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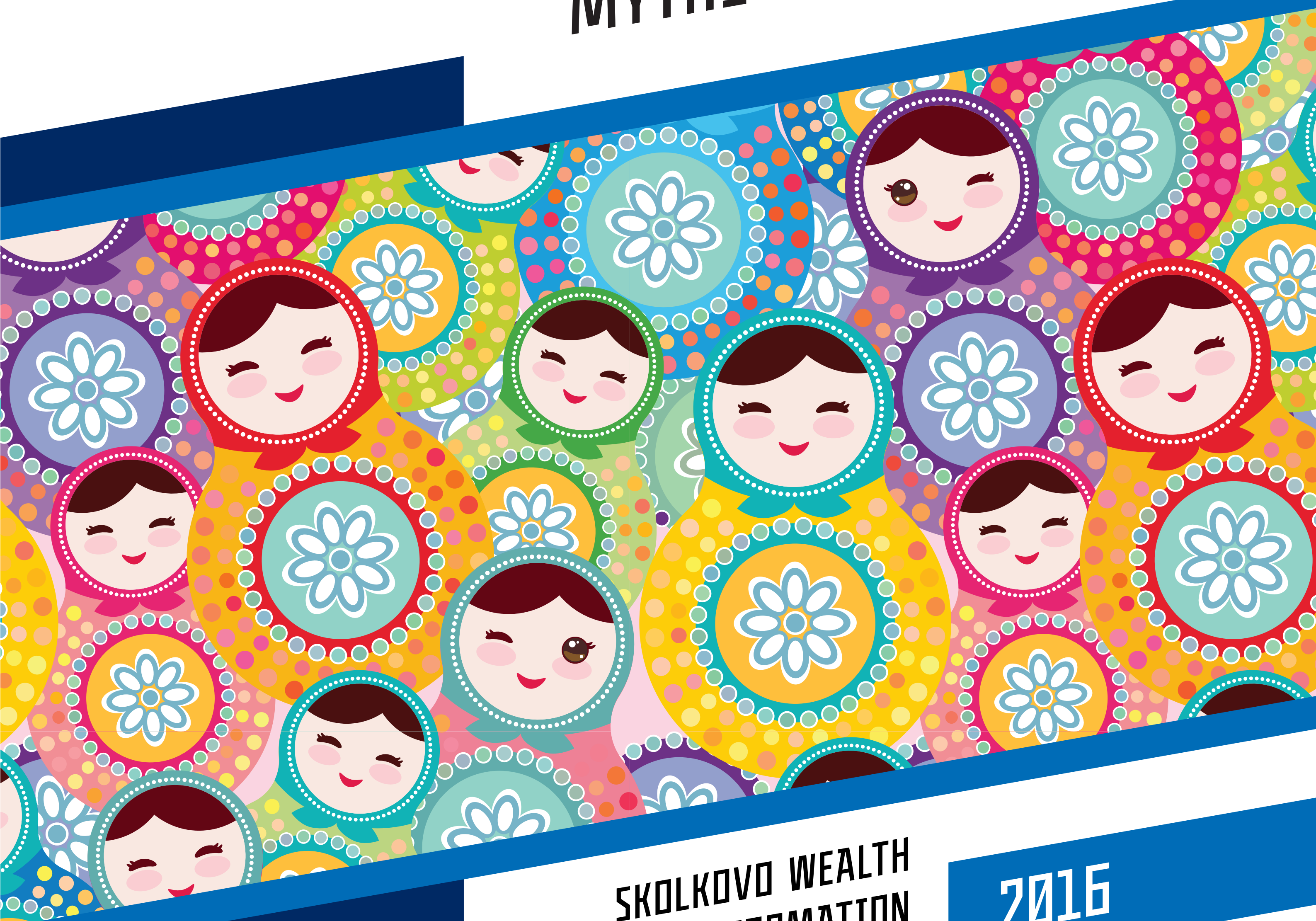
FAMILY OFFICES IN RUSSIA:
MYTHS AND FACTS



SKOLKOVO WEALTH TRANSFORMATION CENTRE

2016

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«We are accepting the responsibility of pioneers: we are to analyse the global best practices in wealth management, succession and philanthropy, and propose workable solutions for Russia. It is for the first time in nearly 100 years, since 1917, that the topic of wealth transfer is becoming relevant for Russia, not only from the perspective of what goes to whom, but also from the perspective of how civilized and professional such a transfer will be».

Ruben Vardanyan
Entrepreneur and philanthropist

ACKNOWLEDGEMENTS

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**Managers of
Single Family Offices**

INTRODUCTION

Russian private wealth has dramatically increased in the quarter of a century since the restoration of private property rights in Russia[1].

Although there is no precise data on the size of the Russian private wealth, various sources estimate its total to be somewhere between US$ 1 and 2 trillion, that is, an amount comparable to the Russian GDP.

The needs of Russia's wealth possessors also evolve and become more and more complex as the size of private wealth grows.

These needs are related not only to the owner's personal interests, but also to those of his/her family, since family values are of key importance to Russia's wealth possessors[2].

Over time the interests of Russia's wealth possessors extend beyond the traditional issues of governance, capital growth and personal consumption—they develop a desire to contribute to the transformation of the society they live in. This results in the growth of philanthropic activity and increasing demands for the quality service in this field.

Succession issues are also becoming more and more relevant. The next generation is getting ready to take over the businesses and the financial wealth created by their fathers. This preparation takes various shapes and forms and goes beyond the purely legal aspects of succession, especially since many Russian entrepreneurs do not intend to build traditional multi-generational family businesses.

Business management, wealth structuring, acquisition of real estate, investment, succession planning and inheritance issues, confidentiality

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[1] Law of the USSR of March 6, 1990 On Property in the USSR, Law of the RSFSR of December 24, 1990 *On Property in the RSFSR;* some researchers believe that the history of private ownership began with Law of the USSR of May 26, 1988 *On Cooperation in the USSR.*

[2] SKOLKOVO Wealth Transformation Centre, 2015. Russia's Wealth Possessors Study 2015

of information, philanthropic projects, meeting the needs of the family, and providing proper education for the children are but a few of the issues and needs faced by people with substantial wealth.

Globally, one of the key instruments to help service the interests and needs of wealth possessors and their families is the so-called family office.

In recent years, the term has been extensively used in the Russian market also. However, so far there is no clear understanding of what exactly family offices are, and what services they provide.

We have, thus, dedicated our 2015–2016 study to this phenomenon.

This study is the first serious attempt to understand this issue from a scientific standpoint, using Russian data. Although there have been several attempts to approach this issue in the Russian market (for example, to rank family offices in one way or another), they have often been made from the client perspective, and the methodology used leaves much to be desired.

In this study, we will try to address the following questions:

- What is a family office in the Russian context, and how does Russian practice differ from the international practice of family offices?
- What are the main objectives that Russia's wealth possessors expect family offices to meet?
- What kinds of services family offices provide to meet these objectives?
- How involved are the family offices in serving the interests of future generations and in addressing succession issues?

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[3] The general reader's understanding of the term "family offices" can be illustrated by the following example: hearing about this research into Russian family offices, a friend of one of the researchers said, "A family office means working from home, doesn't it?"

- What are the inner workings of Russian family offices, starting from the jurisdiction of presence to the specifics of how they communicate with the Russia’s wealth possessors?

To answer these questions, we have surveyed 48 experts[4] from various organisations that call themselves family offices, and from the wealth management and private banking departments of domestic and global banks working with Russian clients.

In addition to the survey, we have also conducted a series of in-depth interviews. In the study, we have touched upon all the segments of the Russian market: from family offices that work exclusively with only one family, to commercial family offices serving a large number of independent clients.

We believe that the study provides a fairly comprehensive and representative view of the trends in the Russian family office market, given that, as shown further, according to most market participants, the number of such organisations working in the Russian market with Russian clients is unlikely to exceed a few hundred, and the total number of Ultra High Net Worth individuals is estimated by different sources at only several thousand persons.

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[4] Our respondents included the owners and heads of Russian and foreign institutions which have served Russian owners of capital in the past two years. For the purposes of the study, a Russian wealth possessors (hereinafter—the wealth possessors) refers to a person who owns more than US$ 1 million of investable assets and meets at least one of the following criteria:

1. their wealth originated in Russia in the past 25 years;

2. their key assets are located in Russia; and/or;

3. their principal business activities are carried out in Russia.

To interpret the data, we have also used the results of our previous study of Russia's wealth possessors[5], as well as dozens of the world's key academic and practitioner works on this topic (for details and a brief review of the literature, see the annexes to the report). The authors would like to point out the recent UBS study[6], which allowed us to compare Russian and global data.

The findings of this study of family offices demonstrate that the reality is very different from widely spread ideas (myths) of what a Russian family office is. In We highlight some of these key differences that we have been able to identify throughout the report.

The study has also shown interesting details and facts about the inner workings of Russian family offices, which will undoubtedly help both the wealth possessors and those who service them to organise their work more effectively.

At the end of the report we formulate our vision of key trends in the market serving Russia's wealth possessors and provide guidance in this area for wealth possessors, family offices managers, and representatives of the financial industry.

You can find more information about the methodology of the study and the detailed data in the annexes to the report. ■

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[5] SKOLKOVO Wealth Transformation Centre, 2015. Russia's Wealth Possessors Study 2015.

[6] UBS, 2015. The Global Family Office Report 2015.

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What do clients think of family offices?
Are they really as unique as all wealth possessors are?

What is the actual place of concierge services among other services?

The section explains how family offices are organised and why they extend beyond purely financial and consumer interests of wealth possessors.

1.

MYTHS

MYTH 1:

A FAMILY OFFICE IS A SPECIAL-PURPOSE LEGAL ENTITY WITH A VERY CLEAR FUNCTIONALITY

The most common question those, who are faced with the task of organising a family office for the first time, ask is "What jurisdiction do you register a family office in, and what legal form is the proper one to choose?"

In other words, Russian clients tend to think that a family office is a special-purpose legal entity with a more or less clear and standard functionality, and there is a certain "optimal solution" for organising and structuring it.

It is interesting to note that in Western literature, including academic works (in spite of a much longer history of private property and of servicing private wealth), one still finds a myriad of different definitions and interpretations of what a family office is.

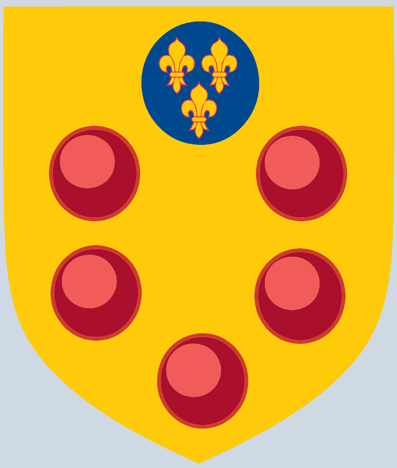
For example, according to one definition a family office is a private company that can take a variety of legal forms and be of different sizes, e.g. holding companies, management companies, or financial institutions (Coutts 2013; Hay & Muller 2013).

According to another view family offices should not be considered as specialised institutions or have a pre-set definition. Rather, they are structures, whose main function is to manage the finances of one or more well-off families (MacDonald 2014).

A family office Is not necessarily a formal and/or formalised institution.

HISTORICAL OVERVIEW

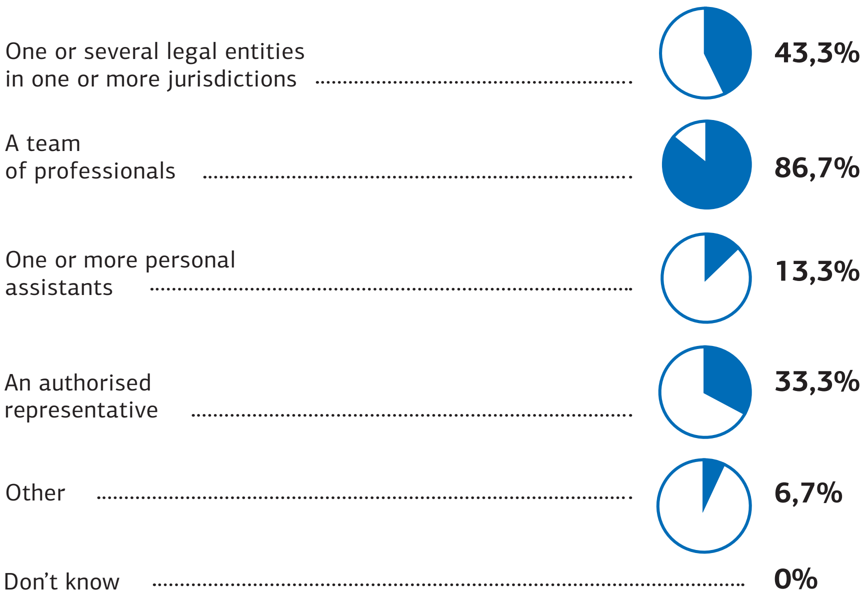
Family offices are believed to have emerged – by the end of the era of the Crusades in the XV–XVI centuries – as institutions designed to preserve and increase wealth. Their roots can be traced back to European private banks, founded by wealthy merchants more than 500 years ago. A vivid example of these is the Medici Bank in Tuscany. Some historians insist on connecting such structures to the Knights Templar, one of the first religious military orders of the XII–XIV centuries. The pedigree of family offices can be traced back to the Roman concept of major domes (a manager, or supervisor, of a large household) or the adapted medieval concept of major-domo (chief steward). In Europe, ownership of land was crucial to the preservation of family fortunes. Over time, however, as some of the wealth possessors were selling their assets, the need for financial asset management gave rise to family offices. In the United States, this concept was adapted by entrepreneurial families in the XIX century, at the height of the industrial revolution. Wealth management and the distribution of assets were delegated to hired management, while family members spent their time travelling or focused on managing the underlying businesses. The fortunes of many legendary families formed the basis of large US private investment firms or family offices. Over time, some of these family offices started taking on other customers, too, for example, the Bessemer Trust, which historically managed the assets of the Phipps family, opened its doors to other clients in 1974; the family office of the Rockefellers (Rockefeller & Co.) did so a few years later.



The Medici family's coat of arms

Picture 1.

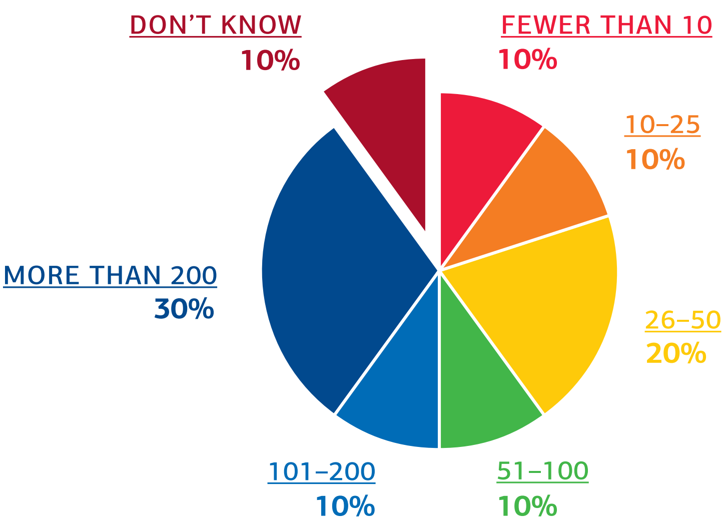
Which of the following, in your opinion, may be referred to as a family office?



Source: SKOLKOVO Wealth Transformation Centre

Picture 2.

In your estimation, the number of family offices in Russia is as follows:



Source: SKOLKOVO Wealth Transformation Centre

The essence of a family office is not limited to the performance of auxiliary/secretarial tasks and errands.

Other authors believe that a family office is an "umbrella" concept, which covers a variety of organisations and structures involved in serving the needs of family businesses. In addition, each wealthy family adapts the functionality and operations of such structures to their own goals and objectives taking into account the unique features, values and composition of each particular family (Fernández-Moya & Castro-Balaguer 2011).

What do the owners themselves and the heads and employees of Russian family offices think is the essence of such structures?

The overwhelming majority (87%) of our survey respondents believe that a family office is a team of professionals. This "team of professionals" can refer to any group of experts gathered to perform certain tasks.

At the same time, less than half of the respondents (43%) considered a family office to be "one or more legal entities in one or more jurisdictions". In other words, a family office is not necessarily a formal and/or formalised institution.

It is interesting to note that only 13% of the respondents believe that a family office is merely one or more personal assistants. The fact that this answer was given by a relatively small proportion of respondents may indirectly confirm that the essence of a family office is not limited to performance of auxiliary/secretarial tasks and errands. ■

MYTH 2:

EACH FAMILY OFFICE IS UNIQUE

Another common myth is that all family offices are absolutely unique, just like the wealth possessors whose interests these family offices serve. Our research shows that this is not the case. Despite the fact that the specific ways to execute the tasks faced by wealth possessors are unique, these tasks are similar in many respects and can be divided into distinct types.

Re-inventing the wheel is far from the best strategy.

Over

80%

of the family offices surveyed provide services in five areas:

1. Investment management;
2. Financial consulting;
3. Tax and legal consulting;
4. Inheritance and succession planning;
5. Tax and regulatory compliance and reporting.

In other words, when organising the work of a family office, one can and should focus on the common needs and best practices, although it is necessary to adjust them to the interests of a particular wealth possessor. "Re-inventing the wheel" is far from the best strategy.

In recent years, tax, legal and regulatory compliance has become the key issue due to the global move to increased tax transparency and to an automatic exchange of tax information. For example, during an interview with our researchers, one of the bankers admitted that in recent years at least of the time he spends with clients had been dedicated to discussing various details of new developments in this area from Russian CFC[5] to FATCA[6] and CRS[7]. ■

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[5] Russian legislation on controlled foreign companies.

[6] Foreign Account Tax Compliance Act—US legislation on the provision of automatic tax information about foreign bank accounts of US taxpayers.

[7] Common Reporting Standard—a standard for the automatic exchange of tax information, developed at the G20 initiative.

MYTH 3:

THE PRIMARY FUNCTION OF A FAMILY OFFICE IS TO PROVIDE CONCIERGE SERVICES TO WEALTH POSSESSORS AND THEIR FAMILIES

For many people the term "family office" is associated with a personal assistant who helps with organisation of everyday aspects of family life: personal chauffeurs for family members, vacation planning, organising education for the younger generation, etc.

The most popular and common family office services are asset and investment management, and tax/legal structuring and support.

In reality, concierge services for a wealth possessor and their family members represent only a small portion of the services provided by family offices.

The most popular and common services are asset and investment management, and tax/legal structuring and support.

The prior professional career paths of family office managers and executives indirectly confirm this conclusion: in most cases they are former asset managers, or private or investment bankers.

This trend is also evident globally. In other countries, however, it manifests itself rather as "going back to investment management roots": after a period of developing add-on and concierge services and using them as a differentiator or additional selling point, a signifi-

Picture 3.

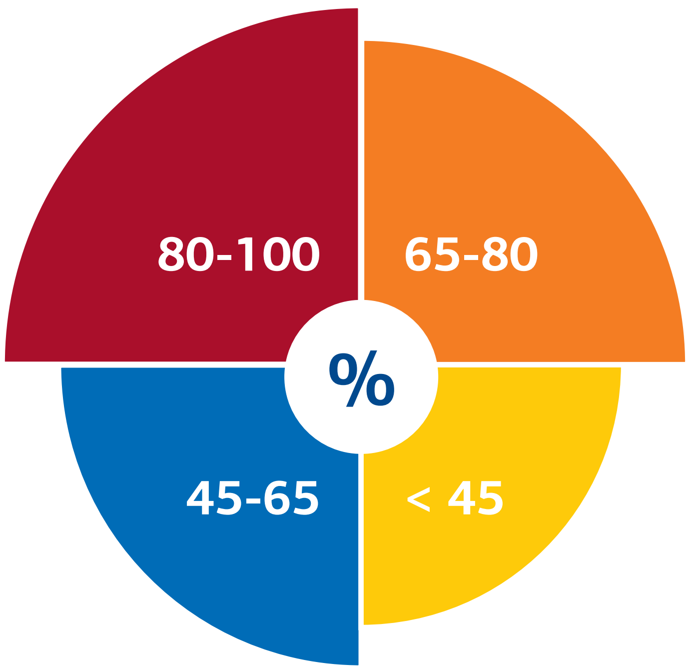
Family Office Services

- Investment management/ financial consulting
- Tax and legal consulting
- Compliance (tax and legal administration)
- Inheritance and succession planning

- Risk management and insurance
- Accounting and reporting
- Business consulting
- Venture capital investment
- Lifestyle
- Education for family members

VERY OFTEN

OFTEN



SPECIAL INTERESTS

- Charity and philantropy
- Budgeting
- Client business management

RARELY

- Communication and family governance

Source: SKOLKOVO Wealth Transformation Centre

As wealth gets transferred to the next generation the profile of Russian family office managers may change, which may trigger greater demand for managers with more diverse professional backgrounds.

cant number of Western family offices are now reducing the range and scope of internal expertise, focusing instead on the services they were actually established to provide in the first place—efficient asset and wealth management[8].

On the other hand, it is possible that as wealth gets transferred to the next generation the profile of Russian family office managers may change, which may trigger greater demand for managers with more diverse professional backgrounds.

For example, in other countries (where the core objective is to serve the next generations rather than the first one), managers from family businesses or industry (but not necessarily from the banking or financial sector) often become heads of family offices.

In addition, the typical profile of Russian family office managers can be influenced by the type of a family office: a commercial family office, i.e. serving the interests of several families, versus a single family office. In the first case, family offices provide mostly investment services, and in the latter case, business management services may be more important. The data that we obtained in the course of the study is not sufficient to give a definite answer to this question so far, and we will closely monitor future research in this area. ■

[8] This trend, for instance, can be observed in Amit et al. 2008, and Rosplock 2014.

EXPERT OPINION

Why and how HNWI are engaged in philanthropy? It is preferred experience in investment and financial sphere?

Julia Balandina,
Founder
and Managing Director
of JBJ consulting

Wealthy individuals, their family offices (FOs) and private foundations are among the most active participants in the field of impact investing. Experts agree that, in the aggregate, they represent a key source of patient, mission-aligned, and transformational capital for the market, which can facilitate participation of large-scale institutional investors and advance the development of impact investing as a whole. Wealth holders are uniquely positioned to help drive the development of the impact investing marketplace, for the following reasons:

- Financial capacity and influence;
- Control over decisions;
- Long-term approach and values;
- Flexibility;
- Strategic value.

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EXPERT OPINION

What kind of specialists, in your experience, are in demand as family offices leaders? Is it true that family offices prefer specialists from the investment and financial sectors? Do you see that potential job candidates are more interested in positions in family offices than in corporate careers?

Jan van Bueren,
Managing Director,
Head of Wealth Planning
Department at FOSS
Family Office Services
Switzerland – Union
Bancaire Privée, UBP SA,
Zurich

In emerging markets, specialists in the field of finance are in the highest demand for both single family offices (SFO) and multi-family offices (MFO). MFO usually hire such specialists to attract new customers. In SFO they are normally engaged in the preservation and enhancement of family wealth. Therefore, it is an absolute necessity for the majority of these families to engage an expert with extensive financial experience.

Since over time family offices develop and begin to support the next generation, the issues relating to intra-family management, wealth planning and philanthropy become increasingly important. It is at this stage that we can observe the transformation of the role of the head from the original financial, to a more managerial, focus. This often entails an increase in the number of family office staff.

With the growing number of SFO worldwide, wealthy families find it more and more difficult to find qualified management personnel for their own family office. The head of a family office must be experienced and more or less universal. This automatically means that such experts must be qualified enough to be able to take over key functions within corporations.

There are several major differences between the two areas, which prevent potential job candidates from choosing a long-term career in a family office. Career opportunities within SFO are very limited compared to the possibilities that open up to a specialist working in a corporation. In addition, the SFO head is very close to the family, while the head of a public company mainly has to deal with “anonymous” shareholders. The role of a family office head is particularly private in nature, while the corporate role involves being in a public environment.

Research findings show that a family office is frequently headed by the Chief Financial Officer of the family business (if the business has already been sold) or a wealth manager, with whom the family used to work and whom the family members trust.

MYTH 4:

FAMILY OFFICES ARE NOT INVOLVED IN BUSINESS MANAGEMENT

A variation of the previous myth is the belief that family offices have little involvement in business management, and are focused mainly on serving the interests of families and management of capital withdrawn from business and saved for personal needs and the needs of the family.

Our research has shown that this belief has certain grounds in reality—only about 50% of family offices are directly involved in the management of their client's businesses.

At the same time, 73% of family offices provide business consulting services. In other words, the involvement of family offices in business management is much higher than it seems at first glance. Moreover, the format of this involvement can be very diverse—from consulting on specific issues to representation on the boards of directors of business subsidiaries. ■

73% of family offices provide business consulting services.

EXPERT OPINION

What do you think is the optimal model of family office involvement in business management? What are the typical mistakes in this regard?

Alexey Stankevich,
Managing Director
of Phoenix Advisors

"Family office involvement in business management depends on the level of control and participation of the family. For example, if a business is fully owned by a family and many of its members are involved in its management, solving business problems can be one of the core tasks of the family office.

Such situation, however, is rare in Russia, where the majority of businesses are created and managed jointly with partners, and family members are not only uninvolved in the management of businesses, but sometimes have only a vague idea about the nature of the business, its strategy, and financial position. In this situation, the role of a family office is often limited to financial and legal structuring and keeping track of share/stock ownership.

On the other hand, it is fairly common to find that a family office emerges through the evolution of trusted employees (usually with financial or legal background) of the core business, who first perform shareholders' personal errands in the field of their professional competence in addition to their official duties, and then gradually evolve into being their trusted advisors responsible for the structuring and management of all personal assets.

Each of the two options has certain risks. In the first case, a family office does not have sufficient information about the situation at the core business, which is usually the basis of family wealth, the source of financing for family needs, and of philanthropy. In this case, a family office is unable to properly plan financial flows, control risks and the family budget. In the second case, a number of moral and legal conflicts may arise, in particular: a conflict of interest between different shareholders (if, for example, the CFO or the General Counsel is an starts helping with personal tasks of one of them), a conflict of priorities between business tasks and personal tasks, a conflict of management and control (the employee is responsible to its functional manager, on the one hand, and on the other—to the shareholder), etc.

Based on the above, we believe that it is advisable for a family office to focus on shareholder control tasks, which, on the one hand, allows it to have the necessary information about the status of the business and to participate in determining its strategy, and on the other, does not require involvement in operational management, which would in this case be carried out by professional managers."

EXPERT OPINION

What do you think is the optimal model of family office involvement in business management? What are the typical mistakes in this regard?

Marat Savelov and Olga Raykes, Managing Partners of CONFIDERI Family Office

The ideal model can be achieved when a family office:

- effectively acts as a guardian of the family interests;
- is involved in making key decisions as a shareholder on the board of directors of the business;
- serves as a platform for the participation of family members in business matters (even if they are not involved in running the business, the family has an interest in it), but does not replace the top management or key personnel of the company.

At the same time, the family office head is accountable to the family council, which is composed of different classes of beneficiaries from the family members, a trustee (a foundation manager), a protector, and a number of other professional advisors, and the procedure and principles of activities of the family council and the family office are prescribed in the family charter/family constitution in much detail. This makes it possible to harmonise and implement guidelines, which are in the interests of the family, make arrangements for the family to control making key decisions regarding business matters, as well as to create a platform for training in project management skills/involvement of family members in the business.

Whether or not the model of the family office's participation in the management of the business is optimal can ultimately assessed based on the achievement of the main objectives, which family offices are created for:

1. Preservation and protection of family assets and their member businesses, protection of family assets against "stripping" and value erosion during the transfer of the asset and/or beneficial interest, associated with the asset, by succession (not only and not necessarily to the second generation of successors, but also to the future generations—the third and fourth and further).
2. Gain and an increase in the value of the family assets, a return on investment, increased capitalisation and liquidity of family assets to ensure long-term well-being of current and future members of the family.

In addition to efficient management of assets, investments, and businesses, properly established family offices focus mainly on family dynamics and primarily take into account the family values, interests and their balance in the relationships between different members of the family, that is, the values, vision, mission, and principles of the family that can be formulated by the founding father of the family wealth (in the western terminology—family patriarch) and set out in the family charter/family constitution.

The CEO of the business, a banker, an investment advisor, a lawyer, or a tax advisor alone cannot provide such a focus and serve the interests of the family in the broad sense.

The issues of family dynamics (the transfer of the focus on to the family scenario, a number of scenarios of the possible future, the role of the family constitution in maintaining stability) predetermine the specific tasks of a family office.

The model of the family office's participation in the business also depends on the role of the family patriarch in the business, on whether leadership in the business has been transferred to a family member, and whether there are any family members who are really interested and ready to take on this leadership rather than be a passive beneficiary.

However, whatever the scenario, it is advisable to involve the family office in the business gradually, in stages: from an observer to a participant in important operational decisions, and with a possibility for the patriarch to plan and test a model of transferring management to a professional family office, that is, to switch over the family business to an automatic pilot system, as it were, with the possibility of switching over to manual control in the form of a family council at any time, and to put at the helm, now or later, a family member who has gained the required experience during a period of observation and participation in family councils.

It is expedient to give family members a "beneficial interest" in the assets and business rather than direct stock ownership: put 51% of the assets into a trust or the family's private foundation taking into account the interests of the family members, and transmit 49% to the management team performing the role of leader in the business. There have been cases when no family members participated in the management of the family's business at the level of the company's management so as not to give rise to conflicts. For example, the members of the Porsche family solved an escalated conflict by signing an agreement that from 1971 none of the family members would participate in the management of the company. This did not stop the company from achieving capitalisation of 22 billion in 2013.

In any case, it is advisable to separate the participation of family members in the legal structure of the business from their direct shareholder participation in order to protect the business from shareholder disputes. This will also allow transfer of the issues of family income distribution to the family office without affecting the asset itself.

Family offices unite professionals and family members to make important decisions, and involve of future family members in management through the transfer of knowledge and expertise. They can, thus, play a constructive role both within the perimeter of the family's interests and in terms of business management. It is an infrastructure which ensures succession and training in matters of international management practices, protection of capital against erosion, prevention of disputes over inheritance, and an answer to the question of who will protect the family interests in their relationship with professional managers.

EXPERT OPINION

A professional manager (trustee) is not a panacea, but an efficient corporate structure, and a family foundation with an effective family council is a preferred solution.

MISTAKES

1. Participation in the business is not equivalent to participation in the management of assets, which may also include the business. A total non-involvement of family members in the management of the business, lack of experience and transfer of wealth management skills lead to the risk of a complete loss of wealth (only 3% of the respondents of the Centre's 2015 study mentioned the importance of family members participation in the development of their own business). The solution is to educate and involve family members in the work of the family council at the family office, and to transfer skills in working with all professionals, consultants, and bankers involved in wealth management.

Perhaps it is the grandchildren who turn out to be the most capable and interested in continuing the business started by the family patriarch, or prone to a more rational participation in the investment management of such assets, and it will be essential for the head of the family to give them such a chance, despite possible doubts whether this step is useful in respect of their children. This is achieved through the establishment of trust/equity structures and a set of measures regarding legal and tax planning for the transfer of assets to future generations without any value erosion and with the preservation of core assets integrity, taking into account the family dynamics and the principles and values set by the head of the family, which can be reflected in the family charter or family constitution

2. Full transition of management to a professional trustee (family office) without detailing the principles of how to take into account family interests. The solution is to develop a detailed family charter (family constitution) and incorporate its provisions in the legal documents of the family office, trust, or foundation.

3. Delaying the creation and implementation of a wealth transition structure until a later date, "closer to retirement". This leads to the risk of family members not having enough time to get involved in the management of the business or to acquire skills in managing the wealth structure. During his lifetime, the family patriarch can "redeem his free time", simultaneously testing the entire system and teaching the successors the skills of managing the whole structure.

4. Conflict between family values and business interests. A family office manages a business as a project subordinated to the interests of the family, not vice versa.

EXPERT OPINION

What kind of specialists, in your experience, are in demand as family offices leaders? Is it true that family offices prefer specialists from the investment and financial sectors?

Xenia Montana,
Chief of Staff CEE,
UBS SWITZERLAND,
Global Emerging Markets

Leaders in family offices may come from various fields of specialisation, namely, legal, tax planning, audit, investment portfolio management, strategy or consulting, etc. It really depends on the set up and focus of the family offices. However, since the main aim of most family offices is the preservation of wealth through generations, most of them tend to be from financial sectors.

MYTH 5:

FAMILY OFFICES SERVE EXCLUSIVELY WEALTH POSSESSORS' FINANCIAL AND CONSUMER INTERESTS

This myth is connected with the previous one, and implies that the interests of wealth possessors served by family offices are absolutely practical and purely consumptive in nature.

The reality is very different.

Our previous research demonstrated that Russia's wealth possessors take a great interest in philanthropy: all of our study participants pointed out that they had participated in charity projects in the past two years, while 56% of the respondents said they wished they had access to professional assistance / management expertise in this area.

This trend is confirmed by the current research of family offices: more than 60% of the surveyed family offices assist with their principals and clients in their philanthropic activities.

It is interesting to note that 75% of the surveyed private banks provide services in the field of philanthropy.

There is no doubt, however, that this area has great potential for development.

For example, although there are many examples of using philanthropy and charity to make a greater contribution to social development and to contribute to building family reputation (e.g. the RVVZ Foundation—a family foundation of Ruben Vardanyan and Veronika Zonabend, the Vladimir Potanin Foundation, and many others), this area could be used by Russia's wealth possessors to a greater extent.

Philanthropic projects can also be used as a platform for the education and skills development of the second and subsequent generations and the transmission of values between generations. Another possible direction for development could be potential extension of family offices' experience in the field of investment management to the increasingly popular segment of impact investing. ■

EXPERT OPINION

Why and how do wealth possessors engage in charity? How do you think private philanthropy will develop further, and how can it affect the agenda of the providers of wealth management services?

Irina Ikonnikova,
CEO,
PHILIN

Indeed, the PHILIN platform serves both mass fundraising and private foundations and was established with the purpose of promoting further professionalisation of the Russian charity industry. And we can see that wealth possessors are increasingly interested in philanthropy. There are various reasons for this: personal histories, interest in supporting a specific group of beneficiaries, a desire to make a difference, as well as a desire to create sustainable mechanisms for addressing the factors that cause social problems. Service providers serving the philanthropic interests of wealthy clients and their families are gradually gaining experience and knowledge in the field of charity, but the quality and depth of this knowledge in most cases is still at the basic level. At the same time, we see an increasing demand from wealth possessors' for more strategic approach to their philanthropic activities, and for more complex and sophisticated mechanisms of involvement, and engagement of professional managers. This will inevitably have a significant impact on the agenda of service providers in the next 5–10 years.

More than **60%** of the family offices assist their principals and clients in their philanthropic activities.

MYTH 6:

FAMILY OFFICES ARE LOCATED ABROAD

There is a wide-spread belief that large amounts of capital of Russian origin are located abroad, mainly in Switzerland and the UK. This hypothesis is partly confirmed by the calculations of the French researcher Gabriel Zucman, performed based on the official balance of payments data of different countries, who estimates foreign financial assets of Russian origin at US$ 200 billion (Zucman 2015).

In this regard, it would be reasonable to expect both family offices and the wealth they serve to be located outside Russia.

As it turned out, it is Russia that is the most popular jurisdiction for the surveyed family offices. In other words, proximity to the client plays a much greater role than proximity to the world's financial centres. This is indirectly confirmed by the findings of our previous study, which showed that 56% of Russia's wealth possessors planned to live permanently in Russia in the next ten years, with the children of almost all respondents receiving their secondary education fully or partially in Russia. Children of 65% of the respondents went to a university in Russia, too.

It is Russia that is the most popular jurisdiction for the surveyed family offices. In other words, proximity to the client plays a much greater role than proximity to the world's financial centres.

In other words, family offices must take into account the fact that Russia is the centre of vital interests for the majority of Russia's wealth possessors.

Nevertheless, Switzerland and the UK, two of the leading European financial centres, rank second in this rating; we can therefore say that expectations have been partly justified.

Also, family offices working with Russia's wealth possessors operate in countries such as Austria, the USA, Israel, France, Cyprus, the Cayman Islands, Liechtenstein, Luxembourg, Monaco, and Singapore.

More than a third of the surveyed family offices operate simultaneously in two or more jurisdictions.

We believe that this long list of geographical locations indicates that the interests of Russia's wealth possessors are not limited to Russia. An interest in foreign jurisdictions may be due to several factors, in particular:

1. proximity to the world's leading financial centres, which allows better access to financial and investment expertise;

2. more predictable "rules of the game" and sustainable institutional architecture for business; the wealth possessor himself/herself and their family members can often travel abroad for tourism and business purposes, while a substantial proportion of wealth possessors' children get at least part of their education abroad; this is why they need a service provider that can serve a client abroad;

3. business interests of Russia's wealth possessors may be cross-border in nature: almost 80% have business interests abroad;

4. for some, it can also be a tactical response to the introduction of new rules regarding controlled foreign companies (CFC) in Russia and a worldwide tightening of the requirements for disclosure and exchange of tax information.

More than a third of family offices operate simultaneously in two or more jurisdictions.

Presence of such diverse international interests is a serious challenge for Russian banks, which have traditionally been focused on serving Russia-centric interests, often offering customers products predominantly in the Russian jurisdiction.

We doubt that the Russia-centric service model practiced by the overwhelming majority of Russian banks can adequately meet the needs and expectations of Russia's wealth possessors for quality service. Solving this problem does not necessarily require Russian banks to solve this problem by opening branches abroad; it can be also be achieved by adapting and offering to Russian clients access to global products through partnership with other global financial institutions. ■

MYTH 7:

FAMILY OFFICE REMUNERATION IS CALCULATED AS AN ASSET-BASED FEE

Given the investment focus of a large number of Russian family offices, one would expect that, similar to other organisations involved in investment management (such as mutual investment funds or hedge funds), fees to be paid to family offices would have to be asset-based.

These expectations are reinforced by Western practice, where such remuneration method is quite common: a typical fee paid to a large family office tends to be in the range of 0.8–1.5% of assets under management (Wilson 2014).

Our study did not support this expectation. There was no single principle or approach to pricing family office services. Family offices take into account many factors in determining the price, such as:

- costs (72%);
- characteristics and individual preferences of the client (68%);
- pricing policy of competitors and other market participants (48%);
- dynamics and state of supply and demand for services provided (44%).

It is noteworthy that more than 80% of family offices use “a success fee”, or “payment for success” element in determining their compensation. Considering that, according to global practice, the vast majority of investment managers underperform the market in the medium term (Philips et al. 2015), we doubt that such widespread use of “a success fee” in family offices is justified. ■

EXPERT OPINION

Do you agree that there is no well-established and generally accepted mechanism for pricing family office services in Russia? What should be the guide in determining whether the cost of maintaining a family office is reasonable?

Dmitry Klenov,
Partner at UFG Wealth Management

Since family office services are characterised by a high level of confidentiality and flexibility, it is impossible to develop a generally accepted mechanism for upfront determining their price, in my opinion, since only a transparent market of unified services creates standardised pricing. It stands to reason that the services of a family office cannot be cheap: the industry employs the best experts with unique international experience in solving non-standard tasks.

As to the reasonableness of the expenses for asset management, it is advisable to analyse the ratio of profitability, risks, and costs. Many clients are frightened by relative figures in price formation, so managers can offer a fixed fee for their services. In the case of substantial wealth, this approach might be more attractive for clients.

In the event of a package of services or specific legal solutions, assessing the risks which have been avoided is of primary significance. Sometimes this is millions of dollars saved against the ten thousand or so paid for the services of the consultant. In any case, it is necessary to compare the proposals of a family office and those of legal/consulting companies of a similar level. Family offices must also take into consideration market prices to form adequate prices for their services. This is a laborious and difficult task, since prices vary depending on each particular case. Nevertheless, family office specialists focused on long-term cooperation with their clients must ensure that they meet their clients' requirements, including through reasonable pricing.

In addition to refuting some of the myths associated with family offices, our research allowed us to identify some of the interesting features of their inner workings, as well as the preferences of wealth possessors whose interests they serve.

2.

FACTS

FACT 1:

WEALTH PRESERVATION AND SECURITY ARE THE KEY NEEDS OF RUSSIA'S WEALTH POSSESSORS

Three of the five objectives, considered to be priority objectives by Russian family offices, are related to the security and preservation of wealth.

Thus, a key priority for Russian family offices is to preserve wealth (90%). Most of them also attach great importance to ensuring confidentiality (76%) and security (62%). It must be noted that the ensuring capital growth was considered a lower priority than wealth preservation.

The preference of wealth preservation over growth is perhaps partly due to the current difficult and unstable situation both in the Russian and global economy.

Another possible factor may be the significant share of existing Russian businesses in the portfolio, which is typical for a large number of Russia's wealth possessors. The highly volatile profitability and value of such businesses require a more conservative approach when investing funds outside the business.

In Russia, priorities diverge significantly from global patterns. Globally, four out of the five priority objectives of family offices are directly or indirectly related to family issues, including the organisation of intergenerational wealth management, maintaining family unity, provision of education for family members, including the use of philanthropy as a platform for developing and transferring management skills to future generations (UBS 2015).

EXPERT OPINION

Is it possible to balance wealth possessors' needs for wealth preservation and security, and their desire to grow wealth at the same time? Have you observed any particular changes in customer priorities with regard to wealth management in the recent years?

Ilya Solarev,
Managing Director,
Head of UBS Wealth
Management in Russia

Indeed, in recent years there has emerged a trend for Russian clients to transform from businessmen to financial investors. While traditionally the main risk of Russian businessmen was associated with business, and they were not quite ready to take on extra risks by engaging in private investments, now the situation is slowly changing due to the fact that many entrepreneurs have retired or are thinking of retiring from business either because of their age, or because of the relatively low economic attractiveness of the real sector. In short, private clients are becoming financial investors whose activities are not limited by the boundaries of the domestic market. The time horizon of investment is also being extended, and alternative investments such as hedge funds, private equity, and real estate attract private investors. Wealth preservation continues to be fundamental but is no longer sufficient for a successful expert providing private wealth management services. Balance is achieved using a comprehensive approach: by selecting a reliable, competent and ethical investment expert and a corresponding platform; by choosing jurisdictions and maintaining a diversified portfolio in a disciplined way, not exceeding the risk parameters and meeting investment goals.

EXPERT OPINION

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Dmitry Klenov,
Partner at UFG Wealth Management

Balance is a result of compromises which a client agrees to when trying to find an optimal solution to their priority tasks. Wealth preservation is a relatively simple task, especially today, when core inflation in developed countries around the world is very low. However, customers who are accustomed to a very high rate of return (30% in US dollar terms) in real businesses in Russia are disappointed with the harsh reality: during the last seven or eight years such returns on investments in hard currencies ceased to exist.

Nevertheless, some Western bankers sometimes promise high rates of return when offering complex investment products to clients who are unsophisticated in financial intricacies. Unfortunately, it may not be always easy to see all the hidden nuances of such products, and it is not just about the structure, but also about common perception and understanding of the true level of risk that a certain financial instrument involves. Thus, portfolios which seem balanced at first sight may later show a 20% loss in value six months after they were formed.

How does one avoid such a situation? The solution is to find a good, preferably independent, investment consultant. Such consultants are not subject to a conflict of interest, does not have his own balance sheet, he does not appropriate clients' money, and it is in his interests to ensure that the client will receive profits in the long term, while banks are eager to sell to the client products with the highest hidden commissions here and now, because reaching the targets set before wealth management subdivisions of a bank of any size directly depends on it.

As to the selection of specific products, in recent years we have seen a downward trend in the popularity of deposits as a means of wealth preservation. The low and sometimes even negative rates push clients and portfolio managers to use instruments such as bonds with a longer duration, high-yield bonds, equities and stocks, and commercial real estate.

EXPERT OPINION

Is it possible to balance wealth possessors' needs for wealth preservation and security, and their desire to grow wealth at the same time? Have you observed any particular changes in customer priorities with regard to wealth management in the recent years?

Kirill Nikolaev,
Managing Partner,
NICA Multi Family Office

We always use the same approach to this question in serving all families. After we have helped the family determine important goals for themselves for the next 10–20 years and jointly prepared the family budget, it becomes clear how much money must be allotted for 20–30 years. Then we tell them about the necessity to preserve this capital (inflation +2%). All funds that remain in excess of this amount are considered as investment capital for possible operations. The main mistake of many Russian-speaking families is that wealth is usually controlled by only one person (the patriarch), and the assets are not structured (not properly divided between the family and investment), which may result in high fluctuations or a complete loss of the family fortune.

Customers are starting to realise that dividing the family wealth into two parts (one for the long-term needs of the family, and the other for an investment portfolio) is a very good idea. It is most difficult to convey this to clients which came into money or acquired their wealth quickly relatively easily in the past and who have no first-hand experience of losing wealth due to mistakes in risk management. A desire to make money ignoring the risks is a dangerous path to take. When it comes to their priorities, we see that wealth possessors have recently split into two distinct camps: those who review projects/invest money in Russia only, and those who invest money anywhere but Russia/CIS.

FACT 2:

WHEN STARTING A FAMILY OFFICE IT IS OFTEN TEMPTING TO TRY TO "RE-INVENT THE WHEEL"

When creating a family office, it is not an easy task to decide which specialists to hire for work directly in the family office, and which services can be outsourced on a project-need basis.

Our research shows that Russian family offices are fairly active in using the services of outside experts, even in the areas of their core expertise, such as tax and legal advice, and even investment management.

However, outsourcing is often done in addition to the functions which already exist within the family office. This is easily seen from the fact that the lists of functions covered by the internal functional resources of Russian family offices, and those where outside experts are involved, overlap.

This is confirmed by the fact that 55% of the surveyed Russian family offices named professional consultants among their main competitors. It is possible that some family office employees may consider engaging an outside consultant not as help but as a possible career risk for themselves. This fact should be taken into account by consultants who plan to try selling their services to family offices.

This is a feature in which the practice of Russian family offices significantly differs from global practice (UBS 2015), where the functions performed internally and those for which outside experts are involved overlap much less. For example, third-party experts are involved to peform investment management and tax/legal functions, while family office experts act as project managers, focusing on servicing family-related needs.

Some researchers believe that in recent years in global (and especially American) practice there has been an increase in the number

Table 1. The key functions of the family office in Russia and the world

	IN RUSSIA	ABROAD
IN-HOUSE SERVICES. FUNCTIONS PERFORMED BY THE INTERNAL RESOURCES OF A FAMILY OFFICE	**1.** Financial consulting	**1**. Risk management
	2. Compliance assurance	**2.** Concierge services
	3. Investment management	**3.** Philanthropy
	4. Inheritance and succession planning	**4.** Family counselling
	5. Tax and legal consulting	**5.** Business consulting
SERVICES OUTSOURCED	**1.** Tax consulting	**1.** Legal consulting
	2. Legal consulting	**2.** Private banking
	3. Risk management and insurance	**3.** Insurance
	4. Inheritance and succession planning	**4.** Custodian services
	5. Investment management	**5.** Custodian services

Source: SKOLKOVO Wealth Transformation Centre

of family offices consisting of just two to four experienced specialists, whose main function is to select high-quality experts to achieve specific objectives of the wealthy family, such as investment management or tax and legal structuring (Wilson 2014).

It is also possible that the scope of services provided by a family office is influenced by whether it is a multi-family (commercial) or a single family office, although our data is insufficient to confidently answer whether this is the case. ■

FACT 3:

FAMILY OFFICES APPLY VIRTUALLY ALL OF THE GLOBALLY ACCPETED STAFF INCENTIVE MECHANISMS

Using proper staff incentive mechanisms is an important issue for family offices. It is not a trivial one: due to the small size of family offices compared to that of large companies, opportunities for career progression are limited, which can negatively affect the motivation of even the most qualified experts.

Russian family offices mostly use the following employee incentive mechanisms:

- bonuses based on work results;
- flexible working hours;
- employment predictability and stability;
- opportunities for personal and professional development;
- corporate culture.

These incentive mechanisms are largely similar to those offered by foreign family offices to their employees.

At the same time, the study shows that Russian family offices do not actively apply a number of incentive mechanisms frequently used abroad, in particular the possibility of co-investment and impact investing. This could potentially be interesting tools for motivating Russian employees, especially in situations where the family office staff are involved in the management of the wealth possessor's business. ■

Bonuses based on work results are the main employee incentive mechanism in family offices.

Table 2. Which of the following mechanisms are used in your family office to retain staff? (1—never used; 5—extensively used)

	1 (never used)	2	3	4	5 (extensively used
Flexible working hours	10,7%	14,3%	21,4%	3,6%	50%
Wages higher than the market wages	14,8%	7,4%	37%	18,5%	22,2%
Bonuses based on work results	7,1%	0%	17,9%	10,7%	64,3%
Location and prestige of the office	18,5%	7,4%	22,2%	33,3%	18,5%
Possibility of co-investment	55,6%	7,4%	11,1%	14,8%	11,1%
Predictable and stable employment	11,5%	0%	26,9%	26,9%	34,6%
Impact investing	54,2%	12,5%	4,2%	12,5%	16,7%
Opportunities for personal and/or professional development, including training	0%	7,1%	35,7%	17,9%	39,3%
Corporate culture	3,8%	3,8%	19,2%	34,6%	38,5%
Wide range of social security benefits, including a pension plan	26,9%	26,9%	19,2%	19,2%	7,7%

Source: SKOLKOVO Wealth Transformation Centre

FACT 4:

FAMILY OFFICES ARE ACTIVELY INVOLVED IN SUCCESSION ISSUES, BUT THERE ARE DOUBTS AS TO HOW COMPREHENSIVE THIS INVOLVEMENT IS

Taking into account the age of Russia's wealth possessors and their family situation (average age—50 years, almost 40% of the children are older than 18), we can predict that the issue of succession and transfer of business and wealth to the next generation will become exceedingly relevant in the foreseeable future. Throughout the world, family offices are among the most important participants in this process.

According to our data, 76% of the family offices surveyed already service the second generation of Russia's wealth possessors. Moreover, in three out of four cases, family offices interact directly with the children.

As mentioned above, inheritance and succession planning-related services are among the most common services provided by family offices. On the other hand, only 52% of family offices consider succession planning to be a priority.

At the same time, according to our 2015 study, only 30% of wealth possessors had a detailed business succession plan, and fewer than 40%—a wealth succession plan. 59% of wealth possessors, however, were willing to involve their children in the management of the core business or a part of it.

A possible explanation for this difference in figures may be that wealth possessors who use the services of family offices may be more willing to deal with succession issues.

The issue that needs further research is the aspects of succession, which family offices and wealth possessors pay the most attention to. For instance, given the typical functional pro-

Second generation of wealth possessors: interests and expectations

In summer 2015, the SKOLKOVO Wealth Transformation Centre conducted a study of the second generation of Russian wealth possessors, as part of its educational programme for wealth successors. The study involved young people between the ages of 17 and 24.

There were several interesting study findings:

- Contrary to popular belief, the second generation largely shares their parents' set of values.
- As to the help they expect to receive from their families, this is usually associated with education. Children hope that with the support of the family they will receive a quality education and business work experience.
- The majority of respondents consider achieving financial independence and starting a family by the age of 30 as their key priorities.
- They expect that the active phase of their career will be over before they are 45 years old. This will be followed by the transition from an intensive career growth to leisure, travel, entertainment, and hobbies.
- At the same time, the representatives of the second generation intend to be actively involved in business management only until the age of 40, while only one out of three of those surveyed intend to launch their own business projects.

To fully meet new family requirements family offices should take into account these and other character traits of the second generation of Russia's wealth possessors. They might consider designing and offering specialised solutions to wealth possessors (e.g. a "family bank", or support for venture projects) aimed at assisting the projects of the second generation, especially given that more than half of the wealth possessors intend to give their children freedom to build their lives as they wish.

Source: SKOLKOVO Wealth Transformation Centre

In 85% of cases, the failure is caused by mistrust and disputes between family members, as well as insufficient preparation of successors.

file of a family office, it is reasonable to expect that formal legal aspects of succession and inheritance will be given priority. At the same time, global experience shows that failure of succession plans tends to be caused by reasons other than lack of tax or legal planning. In 85% of cases, the failure is caused by mistrust and disputes between family members, as well as insufficient preparation of successors (Williams & Preisser 2003).

There are serious doubts that Russia's wealth possessors and family offices pay sufficient attention to the discussion of succession issues. For example, only 24% of wealth possessors hold more or less formal family gatherings, and only 12% discuss wealth management issues. At the same time, only 44% of family offices provide services related to intra-family communication and family governance.

Additional difficulties in this regard are due to the fact that succession in the traditional format of a multi-generational family business is an exception in Russia rather than the rule.

75% of Russia's wealth possessors started their businesses jointly with partners, and 57% still work with partners to this day. Only one out of four wealth possessors started their business on their own. It is unlikely that traditional multi-generational family businesses can easily emerge in these circumstances. Succession issues, which are difficult as they are, are complicated even further by often underdocumented relations with business partners.

Another complication is the fact that the majority of Russia's wealth possessors intend to manage the businesses they created "until the very end" or to maintain influence on making key management decisions even where they transfer the day-to-day management to hired managers. Only 23% intend to hand over the control over the assets to their family members.

In the absence of properly documented and regulated relationships with business partners, coupled with low motivation to involve family members in the existing business, many Russian wealth possessors are under a serious risk of losing a substantial portion of wealth in unforeseeable circumstances or in the case of a corporate conflict. ■

EXPERT OPINION

What role, in your opinion, should family offices play in supporting the succession process? What mistakes should be avoided and what best practices should be followed to ensure a smooth transition of management to the next generation in the event of any unforeseen circumstances?

Benoît Leleux,
Professor of Entrepreneurship and Finance of the IMD Business School, Visiting Professor of the Moscow School of Management SKOLKOVO

Family offices are very flexible organisations that can be adapted by the members of the family to perform any roles, beginning with wealth management in its pure form (which occurs in most cases) to the management of the family business, and have the potential to deal with succession issues. This, however, rarely happens for a number of reasons:

- Succession concerns both the family and the business, and is not necessarily related to wealth management. Often there are situations when family offices do not have enough expertise to control the various elements of the succession process (ownership, operational management, etc.).
- As a rule, it is better to keep these various elements independent (education and development of family members; defining the roles of family members in the family business; succession of operational management positions, etc.). This is why sometimes a number of independent committees are created to perform these tasks. A family business can only survive in the presence of professional management, which involves meritocracy. The issue of ownership transition can best be resolved by a family management body, such as a family committee. To address management transition issues, it is better to engage an independent representative.

EXPERT OPINION

What role, in your opinion, should family offices play in supporting the succession process? What mistakes should be avoided and what best practices should be followed to ensure a smooth transition of management to the next generation in the event of any unforeseen circumstances?

Kirill Nikolaev,
Managing Partner, NICA Multi Family Office

That of an anchor. Only succession makes it possible to create dynasties. Look back on history, and you will not see any dynasties with succession problems, since succession is the foundation of a dynasty. If the patriarch masks his inability to come to an understanding with his children by calling it good intentions, like "I want them to achieve everything themselves, so I will leave them only a minimum," it is his right, and we treat such families with respect. It is only important to realize that in this case there is little likelihood that great-grandchildren will remember the family's patriarch. It is improbable that a dynasty will be founded in this particular family; moreover, the second and third generations may consider this relation of theirs "a loser".

In this case, it is of vital importance for family members to communicate not from a position of strength, but as equal members of the family council. This is a complex and difficult path, but I cannot see any alternative scenarios just now.

EXPERT OPINION

What role, in your opinion, should family offices play in supporting the succession process? What mistakes should be avoided and what best practices should be followed to ensure a smooth transition of management to the next generation in the event of any unforeseen circumstances?

Alexey Stankevich,
Managing Director
of Phoenix Advisors

When it comes to substantial wealth, succession planning is a long-term complex and multi-factor task. It requires experience and expertise, which a family office does not always have, since there is normally insufficient demand for them in its daily activities.

However, this does not diminish the role of a family office in the process; on the contrary, given the complexity and importance of the issue, it is a family office that has to fulfil the following important tasks:

- to understand, as much as possible, the relationships between family members, their characters, interests, and long-term plans;
- to consistently promote awareness among family members of the need to give much time and effort to this issue;
- to recommend service providers who could provide comprehensive support in the issue of succession planning, and coordinate their actions;
- to study in detail the developed succession structure, the objectives of each instrument, and the specifics of its management.

It must be remembered that a family office itself is an important subject of succession planning, since the issues of its ownership, financing, and management must also be taken into account to ensure its long-term trouble-free operation.

In this regard, a family office must have a well-defined legal structure, a corporate management system, a talent pool for key functions, an internal accounting system, a document management system, etc. Solving these issues is the most important task of a family office in the area of succession planning. It should be pointed out that beneficiaries themselves sometimes do not pay enough attention to these issues, taking into account the “internal” nature of the relationship with the family office and giving priority to flexibility, simplicity, and confidentiality. Finding a proper balance between simplicity and stress resistance is a difficult and ambitious task for any family office.

EXPERT OPINION

What role, in your opinion, should family offices play in supporting the succession process? What mistakes should be avoided and what best practices should be followed to ensure a smooth transition of management to the next generation in the event of any unforeseen circumstances?

Elena Andrianova,
Managing Director,
team head at Rothschild
Trust Group
for Russia and CIS

The process of creating a succession structure is very complex. Family offices play a key role in the preparation, development, and maintenance of the succession process. At Rothschild, we advise customers to organise all the major planning issues in three simple categories—transition, management, and protection.

The main objectives of family offices in the area of succession planning include:

1. PREPARATORY STAGE. To convince the wealth possessor that it is necessary to start developing basic family principles in the field of succession and a family governance structure as soon as possible. Ideally, such a structure should be implemented and exist until the eldest child comes of age.

2. TRANSITION. To help the wealth possessor and his/her family prepare for the succession process. In simple words, to determine who gets what, how, when and under what conditions. This process includes documenting and discussing rights and responsibilities in relation to assets, covering everything from shares in the business and private equity to collections of works of art, real estate, and bank assets. Such planning must go beyond a single jurisdiction and take into account aspects related to conflicts of laws, which occur when any of the family members lives, works, studies, or owns assets abroad.

3. MANAGEMENT. To help the wealth possessor develop mechanisms to ensure efficient control and stability in the present and in the future. Duties and responsibilities within the family must be defined and understood by future generations. It is important to realise that wealth will always cause conflicts among family members and within the framework of business relationships. It is necessary therefore to take measures to minimise and manage conflicts. A clear management plan can help anticipate potential sources of conflict, as well as find ways to address related problems before they arise. General distribution of wealth is also a management issue. Wealth possessors need a sensible long-term strategy for the formation and distribution of profits received from both the business and liquid assets

4. PROTECTION. To help the wealth possessor develop a reliable plan B, aimed at preventing adverse effects and loss of assets caused by a contingency. Such contingencies include political and economic upheavals, unsubstantiated court decisions, forfeiture of assets, breach of confidentiality, and potentially unwanted publicity. A good approach is to stress-test existing planning mechanisms, which will help identify vulnerable areas and potential risks.

In addition, in today's world of cross-border transparency, compliance with tax and regulatory requirements is an important element of protection. Therefore, one of the most important tasks of a family office is to ensure global compliance with the requirements of constantly evolving legislations around the world.

5. REVIEW OF THE WHOLE CYCLE. To help the wealth possessor see the big picture instead of concentrating on individual components. In our experience, people often carry out legal and tax planning in stages, dividing it into parts for individual personal assets or life events. Over time, with an increase in assets and needs, which are becoming increasingly complex and international, wealth possessors may end up with a fragmented plan that does not meet the requirements for achieving their goals any more. To sum up, the role of a family office at all stages of family wealth planning cannot be overestimated.

However, if the family has not worked out and implemented a detailed succession plan, any circumstance that is beyond the normal life of the family can be considered a contingency. Such circumstances may include death, incapacity, dementia, divorce, conflicts within the family and conflicts with business partners, financial losses, etc. We can hardly recommend any best practices to ensure a smooth transition of wealth management to the next generation. Sadly, these no longer exist. In this case, crisis management mechanisms are important, and a family office can also play an important role to implement them. The role of a family office will be to minimise financial losses caused by a particular contingency.

EXPERT OPINION

What role, in your opinion, should family offices play in supporting the succession process? What mistakes is it necessary to avoid and what best practices is it essential to use in order to ensure a smooth transition of business management to the next generation in case of contingency?

Xenia Montana,
Chief of Staff CEE,
UBS SWITZERLAND,
Global Emerging Markets

The primary role of family offices should be to structure the wealth of entrepreneurial families and to preserve it for future generations.

Family offices should provide independent advice to wealth possessors as they take important decisions, and help them identify and manage risks and issues from an economic, tax, legal, and strategic standpoint at an early stage to ensure successful transition of their business and wealth to the next generation.

Advanced planning for this transition is a vital part of the functions of a family office. The family must be helped to take the necessary decisions so that its affairs can continue in a harmonious way, with a quick and smooth transition, and with minimal damage to the family relationships.

It is the task of the family office to understand and meet the needs of the next generation. However, much of the planning must be done long before this point is reached. The next generation needs education and preparation to take over the management of the business and other activities. Each member of the family needs to be trained to play whatever role they aspire to play in the family business. Sometimes this may entail accepting that some family members want to leave, and arranging an amicable exit for them.

When preparing for this transition from one generation to the next, the family office needs to understand exactly what the family is trying to achieve in terms of goals, values, and its risk appetite. This may require the setting up of new structures such as trusts to reflect the shift of control, and perhaps some freshening of family governance arrangements to reflect how the new owners want the family business to operate.

The topic of succession planning is strongly related to the issue of family governance. It will be a difficult task for a family office to assist in the actual execution of succession planning, as this is an operational business issue, but a family office could act as a sparring partner for entrepreneurs in getting the right succession planning process in place for the future.

MISTAKES

It seems that only 3% of all family businesses worldwide remain in business for more than three generations. Often, failure in terms of succession is due to the inability of the wealth possessors to come to an agreement, a lack of succession planning/vision, or open conflicts.

Thus, early planning is of key importance. There needs to be a governance in place in terms of what the future of the business entails and a clear plan in terms of the strategic options: whether to resort to IPO/partial exit, keep the business or to sell it. It is essential for all family members to agree on common goals early on, which are consistent both with the family's conviction and the goals set for the business. The family needs to be prepared for the unexpected.

The owner also has to identify a suitable successor and prepare the successor as early as possible in a targeted manner to assume the responsibilities, not only in case of a natural succession, but also in case of contingency. It is important for the next generation of family members to be given a clear idea about what roles they can expect to take up in the foreseeable future and in case of contingency. This would enable them to think about the challenges that may lie ahead and reduce the potential for conflicts.

In addition, it is crucial to have the right mindset in terms of asset structuring alternatives that enable clients to protect family wealth from illegitimate claims and ensure that assets are inherited in an efficient and legally effective manner.

A successful succession to the next generation largely depends on how holistically such topics are addressed in the contingency plan.

FACT 5:

FAMILY OFFICES TEND TO SERVE THE INTERESTS OF ONLY THE WEALTH POSSESSOR'S INNER CIRCLE

We have identified a certain discrepancy between how wealth possessors define their family, and the actual circle of persons that family offices service

Wealth possessors tend to consider a wide circle of people as their family:

- spouse (100%);
- children (94%);
- parents (77%);
- siblings (61%);
- spouse relatives (42%);
- cousins (36%) etc.

Family offices, however, tend to actively interact with a more limited circle of people:

- spouse (82%);
- children (75%);
- parents (50%);
- and, occasionally, siblings (29%).

Obviously, this may be indicative more of the preferences of wealth possessor rather than of omissions in the work of the family office.

Nevertheless, a better understanding of the needs of family members can provide both additional value for the principal, and additional business opportunities for commercial family offices. ■

Wealth management and family

Andrey Shpak,
Deputy Director
for Strategy and Research
at the SKOLKOVO
Wealth Transformation Centre

Bankers and family office experts often hesitate to raise family issues in conversations with a client/principal as they are not sure what their emotional reaction to such topics will be. The overly cautious approach does not allow the bank or the family office to get a complete picture of the key needs of the client's family and tailor their proposals to specifically meet these needs. The lack of an established dialogue with the second generation is another factor that significantly increases the risks of losing the client in transition between the first and second generations.

Based on the experience of experts and partners of the SKOLKOVO Wealth Transformation Centre, it might be helpful for bankers and family office specialists to ask themselves the following questions:

- Do you know who the composition of the family of the client/principal, the age and marital status of their children (and grandchildren, if there are any)?
- What does the client/principal perceive his/her obligations for the financial support of his/her family members (children, parents, and other relatives) to be?
- What are the client's/principal's expectations for the involvement of the spouse/second generation in the management of financial and other assets? Do they plan to involve the second generation in the management of the business (if there any)? Are there any plans to sell the business in the foreseeable future?
- Who is the bank/family office to contact on financial matters in the case of a force majeure event with the client/principal? Have the required authorisations been properly formalised?
- How long does the client/principal plan to work/be actively engaged in business? What does he/she plan to do afterwards?

FACT 6:

CONSERVATISM IN COMMUNICATION CHANNELS

Judged by their preferred mechanisms of communication family offices and Russia's wealth possessors appear to be somewhat conservative in the choice of their communication channels.

The main methods of client communication are e-mail, personal meetings, and phone calls. Other digital communication channels are used less frequently, with the possible exception of messengers, which are quite popular (65% of the family offices use them).

In this regard, it is interesting to compare family offices and banks operating in the private banking segment. An interesting observation is that banks use regular communications (e.g. newsletters) as a means of maintaining contact with their clients a lot more than family offices do.

On the one hand, this may be caused by the fact that, unlike family offices, banks have less close relationships with their clients. On the other hand, in private conversations many wealth possessors noted to us that family offices do not provide sufficient information or inform them frequently enough about the current state of their assets or important regulatory changes that required attention. Perhaps Russian family offices should take note. ■

Table 3. How does your family office interact with the client?

Personal meetings	100%	
By phone (calls and text messages)	93,1%	
By e-mail	96,6%	
On-line messengers (Skype, WhatsApp, Viber, and others))	65,5%	
E-mail newsletters	34,5%	
Client mobile application	3,5%	
Social networks (Facebook, VK, LinkedIn, and others)	6,9%	
Private (intra-office) social network	3,5%	
Other	6,9%	
Don’t know	0%	

Source: SKOLKOVO Wealth Transformation Centre

FACT 7:

COMPUTER SECURITY IS SEEN AS A KEY OPERATIONAL RISK

The key internal risk No. 1, according to family offices, is computer security. This result largely correlates to the Russian wealth possessors' needs for security and confidentiality that we mentioned above.

At the same time, in our opinion, Russian family offices are fairly conservative in terms of using modern information technology. This may be due to the fear that the introduction of new technologies may trigger even greater risks to security and confidentiality. For example, only one half of family offices (52%) uses CRM solutions. We believe this figure is extremely low, since quality serving current clients (and for commercial family offices attracting new ones) is the most important task of service structures.

ERP solutions, BI systems, mobile applications, and public cloud systems for storing and processing information are used only by 14–28% of family offices.

Private cloud systems for data storage and processing are used by almost 60% of family offices, which may be evidence of the desire to combine ease of use with the requirements for an increased level of computer security. ■

EXPERT OPINION

Family offices are relatively conservative in terms of digital technology (they use mostly traditional channels of communication, and seldom information systems, etc.). Why is this so? Is this a risk in view of the huge importance of modern information and communications technology for the younger generation? How to ensure the security of client data in a family office?

Benoît Leleux,
Professor of Entrepreneurship and Finance of the IMD Business School, Visiting Professor of the Moscow School of Management SKOLKOVO

This is no longer the case for most large family offices, whichs are now quite complex organisations consisting of teams of highly skilled experts who came from wealth management, asset management, and investment banking services sectors. There are also companies that supply family offices with highly-secure digital technology for various aspects of the family business (family, business, ownership, etc.).

Only one half of family offices – 52% – uses CRM solutions.

FACT 8:

A HIGH RISK OF INEFFICIENT INTERNAL PROCESSES

The key internal risk No. 2 is the inefficiency of internal processes. One way to improve internal efficiency is wider use of internal control mechanisms. In this case, we understand "control mechanisms" as a set of tools and practices, both formal and informal, aimed at ensuring the proper functioning of a family office, as well as setting and achieving goals.

Our research suggests that Russian family offices actively use the following control mechanisms:

- monitoring and control of order execution;
- use of information systems;
- long-term relationships;
- a high level of trust in the relationships with clients and among employees;
- keeping minutes of client meetings;
- internal and external reporting.

It is interesting to note that formal controls prevail in this list. Globally, this is more typical for commercial entities. Single family offices use both formal and informal mechanisms.

In this regard, we could recommend family offices to consider introducing more informal controls and combining them with formal ones.

Use of a wider range of controls may both improve the quality of services provided by family offices, and lower the cost of their performance.

The use of a wider range of control mechanisms may both improve the quality of services provided by family offices, and lower the cost of their performance.

In addition to the above controls, there are others, which are extensively used all over the world (Wessel 2013), in particular:

- participation of representatives of the client's family in the decision-making body;
- regular formal audits;
- clearly defined profitability goals;
- requirements for countersignature;
- finance consolidation;
- contractual obligations;
- an investment committee;
- a corporate governance code;
- joint goal setting;
- informal communication channels;
- tracking customer satisfaction;
- the principle of impartiality;
- values and mission;
- compliance with corporate culture;
- a high degree of the wealth possessor's involvement in the ongoing activities of the family office;
- centralised decision-making. ■

When to start a family office?

Ruslan Yusufov,
Chief Analyst
at the SKOLKOVO
Wealth Transformation Centre

Global estimates of the costs associated with the maintenance of a family's own office vary, although we can give some examples, depending on the character and set of services provided.

Thus, global practice (Martiros & Millay 2006; Capgemini 2012) shows that if the amount of family wealth exceeds US$ 50 million, it makes sense to consider organising a family office, whose primary task will be to address administrative issues. It is estimated that the maintenance of such an office costs, as a rule, about US$ 0.5–1 million per year.

The maintenance of an investment management family office costs US$ 0.5–2 million per year, and the amount of the family's wealth at which these costs are justified is US$ 100 million – 1 billion.

Finally, the cost of maintaining a family office, which can satisfy a wide range of needs and requirements, comes to more than US$ 1–10 million per year, and the family's wealth should therefore amount to more than US$ 1 billion.

It is easy to see that these estimates are in the range of 0.5–2% of the amount of wealth, which is comparable with the estimates given above (Wilson 2014).

However, a link to the size of assets is not the only method. Many wealth possessors use internal targets which they find convenient (e.g. we came across an example of a link as a percentage of the family's annual budget).

Given that the costs of Russian experts after the recent devaluation are lower than those in foreign countries, the cost of keeping a family office in Russia may be lower, at least in the short term. But even in this case, it is hardly expedient to establish an individual family office if the amount of wealth is less than US$ 20–30 million (or equivalent to RUB 1.5–2 billion).

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3.

EXPECTATIONS AND TRENDS

An understanding of the current situation and family offices is undoubtedly of great interest, both on an academic and practical level. It helps wealth possessors better understand what to do when organising a family office. On their side family offices can use this information to benchmark themselves against colleagues and competitors, compare fees and ranges of services provided. An assessment of how and in which direction the sector may develop is also of great interest to them. What should they prepare for? After all, as Wayne Gretzky[9] once said, you have to skate to where the puck is going to be, and not where it has been.

We believe that family offices, banks serving wealthy clients, and wealth possessors themselves should take into consideration the following market trends:

FURTHER GROWTH OF PRIVATE WEALTH

Despite a temporary erosion in the average amount of wealth due to the current challenging economic situation and devaluation, we can expect further growth of private capital. The number of high-net-worth individuals in Russia is estimated at less than 0.1% of the population, whereas in Europe their number is typically 2–5%.

INCREASINGLY COMPLEX NEEDS

Given the integration of Russia's wealth possessors in the global market and their extensive experience in communication with the best Western financial institutions, it is natural for them to expect the service and product mix to be on a level comparable with the world's highest standards.

[9] Canadian hockey player, center forward, one of the most famous sportsmen of the XX century

GROWING INTEREST IN THE GLOBAL FINANCIAL MARKETS

Due to poor profitability and high volatility in many areas of traditional investment by Russia's wealth possessors (Russian real estate, Russian private businesses) in the past few years, we can expect increasing interest in the diversification of investments and investment instruments in international markets. An additional factor could be that, after Rouble devaluation, the share of Russian assets in the aggregate portfolio of Russia's wealth possessors is falling while the share of international assets is automatically increasing.

GREATER ATTENTION TO SUCCESSION ISSUES

On average, when it comes to Russia's private wealth, the degree of succession plan readiness is rather low. In this regard we can expect that in the coming years, with the ageing of the first generation of wealth possessors, we will witness many a dispute between the successors of large Russian fortunes. As the number of such precedents grows, Russia's wealth possessors will pay more attention to addressing succession issues, and choose optimal approaches to the preparation of their heirs and successors.

SECOND GENERATION OF WEALTH POSSESSORS ENTERS THE MARKET

According to our estimates, about 40% of the children of Russia's wealth possessors have entered into the age when they can make their own investment decisions. They do not always control considerable assets right now, but we can expect a further transition of an increasing number and value of assets under their control. Therefore, it is essential for financial institutions, which work with wealth possessors, to build and strengthen relationships with the next generation.

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4.

RECOMMENDATIONS

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Based on our findings and expectations for further market developments, we have formulated eight recommendations for Russia's wealth possessors and representatives of the financial industry serving them.

FOR WEALTH POSSESSORS

- **Structure relationships with business partners.** Undocumented relationships involve risks not only for you personally, but also for your family's wealth.

- **Start preparing a succession plan and educating your successors**, even if you do not intend to build a traditional family business or to leave all of your wealth to the family. Otherwise, you will run an increased risk that the capital you have worked so hard to earn will be "inherited" by people other than your loved ones.

- **Proper goal-setting in the field of philanthropy and social impact investing**. Given that motivation for charitable giving can vary —from a desire to contribute to social development to a wish to build the family's reputation—it is important to properly communicate one's motives to your family office. This will help them to select quality projects and attract proper external experts, if necessary. In addition, inclusion of the second generation in the management of charity projects will help them develop and improve skills that will be useful to them in the future.

- If you are using or intend to use the services of family offices, **be careful when selecting a service provider** or when choosing to hire your own staff. Do not "re-invent the wheel".

FOR THE FINANCIAL INDUSTRY REPRESENTATIVES

- Russian family offices should consider ways to **improve communication with their customers** through the active use of CRM solutions and regular and systematic communications (newsletters, timely easy-to-understand reporting, etc.).

- It is critical **to improve your skills in communicating with other family members** in addition to the wealth possessor.

- A gradual **entry of the second generation** of wealth possessors to the financial services market can provide opportunities **to expand your product line**, for example, offering special products for the self-realisation of the second generation (e.g. a family bank, a platform for investment in start-ups, etc.).

- Russian banks should consider **expanding their product line by adding global products** and providing Russian clients with support on a global scale, e.g. in partnership with foreign partners.

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5. APPENDICES

APPENDIX 1.

DESCRIPTION OF RESEARCH METHODOLOGY, STAGES, AND PROCEDURES

Below are the main characteristics of the research, a description of the methodology and the data collection procedures used, as well as the principles that ensure the confidentiality of data and personal information.

OBJECT OF RESEARCH:

providers of services for Russia's wealth possessors:

- family offices and non-profit multi-family offices that serve the interests of one or more business families and do not attract external customers;
- commercial multi-family offices (MFO);
- banks providing private banking services.

A Russia's wealth possessor is a person who owns more than US$ 1 million of investable assets and meets at least one of the following criteria:

1. their capital originated in Russia in the last 25 years;
2. their key assets are concentrated in Russia;
3. their principal business activities are carried out in the territory of Russia.

RESEARCH OBJECTIVE:

- to identify the characteristics of family offices in the Russian practice;
- to determine the role of a family office in financial and non-financial aspects of the life of a family;
- to analyse family involvement and control mechanisms;
- to identify existing and future models for family offices, as well as approaches to the selection of an office location;
- to analyse the profile of typical employees and the HR policies of family offices;
- to study how wealth possessors' needs influence the range of services provided by family offices;
- to describe the needs for and the practice of using technological solutions by family offices;
- to understand how family offices ensure data security and confidentiality;

- to answer additional questions arising at the stage of desk research.

RESEARCH METHODOLOGY AND STAGES:

The research was carried out in the following five stages:

1. **Desk research** (March – April 2015). The study of the world's key scientific and practical works on the subject of research. Preparation of an internal report on the findings, formulation of research objectives and hypotheses, clarifying the object of study.
2. **Round-table discussion** (July 2015) in "behind closed doors" format with the participation of practitioners and researchers, aimed at refining hypotheses.
3. **Field phase** (July 2015 – February 2016). A survey of 48 owners and heads of various organisations identifying themselves as family offices, and the private banking and wealth management departments of Western banks, working with Russian clients. All these structures have been serving Russia's wealth possessors in the past few years. Among the survey respondents, there were representatives of 34 family offices (three of them completed the questionnaire partially), as well as 14 banks providing private banking services (including four Russian banks, three subsidiaries of foreign banks, and seven foreign banks).

In addition to the survey, we also conducted a series of in-depth interviews, and discussed our observations with Russian and foreign experts: asset managers, wealth managers, private and investment bankers, hedge fund managers, financial advisors, family office employees, lawyers, and other persons involved in the process of private wealth management.

Our terms and conditions for strict confidentiality and anonymity of data processing were based on the following rules:

- to depersonalise data received during the survey; to anonymise the personal information about respondents contained in the field data which could identify the participant;
- to use code numbers for the respondents rather than their names, and to encode all field data;
- to use passwords to access files and data bases;
- to use 256-bit encryption for the on-line work;
- to employ special physical storage methods for electronic media and field data.

The study was conducted in accordance with the requirements of the ICC/ESOMAR International Code of Market and Social Research. Following similar codes is globally regarded as the highest standard and is recognised as an additional guarantee of consumer rights protection.

4. **Preliminary results** (November 2015) were presented to the international expert community during the Wealth Knowledge Day Conference, which was held on the Campus of the SKOLKOVO Business School in November 2015.
5. **Data analysis and preparation of the report** (spring-summer 2016).

APPENDIX 2.

SURVEY RESULTS

Hereinafter: family offices—FO, banks providing private banking services—PB.

Table 1.

Which of the following, in your opinion, may be referred to as a family office?

	FO N = 30	PB N = 10	Total N = 40
One or several legal entities in one or more jurisdictions	43,3%	40%	42,5%
A team of professionals	86,7%	90%	87,5%
One or more personal assistants	13,3%	20%	9,3%
An authorised representative	33,3%	30%	20,9%
Other	6,7%	10%	5,7%
Don’t know	0%	0%	0%

Table 2.

In your estimation, the number of family offices in Russia is as follows:

	FO N = 30	PB N = 9	Total N = 39
Fewer than 10	10%	10%	10%
10–25	10%	10%	10%
26–50	20%	10%	17,7%
51–100	10%	30%	14,6%
101–200	10%	10%	10%
More than 200	30%	20%	27,7%
Don’t know	10%	10%	10%

Table 3.

Which of the following, in your opinion, are the most important client tasks that your family office/bank aims to perform?

	FO N = 29	PB N = 9	Total N = 38
Wealth preservation	89,7%	88,9%	89,5%
Wealth enhancement	72,4%	77,8%	73,7%
Professionalising the services provided	48,3%	77,8%	55,3%
Confidentiality	75,9%	55,6%	71,1%
Security	62,1%	88,9%	68,4%
Succession planning	51,7%	66,7%	55,3%
Satisfying the needs of the client’s family	58,6%	66,7%	60,5%
Other/No answer	3,5%	0%	2,7%

Table 4.

Representatives of which generations does your family office/bank currently serve?

	FO N = 29	PB N = 9	Total N = 38
First generation (wealth possessor)	100%	100%	100%
Second generation (children)	75,9%	100%	81,6%
Third generation (grandchildren)	0%	11,1%	2,6%
Fourth generation (great-grandchildren)	0%	0%	0%
Fifth generation and further	0%	0%	0%
Don't know	0%	0%	0%

Table 5.

Which members of the client's family (in addition to the wealth possessor) does your family office/bank interact with?

	FO N = 29	PB N = 9	Total N = 38
Spouse	82,1%	100%	86,3%
Children	75,0%	88,9%	78,3%
Parents	50%	33,3%	46%
Grandchildren	7,1%	11,1%	8%
Siblings	28,6%	44,4%	32,3%
Other relations	3,6%	22,2%	8%
Don't know	7,1%	0%	5,4%

Table 6.

Which of the following kinds of services does your family office/bank provide, and which of these services do you outsource?

	Service is provided directly by the family office/bank (in-house)			Service is outsourced			Service is not provided		
	FO N = 29	PB N = 9	Total N = 38	FO N = 29	PB N = 9	Total N = 38	FO N = 29	PB N = 9	Total N = 38
Investment management	79,3%	88,9%	81,6%	48,3%	22,2%	42,1%	0%	0%	0%
Venture capital investment	39,3%	42,9%	40,2%	42,9%	28,6%	39,5%	28,6%	28,6%	28,6%
Financial consulting	86,2%	100%	89,5%	31%	22,2%	28,9%	3,4%	0%	2,6%
Business consulting	65,4%	62,5%	64,7%	30,8%	25%	29,4%	26,9%	25%	34,1%
Business management	35,7%	25%	33,2%	21,4%	25%	22,3%	50%	50%	50%
Cash flow management	64,3%	87,5%	69,8%	17,9%	0%	13,7%	28.6%	12.5%	24,8%
Charity and philanthropy	48,1%	75%	54,5%	22,2%	25%	22,9%	37%	0%	28,2%
Budgeting	50%	0%	38,2%	11,5%	42,9%	18,9%	46,2%	57,1%	48,8%
Accounting and reporting	64,3%	12,5%	52%	10,7%	62,5%	23%	25%	37,5%	28%
Risk management and insurance	34,5%	12,5%	29,3%	58,6%	37,5%	53,6%	20,7%	50%	27,6%
Legal consulting	69%	33,3%	60,5%	58,6%	77,8%	63,1%	3,4%	11,1%	5,2%
Tax consulting	69%	44,4%	63,2%	62,1%	77,8%	65,8%	3,4%	11,1%	5,2%
Compliance	85,2%	44,4%	75,5%	40,7%	33,3%	38,9%	7,4%	22,2%	10,9%
Inheritance and succession planning	79,3%	55,6%	73,7%	48,3%	44,4%	47,4%	3,4%	11,1%	5,2%
Communication and family governance	40,7%	55,6%	44,2%	11,1%	22,2%	13,7%	55,6%	22,2%	47,7%
Personal management (including lifestyle and concierge services)	50%	33,3%	46,0%	42,9%	66,7%	48,5%	28,6%	33,3%	29,7%
Education for family members	42,9%	22,2%	38%	39,3%	55,6%	43,2%	32,1%	33,3%	32,4%
Other	28,6%	33,3%	29,7%	42,9%	33,3%	40,6%	42,9%	66,7%	48,5%

Table 7.

Whom do you consider the main competitors of your family office/bank?

	FO N = 29	PB N = 9	Total N = 38
Private banking in Russia/Other private banking structures in Russia	17,2%	44,4%	23,6%
Private banking abroad/Other private banking structures abroad	48,3%	88,9%	57,9%
Lifestyle offices in Russia	6,9%	0%	5,3%
Lifestyle offices abroad	6,9%	0%	5,3%
Other family offices abroad/Family offices abroad	51,7%	22,2%	44,7%
Other family offices in Russia/Family offices in Russia	37,9%	22,2%	34,2%
Professional consultants (individuals and/or legal entities)	55,2%	0%	42,1%
No competitors	13,8%	0%	10,5%
Other	6,9%	0%	5,3%
Don’t know	0%	0%	0%

Table 8.

Which of the following types of control does your family office/bank use in its work?

	FO N = 29	PB N = 9	Total N = 38
Monitoring and control of order execution	79,3%	88,9%	81,6%
Use of information systems	79,3%	88,9%	81,6%
Keeping minutes of client meetings	69,0%	66,7%	68,5%
External and internal reporting	69%	77,8%	71,1%
Participation of representatives of the client's family in the decision-making body	24,1%	11,1%	21%
Regular formal audits	55,2%	66,7%	57,9%
Clearly defined profitability goals	48,3%	55,6%	50%
Requirements for countersignature	34,5%	55,6%	39,5%
Finance consolidation	37,9%	44,4%	39,4%
Contractual obligations	48,3%	55,6%	50%
Investment committee	37,9%	55,6%	42,1%
Corporate governance code	24,1%	66,7%	34,2%
Joint goal setting	48,3%	44,4%	47,4%
Informal communication channels	58,6%	33,3%	52,6%
Tracking customer satisfaction	55,2%	66,7%	57,9%
Principle of impartiality	51,7%	66,7%	55,3%
High level of trust in the relationships with clients and among employees	75,9%	77,8%	76,4%
Values and mission	48,3%	55,6%	50%
Compliance with the corporate culture	48,3%	77,8%	55,3%
Long-term relationships	79,3%	100%	84,2%
High degree of the wealth possessor's involvement in the ongoing activities of the family office/bank	31%	33,3%	31,5%
Centralised decision making	20,7%	33,3%	23,7%
Other	3,5%	0%	2,7%

Table 9.

Which of the following management mechanisms/mechanisms to align interests with clients' families does your family office/bank participate in (if any)?

	FO N = 27	PB N = 9	Total N = 36
Family constitution	11,1%	11,1%	11,1%
Family meeting	11,1%	11,1%	11,1%
Family council	22,2%	11,1%	19,4%
Informal family meetings	33,3%	44,4%	36,1%
Regulations and/or policies regarding individual decisions	14,8%	22,2%	16,7%
Management mechanisms have not been implemented	22,2%	22,2%	22,2%
Other	3,7%	0%	2,8%
Don't know	37%	22,2%	33,3%

Table 10.

Which of the following factors, in your opinion, have caused major risks for the activities of your family office/bank?

	FO N = 28	PB N = 9	Total N = 37
External factors	71,4%	55,6%	67,6%
Internal factors	14,3%	11,1%	13,5%
Don't know	14,3%	33,3%	18,9%

Table 11.

Please specify the internal non-financial risks facing your family office: (for respondents who answered question No. 10)

	FO N = 4
Computer security (loss or theft of equipment, hacking, data loss due to computer system failure)	75%
Physical threats (damage to property, theft)	0%
Problems relating to employee health (physical disability or mental illness of a family office employee)	50%
Legal risks	50%
Inefficient internal processes	75%
Lack of skilled personnel	25%
Management succession issues	25%
Risks associated with the stable long-term operation of a family office	25%
Confidentiality	25%
Challenges associated with modern technology	25%
Don't know	0%

Table 12.

Please state your professional experience and area of expertise:

	FO N = 11
Business manager of the client of your family office	9,1%
Industry manager (not involved in the client's business)	18,2%
Asset manager	45,5%
Private banker	45,5%
Investment banker	36,4%
Financial services and audit	18,2%
Law firm	9,1%
Consulting	27,3%
HR	0%
Family office serving the interests of only one client on a non-commercial basis	9,1%
Family office serving the interests of a limited number of clients on a non-commercial basis	0%
Family office serving clients on a commercial basis	36,4%

Table 13.

Which of the following mechanisms are used in your family office to retain staff?

(1—never used; 5—extensively used)

	FO N = 27				
	1 (never used)	2	3	4	5 (extensively used)
Flexible working hours	10,7%	14,3%	21,4%	3,6%	50%
Wages higher than the market wages	14,8%	7,4%	37%	18,5%	22,2%
Bonuses based on the results of work	7,1%	0%	17,9%	10,7%	64,3%
Location and prestige of the office	18,5%	7,4%	22,2%	33,3%	18,5%
Possibility of co- investment	55,6%	7,4%	11,1%	14,8%	11,1%
Predicatbel and stable employment	11,5%	0%	26,9%	26,9%	34,6%
Impact investing	54,2%	12,5%	4,2%	12,5%	16,7%
Opportunities for personal and/or professional development, including training	0%	7,1%	35,7%	17,9%	39,3%
Corporate culture	3,8%	3,8%	19,2%	34,6%	38,5%
Wide range of social security benefits, including a pension plan	26,9%	26,9%	19,2%	19,2%	7,7%

Table 14.

Please indicate which of the following IT solutions are used in your family office/bank?

	FO N = 29	PB N = 9	Total N = 38
CRM system (Customer Relationship Management System)	51,7%	88,9%	60,5%
ERP system (Enterprise Resource Planning System)	24,1%	11,1%	21,0%
Business Intelligence System (BI tools for processing and interpreting large amounts of data)	27,6%	44,4%	31,6%
Mobile application for internal use	20,7%	55,6%	29,0%
Private cloud system for data storage and processing	58,6%	22,2%	50,0%
Public cloud system for data storage and processing	13,8%	0%	10,5%
Private (intra-office) social network	6,9%	22,2%	10,5%
Other	6,9%	11,1%	7,9%
Don’t know	0%	22,2%	5,3%

Table 15.

Which of the following factors does your family office/bank take into account while pricing the services it provides?

	FO N = 25	PB N = 9	Total N = 34
Costs	72%	88,9%	76,5%
Specific features of service end-users, including clients’ special requirements for services rendered	68%	66,7%	67,7%
Dynamics and the ratio of supply/demand for services	44%	66,7%	50%
Pricing policy pursued by competitors and other market participants	48%	77,8%	55,9%
Don’t know	0%	0%	0%

Table 16. **Which of the following service payment options does your family office/bank use?**

	FO N = 25	PB N = 9	Total N = 34
Fixed fee	68%	77,8%	70,6%
Hourly fee	32%	11,1%	26,5%
Success fee (reward for successful completion of a deal)	84%	44,4%	73,5%
Subscription fee/retainer fee (payment for the guaranteed provision of services over a certain period of time)	60%	22,2%	50%
Asset-based fee	60%	55,6%	58,8%
Commission fee	56%	100%	67,6%
Capped fee (bound to the actual costs or time spent, but with an established upper limit of expenses)	4%	0%	2,9%
Performance fee (remuneration for results achieved/bonus for results achieved/achieving targets)	40%	11,1%	32,4%
Prepayment	28%	11,1%	23,5%
Post-payment (payment after the provision of services)	32%	0%	23,5%

Table 17. **Which of the following tools does your family office/bank use to determine customer satisfaction?**

	FO N = 29	PB N = 9	Total N = 38
Personal meetings with the client	96,6%	88,9%	94,8%
Filling in a questionnaire or feedback form	17,2%	44,4%	23,6%
Telephone survey	6,9%	11,1%	7,9%
No tools are used	3,5%	11,1%	5,3%
Don’t know	0%	0%	0%

Таблица 18. How does your family office/bank interact with the client?

	FO N = 29	PB N = 9	Total N = 38
Personal meetings	100%	100%	100%
By phone (calls and text messages)	93,1%	100%	71,3%
By e-mail	96,6%	100%	74,0%
On-line messengers (Skype, WhatsApp, Viber, and others)	65,5%	44,4%	60,5%
E-mail newsletters	34,5%	55,6%	39,5%
Client mobile application	3,5%	44,4%	13,2%
Social networks (Facebook, VK, LinkedIn, and others)	6,9%	11,1%	7,9%
Private (intra-office) social network	3,5%	0%	2,7%
Other	6,9%	11,1%	7,9%
Don’t know	0%	0%	0,0%

Таблица 19. Does your bank provide business management services for Russian clients?

	PB N = 9
Yes	33,3%
No	44,4%
Don’t know	22,2%

Table 20.

Which of the following mechanisms does your bank use to retain staff?

	PB N = 27				
	1 (never used)	2	3	4	5 (extensively used)
Flexible working hours	0%	37,5%	0%	37,5%	25%
Wages higher than the market wages	12,5%	12,5%	12,5%	37,5%	25%
Bonuses based on the results of work	0%	0%	12,5%	50%	37,5%
Location and prestige of the office	0%	12,5%	37,5%	12,5%	37,5%
Possibility of co-investment	14,3%	57,1%	0%	14,3%	14,3%
Predicatble and stable employment	0%	11,1%	11,1%	33,3%	44,4%
Impact investing	28,6%	42,9%	14,3%	14,3%	0%
Opportunities for personal and/or professional development, including education	0%	0%	25%	62,5%	12,5%
Corporate culture	12,5%	0%	0%	50%	37,5%
Wide range of social security benefits, including a pension plan	12,5%	12,5%	25%	25%	25%

APPENDIX 3.

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The Moscow School of Management SKOLKOVO, one of the leading private business schools in Russia and the CIS, was founded in 2006 by members of the business community. Since then the School has educated almost 10 000 professional from Russia and abroad in its programs of MBA, EMBA, Business Practicum, Start-Up Academy and corporate programs.
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RESEARCH

The Centre conducts regular studies of private wealth and family business in Russia. The work that the Centre performs in this area is particularly important to the scientific and expert community, since Russia lacks theoretical publications and practical research on the subject. We analyse inheritance culture, identify the missing links in succession mechanisms, and study the best international practices in order to adapt existing mechanisms to Russia.

EDUCATIONAL PROGRAMMES

On the basis of our own research and global practice, the Centre develops short- and long-term training programmes.
The Centre attracts the best experts and specialists on succession issues, analyses real cases and the existing succession tool set.

The Centre has developed training programmes for:

- wealth possessors;
- members of entrepreneurial families;
- representatives of family offices;
- banks and other financial institutions providing private banking services;
- legal and tax consultants;
- other service providers

WEALTH KNOWLEDGE DAY

The Wealth Knowledge Day Conference is a unique meeting place for professionals and clients of the wealth management industry, where international experience is combined with local expertise.
The aim of the conference is to present case studies and exchange knowledge and experience between leading practitioners, solution providers, and private wealth possessors.

PROGRAMME

Programme for SUCCESSORS

Intensive training programme for the younger generation of entrepreneurial families.

- 5 modules of 3–4 training days each
- Not more than 20 participants in a class
- June–September 2007, 4 countries
- Individual system of monitoring each participant
- Not less than 10 hours sessions day

GOAL:
To promote the creation of a professional generation of Russian wealth possessors.

DESIGNED FOR:
Representatives of entrepreneurial families aged 18–24, with higher or incomplete higher education, regardless of the country where they study and reside, as well as work experience.

TASKS:

- to gain basic knowledge of wealth typology;
- to become familiar with the tools of wealth ownership, management, and protection;
- to discuss the variety of succession scenarios;
- to develop a personal professional trajectory.

The programme includes **three thematic units.**

UNIT 1 — Knowledge of wealth typology

UNIT 2 — Continuity scenarios and personal trajectory

UNIT 3 — Personal case study

Programme website:
successors.skolkovo.ru

Average programme rating by alumni **4,8** from 5

SKOLKOVO WEALTH TRANSFORMATION CENTRE

The SKOLKOVO Wealth Transformation Centre was established at the SKOLKOVO School of Management in 2013 at the initiative and with the active participation of Ruben Vardanyan, a prominent Russian-Armenian impact investor and social entrepreneur, and one of the Founding Partners of the Moscow School of Management SKOLKOVO and its first President.
The Centre is an educational and research platform for entrepreneurial families in Russia and the CIS, their family offices, service providers, philanthropic organisations, regulators, and scientists.
Among the objectives of the Centre is to study the phenomenon of the family business in Russia and to develop the necessary educational and training programmes for different generations of entrepreneurial families and family office managers. To this end, the Centre launches regular studies of the business community and service providers. The activities of the Centre are supported by leading representatives of business and science, charity foundations and philanthropists.

KEY FUNCTIONAL AREAS

- RESEARCH
- EDUCATION
- CONSULTING & MEDIATION
- CONFERENCES & EVENTS
- ADVOCACY

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