strategies for gaining a foothold in this market, especially as it is estimated that a lot of new EAMs will emerge in the Asian market in the coming years, mainly due to the fact that Asian relationship managers who are currently working for a bank are keen to go into business for themselves. However, it has to be noted that a successful entry into the Family Office business is highly dependent on relationships and trust, although both of these factors can only be achieved over a long period of time. The Family Office business should therefore only be considered as an additional and very specific sector with some characteristics of both institutional and private clients.

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