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WHITEPAPER

Family offices in the digital age: Data and the reporting challenge

Consolidated reporting is an increasingly central component of the family office proposition. With digitalisation infiltrating every aspect of our lives, families have come to expect a rich flow of comprehensive, timely information that gives an aggregated picture of their allocations, performance and risks across the entire asset portfolio. Failure to deliver – as the expert panel noted during our recent webinar, *Family Office Operations: How to stay ahead in the digital age* – is no longer an option.

Providing consolidated reporting to clients though is no small ask, requiring family offices to manage vast amounts of data. The family portfolios tend to be complex, spanning multiple asset classes, geographic markets and investment structures. And the portfolio information may be spread across many third-party banks, custodians, administrators and private sources. Portfolio diversification in recent years in the hunt for higher risk-adjusted returns has only added to the complexity. Without the right technology and expertise, performance, client experience and staff satisfaction can all suffer.

So how can family offices rise to the data challenge?

Data as a differentiator

Data underpins every element of a family office's operations. "Every family is different and therefore every family office reflects that," observed webinar participant Simon Russell, Chief Executive Officer of London-based Panthera Private Office. "And multi-family offices like ours have to flex their data to respect the needs of each of the different families."

One of the data's key functions is to support investment and financial decisions. As Niall Husbands, Director with management consultancy InDecision Limited, pointed out, the adage "know what you own and why you own it" is crucial in today's market to ensure family offices discharge their responsibilities safely, securely and efficiently. Fingertip access to reliable transactions, holdings and cash data across the entire balance sheet enables family offices to make informed decisions about their investments. And with the help of comprehensive performance and risk analytics, they can gain a clear understanding of performance drivers and detractors within a portfolio, along with their exposures and risks.

Data is also vital for timely and accurate reporting. Family offices increasingly need that complete picture of their clients' wealth across public and private assets, which can only be achieved by consolidating the data first. "Data, if correctly presented, illuminates," said Russell, allowing family offices and their clients to analyse what they want to do next.

The data challenges

Accessing, collating and managing the data flows is a huge and growing challenge though for family offices.

“Clients typically have incredibly diverse portfolios, and that diversification is ever increasing,” noted Kathleen Henrick, Client Operations Director with Landytech. Allocations to private equity and direct investments in real estate are growing. Other alternative investments such as cryptocurrencies are now coming into play. “So family offices need a robust system for accounting for this data in their bookkeeping and reporting on it at greater frequency,” said Henrick. “They need it in near enough real-time, and in an automated fashion.”

Families also have their ‘passion’ assets, such as art, watches, vehicles and wine, said Russell. Since the data for such collectibles doesn’t come off a custodian’s platform, consolidation is made even more difficult and time-consuming.

Many family offices become bogged down in manually sourcing the data and consolidating it in spreadsheets. They may have to navigate complex banking portals or deal with multiple relationship managers. The resulting data usually contains errors and won’t be completely up to date.

Capturing the disparate data, then having the tools to configure and represent it in an intelligible way to the family office and end-family clients is one of the biggest challenges the industry faces, noted Husbands. Families want deeper insights into their portfolio performance, but every family will be interested in different datasets. Some may want a deep dive into property; others are more interested in their business investments. Vast quantities of data therefore need to be interpreted into a few defined key metrics tailored to the specific interests of each client, said Husbands.

Revamping the client experience

The information clients consume about their investments and the way it is reported is what really brings investments to life for them. But expectations are changing, especially as wealth transitions down to the next generation, and family offices need to stay ahead of those shifts.

“You have to think not about how some of your older, more established families want their data, but how their children want it,” said Panthera’s Russell. “How will your business move into the next generation?”

Increasingly clients are rejecting static reporting that is ‘pushed’ to them. Instead they want access to digital dashboards with rich, up-to-date information that allow them to take a more proactive role in the family finances/investments.

The key is to strike a balance between the immense quantity of data now available and what families need/want to see. “We must be careful we don’t just churn out data and pictures for the sake of it,” said Russell. “We have to deliver what clients want, which is about listening to them. And it’s bringing the data to life and making it more interactive.”

That means being able to draw down the high level information clients need to see on a regular basis, then having the granular detail in your backpack to go deeper and deeper as required during subsequent one-to-one meetings.

With multiple assets, and multiple data providers, pulling all the information together can be extremely laborious. But as Husbands noted, family offices that can streamline the process will be able to deliver both a better client experience and improve the lives of the staff charged with the job.

Boosting staff satisfaction

Technology, by minimising repetitive and manual tasks, can provide an important boost to job satisfaction – a major consideration in today's labour market, when companies are in hot competition for good staff, observed Gregory Chouette, Landytech's Chief Operating Officer.

Every business is a three-legged stool made up of its shareholders, clients and staff. "Each leg is critical," said Russell. "If you forget to look after one of those three legs, you end up on the floor. So anything that makes life better for staff ultimately has to be good news for the business."

For many family offices, collecting the data and presenting it in a meaningful information pack takes time and is a massive source of stress, noted Husbands. Staff don't want to spend all day navigating portals and spreadsheets trying to get a grip on mushrooming data volumes.

By automating those activities, the time can be better employed in value-adding discussions with clients about what the data really means, helping to deepen relationships with families and aid business development in the process.

Automation can also enhance business resilience by removing the 'silo effect' and the key person risk it engenders, a vulnerability made more pronounced by the Covid-19 pandemic.

"The danger to the business is you get one expert with a little cottage industry in the corner of your office who knows every aspect of, say, a particular private equity fund but they go off sick for three months," said Russell. "You then have much bigger satisfaction problems with the rest of your team as they try to work out what was going on. Automation really helps with that."

Outsourcing vs in-house: how family offices can meet the data challenge

Family offices have three main options for delivering the data they need. They can:

- Recruit a team of IT engineers and financial quants to develop and manage a full data solution in-house
- Use a consultant
- Leverage an external platform

Building a solution in-house holds out the prospect of control. But a dedicated infrastructure is a big commitment. It is costly to develop and maintain, especially if hosted on internal servers. Data vendor licenses are expensive. As are risk systems, to the point where most family offices opt against adopting one.

The family office is also responsible for keeping all the infrastructure and data up to date, which takes significant investment and resources. And systems can quickly end up siloed across teams, creating data accuracy and consistency problems.

Many firms resort to spreadsheets, which bring manual complexity, key person risk and scalability issues.

"If you want to focus on your core offering, then you are better off going externally," argued Husbands.

Outsourcing to an external platform provider offers four potential benefits.

Cost savings

The expense of building and maintaining all the systems rests with the software provider. "The onus is on us to develop the capabilities to meet our clients' needs, to constantly automate different processes, bring different features and respond to issues fed back to us," said Landytech's Henrick.

And whereas expensive, hard-to-implement risk systems are a huge barrier to entry for smaller family offices that want to offer extensive risk analysis capabilities, an outsourcing provider can take on that work and make the capabilities affordable to users, she added. "Being able to add that extra layer of risk analysis for clients can be a real differentiator for family offices."

Stay current with the latest tech

Software develops fast. Family offices that don't stay at the cutting edge risk suffering a rapid decline in competitiveness and the quality of service they can provide to clients. Keeping current with the latest technologies though takes expertise and serious investment.

In an outsourcing model, it is in the software provider's commercial interests to ensure their technology is updated regularly. Users get the benefits of the latest releases, without the development pain and cost.

Focus on core competencies

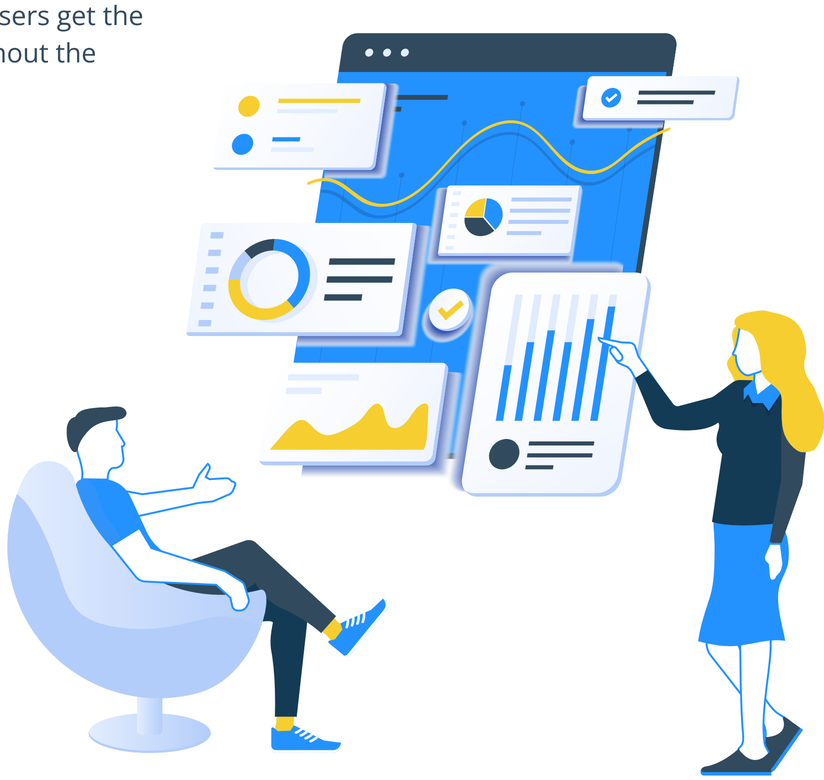
Automating data management and reporting means teams are no longer tied up on mundane tasks. That time can be redirected to activities that add real value, such as relationship building and examining and interpreting the reports, said Henrick.

Outsourcing is no panacea however. Success depends on forming a strategic partnership with the third-party provider, one where it understands the family office's business and the importance of data to it, said Husbands.

Increase team efficiency

Data sourcing, consolidation and reporting become automated. "We do a lot of the data aggregation for you," noted Henrick.

While there is some upfront effort involved in getting data on the system and working with the different custodians, outsourcing subsequently removes much of the manual work from the data process. Tools that deliver easily customisable reports can also significantly reduce the time spent producing them.



Attributes of a good software provider

Consolidating data by setting up automated workflows and integrating systems is the cornerstone of delivering scalable growth for family offices. But it needs to be done right.

So what key qualities should you look for in an outsourcing provider?

As Russell pointed out, each family is different, therefore each family office's reporting needs to be different. "Logically, a plug-and-play product will not work," he said.

For Russell, the number one attribute is a partner provider that listens and is knowledgeable. As well as technical skills, the team needs people with a financial background who understand the investment concepts, who know how to handle the full spectrum of assets and what matters to the user. "It's really important to have humans at the other end who you can talk to and negotiate with, debate and get solutions that work for both parties."

And this extends across the relationship chain. Family offices have to listen to their clients, to understand what data and type of analysis they want to see, said Henrick. "For us, understanding the needs of both the family office and the families they manage is critical."

A full, integrated data and reporting suite is also vital. Some providers can only service the data management; others the reporting side. And given the range of investments a family office typically has, and their ever-changing configuration, the platform must be able to handle both data and reporting for complex asset allocations and the different entities that hold those assets.

Plus the data has to be presented to families in the format they like, added Russell. While the underlying system may be the same, each family has to look at the reporting and feel it is theirs. White labelling, to ensure the output has the right colour schemes and branding so it looks like it came from the family office, is essential too.

Sophisticated analytics are another prerequisite. Comprehensive performance and risk analysis is crucial to any investment reporting platform. Software may provide visualisations that have a 'wow' factor, but if there is a lack of substance behind the charts it counts for little. And there needs to be clear documentation for the calculations used for each metric, to ensure full transparency of the information displayed in the system.

Robust security must be a given. Client data security should be at the heart of any software platform. Ensuring data storage centres and pipelines meet ISO standards helps provide the security assurances families seek today.

"Ultimately, this is a journey, not a destination," said Russell. "Your reporting has to evolve. It can never stop. Therefore, you have to work with a team that is young and dynamic, who are growing their business with the same enthusiasm so the two parties can grow together."

Stay true to the client

Data underpins every element of a family office's operations, and consolidating it has become central to family offices' ability to function effectively and meet the reporting expectations of families.

But with family portfolios now spanning a complex range of diverse assets across multiple banks and custodians, sourcing the required data and manually transposing it into visually compelling reports that provide the insights that families want can be extremely laborious. It consumes time that could be spent deepening client relationships and performing portfolio analysis to identify new sources of alpha.

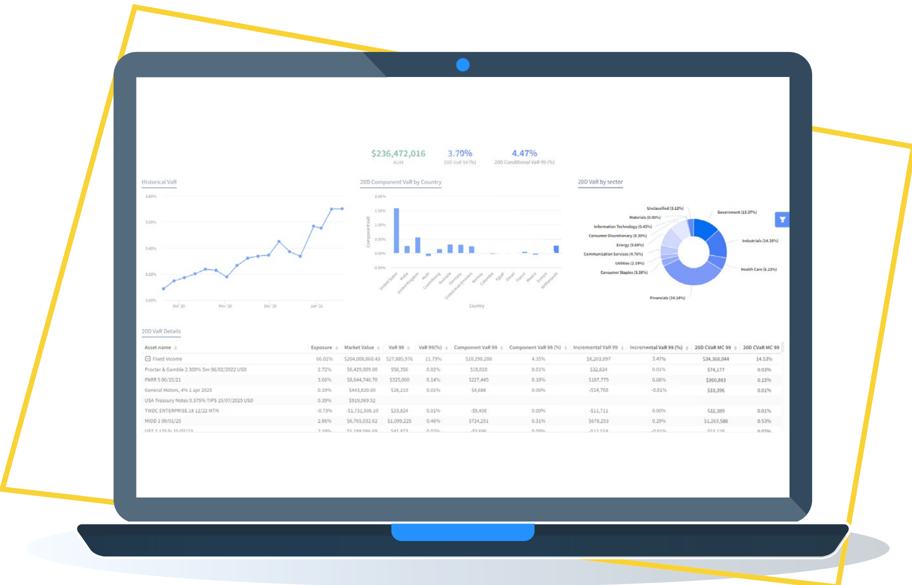
By getting bogged down in data sourcing and consolidation in spreadsheets, the danger is that family offices become distracted from their core purpose of meeting their clients' needs, and end up creating internal cottage industries and additional cost.

So what should family offices do? "Stay true to the purpose of your business and recognise that sometimes you do need to get expertise in to help you," said Niall Husbands.

About Landytech

Landytech's Sesame is an award-winning data consolidation and investment reporting platform, that provides automated data sourcing capabilities, comprehensive performance and risk analysis and automated reporting for any investment portfolios and holdings.

Families are no longer forced to wait for investment data for public or private assets, and consolidated reporting is available in near real-time. Sesame allows family offices to redefine reporting and analysis workflows, streamlining operations and enabling complete transformation of the client experience. Landytech's clients include single and multi-family offices.



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