FINDING THE BALANCE

Navigating the evolving landscape of family offices and private wealth management

Global Business Complexity Index 2024 – sub-report | Private wealth and family offices

TMF GROUP

Foreword

The family office and private wealth sector is an increasingly complex and dynamic environment, as the interplay of geopolitical events, regulatory shifts and evolving client expectations continues to significantly influence the way wealth is managed, protected and transferred. While there are some signs that broader risk aversion is subsiding, the global environment remains uncertain, exacerbated by continued conflict and elections in over two dozen countries in 2024 - including the upcoming United States presidential election in November.

As investors continue to seek a balance between safety and growth, professionals supporting wealthy families must adapt to these shifting conditions. Despite a market upswing, challenges such as macroeconomic instability, regulatory changes and rising operating costs persist. Additionally, the expectations of the next generation of investors and the increasing presence of artificial intelligence (AI) are also transforming how wealth is managed.

Cutting through the noise of these turbulent times is the latest edition of TMF Group's Global Business Complexity Index (GBCI), an annual report that offers a comprehensive overview of the challenges of establishing and operating businesses worldwide.

Based on 292 business indicators, the GBCI provides an in-depth analysis of the global and local complexities that impact the ease of doing business. These data points compile a global ranking of 79 jurisdictions. And as part of its analysis and corresponding survey, the annual report includes comprehensive questions directed at leading family offices and private wealth professionals in various jurisdictions, including Singapore, Brazil, Switzerland, the United States, the United Kingdom, the United Arab Emirates (UAE) and Hong Kong, SAR. This year's report found that geopolitical upheaval, inflation and the slower-than-expected normalisation of global interest rates have added to the layers of complexity facing wealthy families. Additionally, Environmental, social and governance (ESG) factors have also become more prominent, partly as a consequence of the global pandemic, as families and businesses reassess their commitments and level of direct involvement.

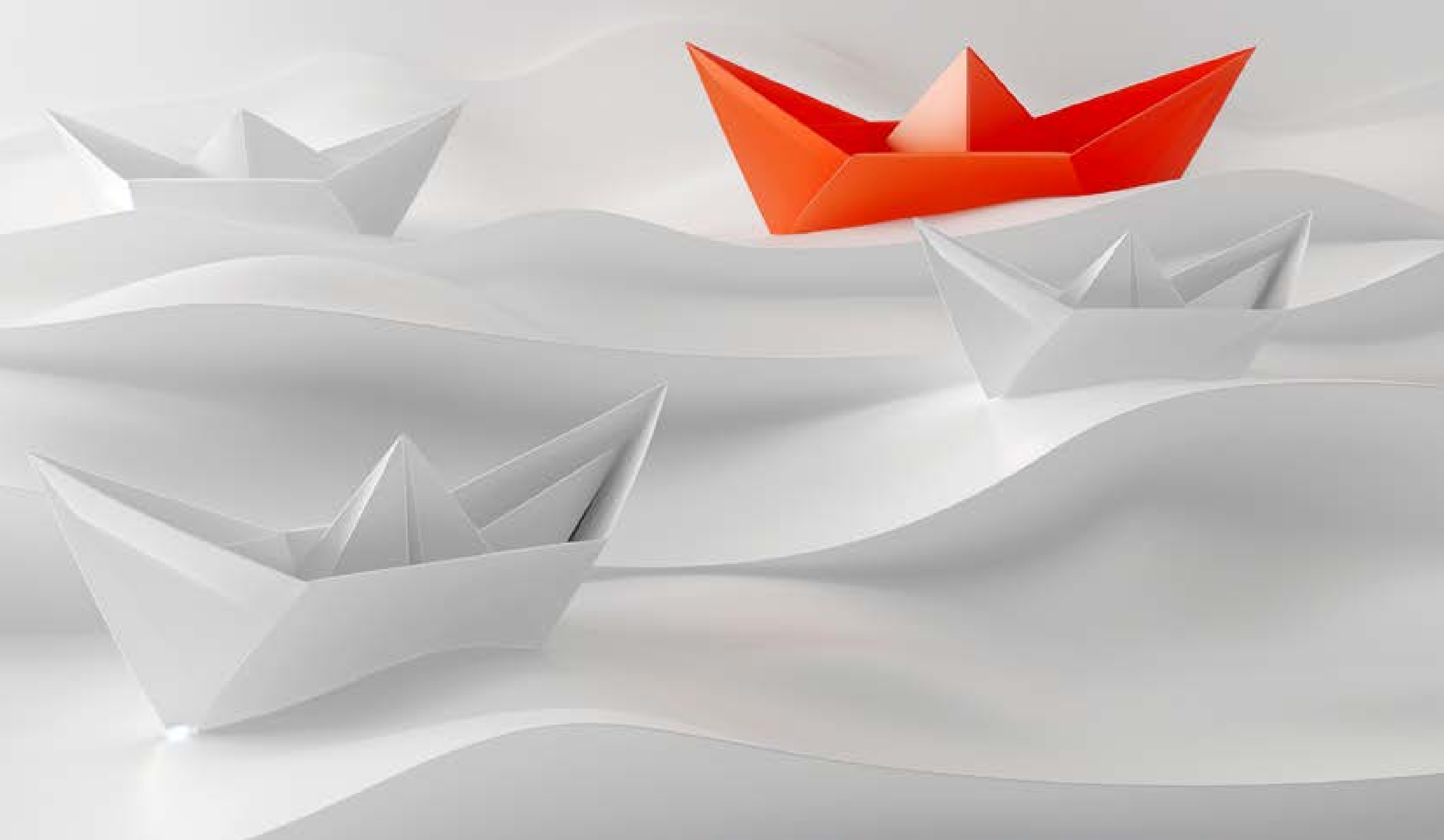
This sub-report dives into these factors in more detail, grouping them together as three key trends, highlighting the need for industry professionals to understand and adapt to this complex and changing environment.

Tim Houghton,

Global Head, Private Wealth and Family Offices,

TMF Group

Navigating geopolitical, regulatory and legislative challenges



Geopolitics

One of the most significant challenges for wealthy families today is navigating the geopolitical environment. Global tensions such as the conflicts in the Middle East, Ukraine-Russia, and the escalating tensions between Mainland China and the US, create uncertainty. Clients are increasingly concerned about how existing and potential events may impact wealth management plans, prompting a shift towards wealth protection and succession planning, with the aim of ensuring strategies that are robust enough to withstand global disruptions.

The complexity inherent in the current geopolitical environment necessitates continuous reassessment of wealth management plans. Geopolitical volatility serves as both a catalyst for proactive planning and a source of anxiety, driving clients to scrutinise the resilience and flexibility of their wealth management structures.

A notable example is the evolving strategies of wealthy families with international footprints. Historically, ultra-high-net-worth clients in Asia and Latin American established Special Purpose Vehicles (SPVs), in a wide number of countries and across multiple service providers to manage their assets. Geopolitical instability, along with inflating costs has made this fragmented approach less viable. "Clients are looking at consolidating their operations under a single umbrella to streamline management, reduce costs and mitigate the risks associated with these geopolitical upheavals, ensuring consistent service quality across multiple jurisdictions," says Tim Houghton, TMF's Global Head of Private Wealth and Family Offices. When considering a consolidation exercise, families continue to balance the reputation and quality of the jurisdiction, alongside the complexity, cost and ease of doing business. Each family is different and there remain multiple options for them whatever their primary considerations might be.

Regulations

Despite the challenges posed by geopolitical tensions on multi-jurisdictional operations, the past year has had an inverse impact on regulation. Wealthy clients are increasingly accepting of the regulatory environment in which they operate. Historically, differences in regulatory requirements influenced decisions on where assets are managed. However, the global regulatory landscape is becoming more standardised, leading to fewer decisions based solely on regulatory variations across jurisdictions.

The OECD's (Organisation for Economic Co-operation and Development) implementation of the Common Reporting Standard (CRS) underscores this trend. This global standard for the automatic exchange of financial account information between jurisdictions has required greater transparency and compliance from wealthy families. Overall, family offices are adapting by strengthening their compliance frameworks to meet these more stringent requirements, particularly those operating in several jurisdictions, to safeguard against violating international regulations.

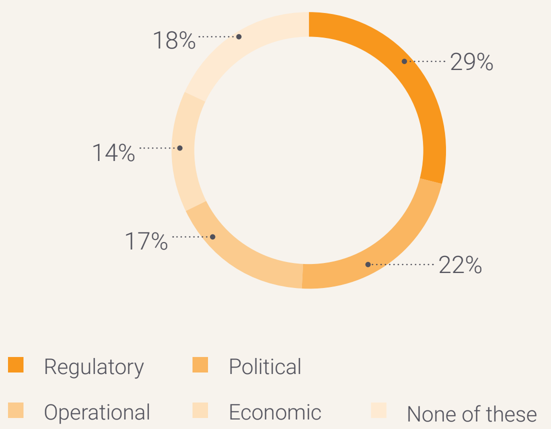
Legislation

Adapting to legislative changes is another significant trend impacting wealthy families as they navigate various geographies. Changes in legislation, including those related to data privacy, environmental standards, reporting and labour laws, will continue to impact business operations across jurisdictions.

For example, implementing changes regarding registers of beneficial ownership has been challenging in some jurisdictions due to privacy concerns. A recent ruling in the European Court highlighted the conflict between open registers of beneficial ownership and the individual's privacy rights under the European Union charter. This has led some jurisdictions to reevaluate their positions, casting doubt on the universal adoption of fully open registers.

This highlights the need for continued adaptability in compliance and operational capabilities. As laws evolve, clients and their advisors must remain diligent and flexible, ensuring their strategies and structures can withstand the complexities of this changing legislative landscape, especially given the new administrations that have won elections in Europe, Africa and Asia.

Risk factors considered the most challenging for organisations



Simplifying complexity

Established jurisdictions

Investors have endured a turbulent landscape across the last 12 months and, while risk aversion is subsiding, the global environment remains uncertain, compounded by upcoming elections in many countries in 2024. These have already given unexpected results, not least in France, India, South Africa and the EU. This uncertainty is leading clients to simplify their wealth management structures. Simplifying these structures, driven by the post-pandemic flight to quality and the current geopolitical climate, helps clients manage their wealth more efficiently and reduces the complexity that can arise from operating in multiple jurisdictions with varied service providers.

One of the key trends observed in the family office and private wealth sector is the shift towards more established jurisdictions, such as the Channel Islands, the Cayman Islands, Switzerland and Singapore. These locations are favoured for their long-term stability, expertise and well-established legal frameworks. Conversely, some less established jurisdictions have experienced a decline in popularity due to the perception of simple "off the shelf" products and services, created for privacy and tax benefits alone, that face greater scrutiny from regulators and international organisations such as the OECD. "As tax benefits become less of a driving factor, clients are increasingly considering onshore options, focusing instead on accessing expertise and ensuring long-term sustainability," says Houghton. This trend emphasises the growing importance of reputation, compliance, and governance in wealth management structures.

Ten least complex jurisdictions to do business (GBCI 2024)

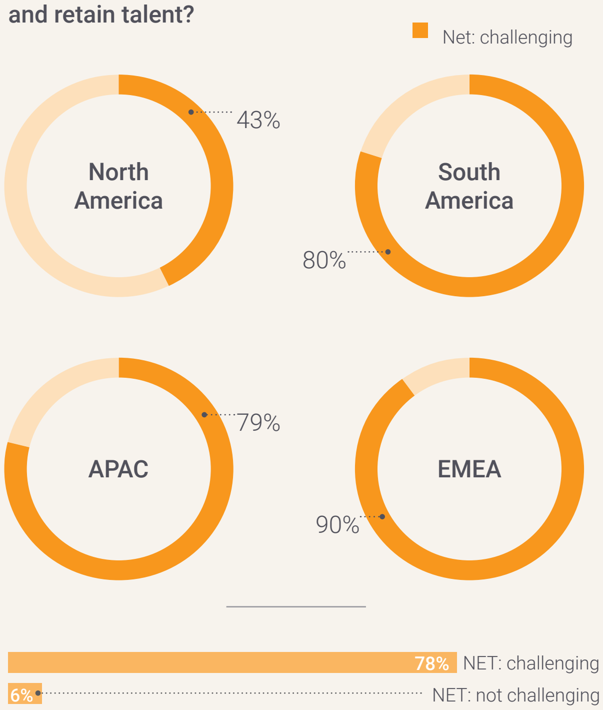
Jurisdiction		2024 ranking
Jamaica	↓	70
British Virgin Islands	↑	71
Jersey	↓	72
United Kingdom	↓	73
The Netherlands	↑	74
New Zealand	↓	75
Hong Kong, SAR	↓	76
Denmark	–	77
Curacao	↓	78
Cayman Islands	↓	79

Talent

Retaining and attracting talent has also emerged as another significant challenge for family offices and the private wealth management industry in general, driven by higher salary expectations and the need for competitive benefits packages. This challenge varies by region: in Brazil, labour market conditions and union strength differ significantly across regions, while in the UK and Ireland, legislative changes have added complexity to human resources and payroll management. The competitive landscape for talent in the family office and wealth management sector requires firms to adopt innovative approaches to attract and retain top talent, such as offering flexible working arrangements, professional development opportunities, and aligning compensation packages with market trends.

Understanding the regional labour market and cultural nuances is crucial for effective talent management. The UAE, for instance, is making significant strides in legislative reforms to attract talent and position itself as a premium jurisdiction for wealth management. Recent changes in the UAE's legislation, offering more flexibility in the way that companies structure end-of-service gratuity for employees, demonstrates its forward-thinking approach and commitment to creating a favourable business environment.

How challenging is it for organisations to attract and retain talent?



Artificial intelligence (AI)

The integration of artificial intelligence is transforming the wealth management industry, contributing significantly to the simplication of processes. AI tools are enhancing client relationship management by creating comprehensive client profiles and leveraging behavioural finance techniques. This technology enables hyper-personalisation, tailoring services to clients' unique needs and life events. By automating routine tasks and providing data-driven insights, AI reduces the administrative burden on family offices and private wealth managers, allowing them to focus on strategic decision-making and client engagement. Consequently, wealth management firms can achieve greater efficiency and consistency in service delivery, further simplifying the management of complex wealth structures.

The next generation

Wealth transfer and responsible investment

There is no doubt that the upcoming intergenerational wealth transfer is also driving significant transformations in the landscape of wealth management and family offices. This wealth transfer is set to be the largest in history, with estimates suggesting that approximately US$83 trillion will be transferred between generations over the next 25 years[1]. This new generation of wealthy individuals is also different from previous generations – more committed to ESG issues, increasingly embracing digitalisation for efficiency, while leveraging technology and outsourcing as crucial tools for risk mitigation. This shift is reshaping the priorities and practices within the family offices and private wealth management sector, reflecting a more holistic and forward-thinking approach.

The next generation places a strong emphasis on environmental and ESG issues, prioritising ethical investing and responsible business practices. "Unlike previous generations, who may have focused primarily on financial returns, today's young, wealthy individuals seek to ensure their investments align with their values," says Houghton. "They are willing to pay higher fees and taxes if they support ethical and sustainable initiatives, reflecting a profound shift in priorities. Active involvement in philanthropy and impact investing is a hallmark of this new approach."

Rather than merely donating money, it is evident that the next generation is keen to engage directly in philanthropic activities, ensuring their contributions have a meaningful impact. The market for ESG assets is expected to grow rapidly[2]. The next generation is looking at ways to invest in businesses with strong environmental values and a reduced environmental footprint, demonstrating that impact investing can yield comparable, if not enhanced, financial returns. "The new generation is also demanding greater transparency, accountability and ethical practices, using their influence to advocate for sustainable supply chains, fair labour practices and environmentally responsible operations," says Houghton. This commitment to sustainability and ethical governance is driving the growth of donor-advised funds (DAFs)[3], which provide a flexible and efficient way to manage charitable contributions while allowing donors to stay involved in decision-making processes.

1 https://www.bloomberg.com/news/articles/2024-07-10/ubs-sees-83-trillion-wealth-transfer-over-next-three-decades?embedded-checkout=true

2 https://www.bloomberg.com/professional/insights/sustainable-finance/esg-aum-set-to-top-40-trillion-by-2030-anchor-capital-markets/

Digital

Digitalisation is revolutionising the operations and reporting mechanisms in wealth management, particularly in offshore jurisdictions where face-to-face meetings are rare. Centralising digital platforms simplifies client onboarding and management, reducing risks and enhancing operational efficiency. Electronic ID and verification processes are becoming more prevalent, with smaller jurisdictions such as Estonia leading the way in adopting fully digital systems. This digital transformation is prevalent in jurisdictions where there is less frequent in-person interaction with clients, enabling them to maintain high service standards remotely.

Digitalisation not only simplifies processes but also helps manage the risks associated with client interactions and compliance. By embracing digital tools, wealth management firms and family offices can provide better services and meet the growing demand for transparency and accountability.

Outsourcing

Outsourcing compliance-related functions has become a common strategy for mitigating risks in the sector. Family offices particularly rely on service providers to ensure compliance with legislative requirements and regulatory reporting. Advanced technology solutions, including portals and other digital tools, play a crucial role in this context by providing secure and efficient access to information, further mitigating risks and streamlining processes. This approach not only enhances compliance but also ensures that clients' risk management needs are effectively met through efficient processes.

3 https://www.nptrust.org/reports/daf-report/

Conclusion

On the whole, our team's interactions with clients validate the findings of the latest GBCI - namely, that geopolitics is the most pressing concern for many global businesses and wealthy families. The importance of a stable environment for effective wealth management and the impact that potential geopolitical conflicts and new administrations are having on this stability, is the main driver for change.

A secondary consideration is that strong regulatory and legislative environments are an important factor when choosing a jurisdiction, underscoring the need for clear, stable legal frameworks and knowledgeable advisors. Indeed, when wealthy individuals are choosing where to live, where their family should live, and where they want to hold their assets, the geopolitical stability factor outweighs other considerations, such as the overall effective tax rate or which jurisdictions are the least complex.

Furthermore, wealthy families, particularly the next generation, are adopting a more involved and tactile approach to environmental, social and corporate governance. This shift is driven by a growing recognition of the interconnectedness between sustainable practices and long-term financial performance. These families are not just passively investing but are actively engaging with the causes they support. This proactive stance reflects a continuing broader trend towards responsible investing, where the next generation of wealthy families see their financial decisions as a means to drive meaningful change in the world.

As the landscape evolves, family offices and the private wealth industry must continue to adapt to these new priorities and leverage technological advancements to meet the demands of the next generation. By doing so, they can ensure the long-term stability and growth of their clients' wealth while making a positive impact on society and the environment.

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