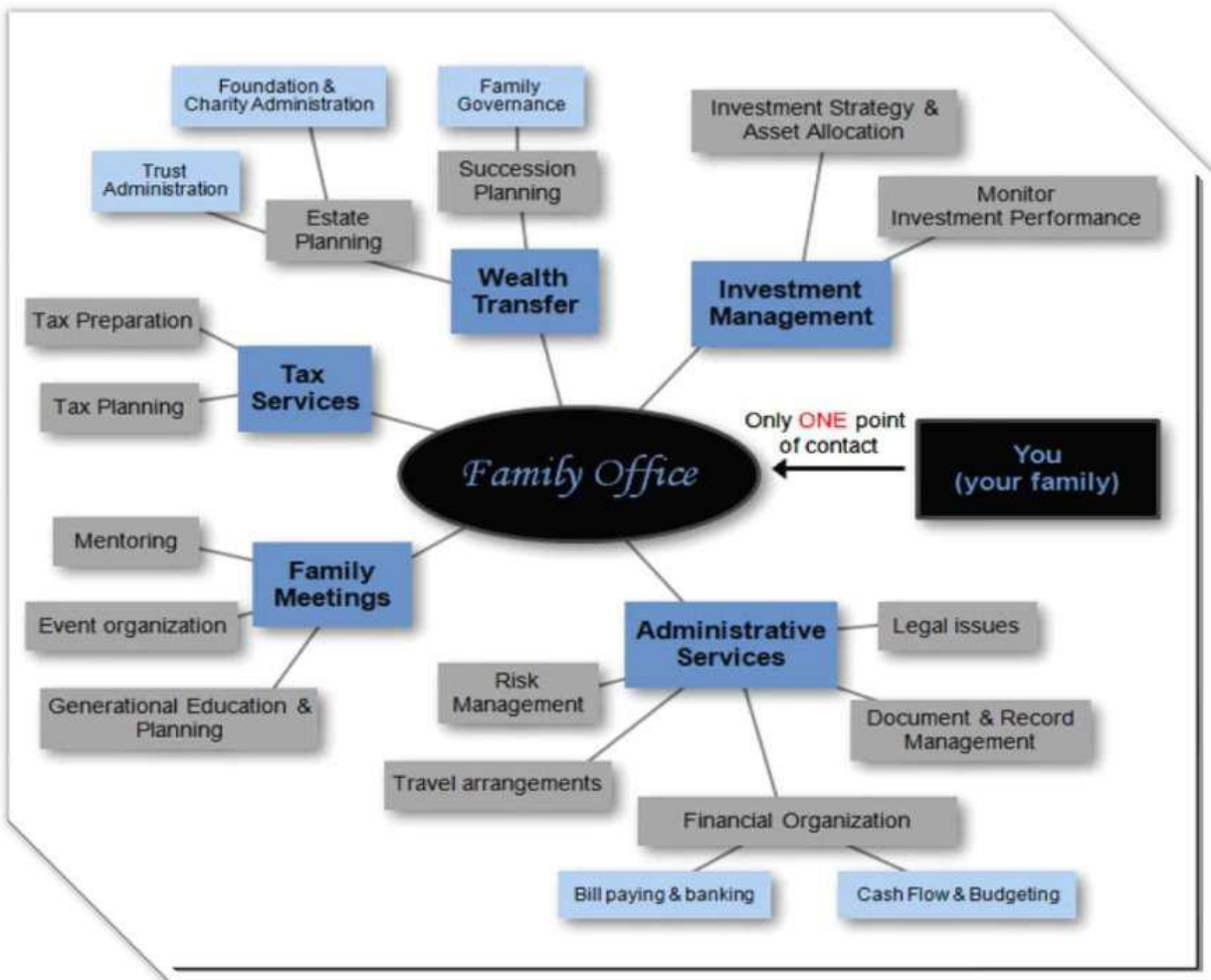# Reporting Framework for Family Offices

Family offices have a complex and sophisticated structure to fulfill the needs of their Ultra high net worth clients and stakeholders, the head of the family, family members and their trusted advisors. These needs range from financial planning activities like investment planning, tax planning, Wealth management, Succession planning and also to manage their non financial assets, private business & illiquid assets (real estate, art work, collectibles etc.).

Below is the complex structure of family offices showing its diverse activities:
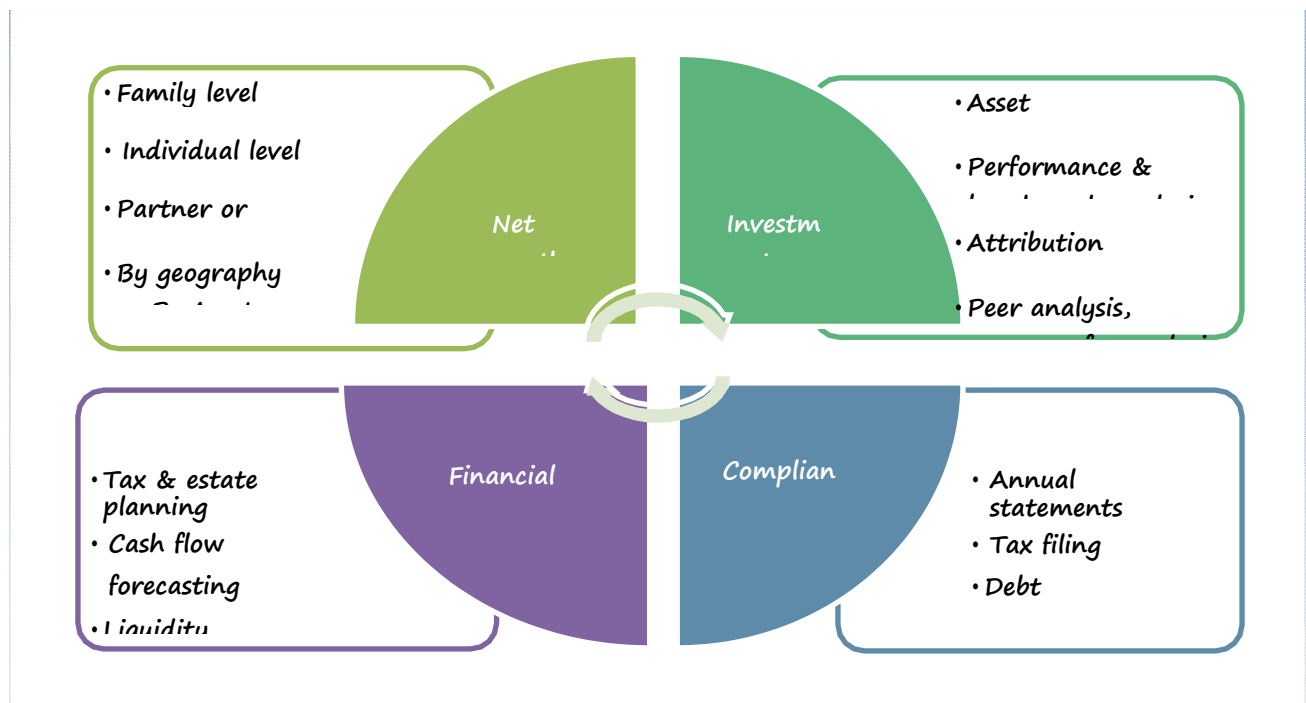

Source − Family office exchange

"**Today's family offices require faster time to market, more accurate data and Customization capability in their reporting framework**"

The current financial crisis & rapidly changing financial markets make it imperative for Family Offices to enable their clients with consolidated view of their holdings and other investments for an effective decision making that is time bound. Current environment emphasizes the role of reporting as an integral and critical tool for Family Offices to offer its stakeholders. HNIs need an access to quality, up-to-date, and precise data about their financial dealings handy in-order to make any informed decision.

Increasing stringent regulatory criteria's, recent economic challenges, the financial landscape of multigenerational families of significant wealth is becoming ever more complex and involved. Thus to help HNIs overcome these challenges family offices must provide timely and accurate information on accounting, taxation & performance reporting.

Types of Reports

There are various reports which family offices generate that provides a clear picture of the family's wealth, however the reporting requirements will vary significantly across different families depending on their specific circumstances. At high level, a typical family office provides, as depicted in the picture below, bunch of reports about their wealth, Investment performance, financial planning, & compliance.

- Family level
- Individual level
- Partner or
- By geography

Net ..

- Asset
- Performance &
- Attribution
- Peer analysis,

Investm .

- Tax & estate planning
- Cash flow forecasting
- Liquidity

Financial

- Annual statements
- Tax filing
- Debt

*Complian*

Source − FORS report

Best Practice Reporting Framework

A best practice method is a way by which consistent results are achieved which are far superlative than other old or traditional means and is used as a benchmark in that particular industry. In the family offices space it is much more dominated by reputed firms who have set certain standards in creating and automating the process of reporting. A best practice reporting framework should be flexible enough to serve as an integrated platform for family offices and can also be customized to meet specific need of family member or advisor in a cost effective manner.

Below is the table depicting traditional method of reporting Vs the best practice reporting structure:

Attributes	Traditional method	Best Practices
Data gathering & Input	Paper/PDF, Fax, phone and doing manual entry	Automated rule based system to gather data from different in-house systems like accounting, portfolio management and third party providers
Portfolio & Partnership Accounting	Quick, Quick books, Excel	Integrated software platform with accounting and other third party systems
Reporting Preparation	Manually, Using Excel	Role based access control system with workflow capability
Delivery of Reporting	By email or Fax	Rule based delivery using traditional means like e-mail with ''entitlement'' capability
Flexibility	New reports have to be created manually	Customization capability to address present and future needs
Record Retention & Data Availability	Access via FO request	Secure access to web portal for on-demand information availability

The following pictures depict the traditional process of reporting and compare it to the best practice framework:
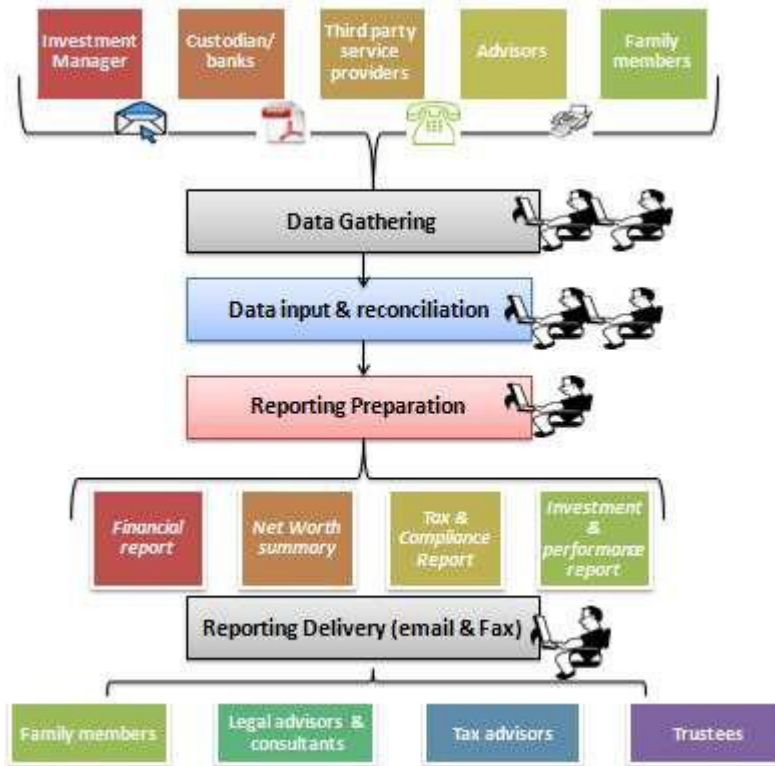
Traditional Reporting Process
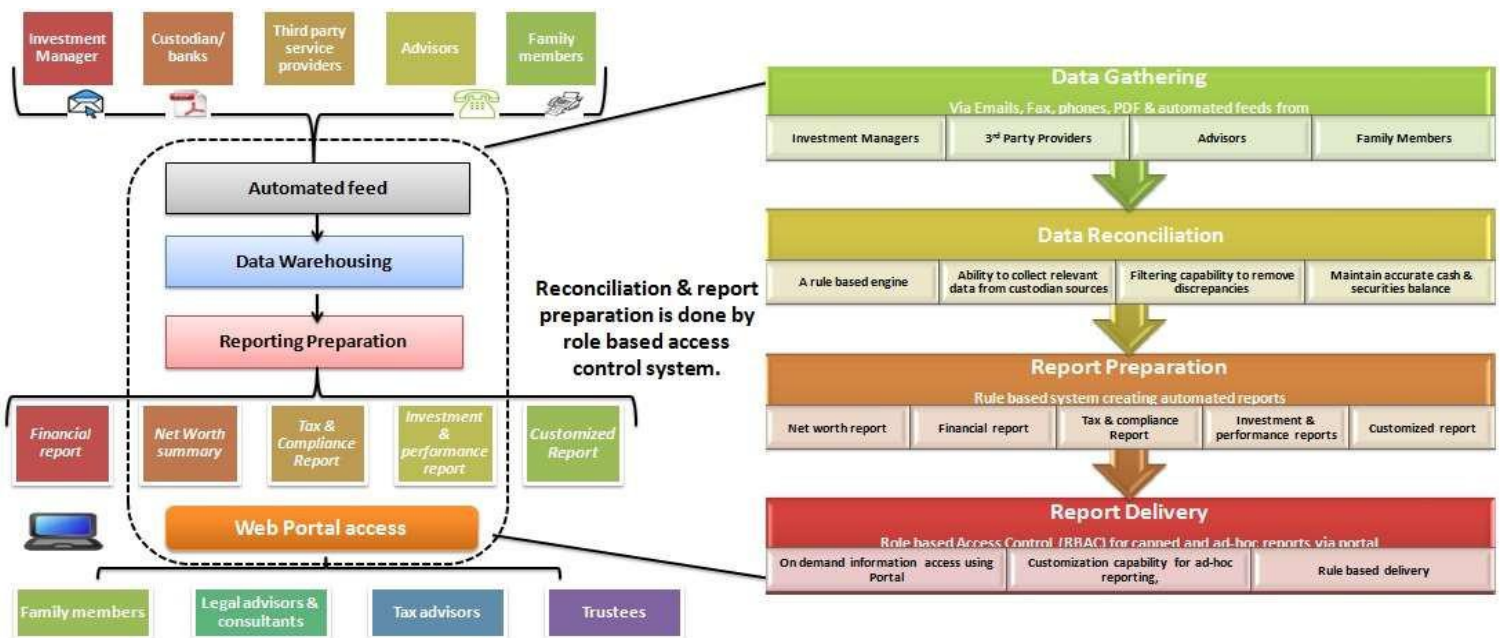
Best Practice Reporting Framework Process

Role of Automation

Today's family office business space is very demanding, they are not only obliged to fulfill the ultimate task of preserving and growing family wealth but they also have other range of duties to be taken care of. These include maintaining & updating financial records, monitoring investment performance, ensuring risk management and also maintaining full tax and regulatory compliance. Apart from these responsibilities, they also have to synchronize with other advisors and third party service providers to ensure families have adequate liquidity to manage their obligations and provide consolidate reporting to have a 360 degree view of their investments.

The reporting and accounting activity of the family offices requires consolidation & reconciliation of the information which is supposedly the biggest challenge they face. They also have to organize and present all types of data for effective decision making. These process requires lots of time and effort in the on the side of management if they doing it manually. The following table shows the most common challenges faced by family offices in reporting and benefits of reporting automation to overcome those challenges.

Traditional Reporting	Best Practice Reporting Framework

• Different format & medium (email, pdf etc.) of information from various 3rd party providers
 	
 • Time consuming manual data entry and data reconciliation process – increases operational risk
 • Due to manual nature, focus is on information and presentation aspect which gives less time for decision making process
	• Reduces operational risk and total cost of ownership (TCO)
	
	 • Increases labor productivity
	
	 • Provide various summary and detail reports
	   o Snapshot view provides detailed information such as entity level and security level performance, allocation & attribution analysis.
	   o In depth reports on pricing, taxes, transaction, security exposures, valuation , exchange rates and security information

Framework to Asses Organization Capability

In order to better understand the path to embark on establishing reporting framework, aka future state, for any organization; it is prudent to assess its current capabilities, aka current state. One of the ways is to use a framework that puts an organization's process maturity against its technological capabilities.

Process maturity indicates when business processes of an organization are at a point that they need minimal changes to achieve acceptable yields. Process maturity is an indication of how close an organization is to developing its processes to be complete and capable of continuous improvements necessary based on external and internal factors affecting the business.

Technology is the enabler of an organization's business processes and when used in the right fashion can create a competitive advantage for organizations. When we look at these two dimensions, process maturity vs. technology capability, we can objectively assess an organization and its probability of success.
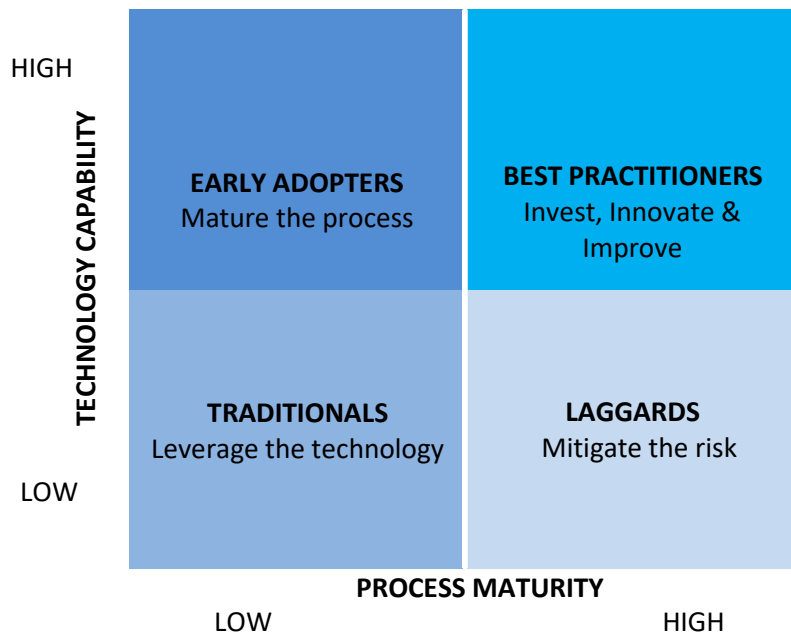
Best Practitioners – ''Highly mature business process and high technological capability''

Best Practitioners have integrated software systems which are automated and all their processes are carried out by role based access control systems so there is no manual intervention, which causes very low probability of error. High flexibility & scalability is achieved as an outcome from such technology enabled business processes. They need to be alert though, lookout for disruptive technology changes (e.g. use of mobile technologies) and continually improve their technology portfolio to support their business processes in the most efficient manner.

Early Adopters − ''Low process maturity but high technological capability''

Early Adopters have the technology in place, but what they don't have is a mature process. Technology cannot be leveraged to the fullest potential as the process itself is lean, evolving or changing. What they have is the ''Growth Ready'' infrastructure in place, but in order to get maximum value, or move to ''Best Practitioner'' quadrant, they must improve their processes and ensure that their existing technology portfolio can support the new processes. They might or might not have an integrated software platform depending upon their process.

Traditionals − ''Highly mature business process, but low technological capability''

Traditionals inherently have high operational risk because, in spite of having a mature processes in place technology acts as ''growth barrier'' as oppose to ''growth enabler''. Due to manual processes, there is high manpower cost and very low flexibility & scalability is achievable compared to best practitioners. There is a risk that if they don't move fast enough than they may fall into ''Laggards'' quadrant, in the event of external factors that change the business dynamics.

Laggards − ''Low process maturity & Low technology capability''

Laggards have high business risk is involved, as the customer retention or satisfaction will be very low. They are very low in terms of flexibility and scalability compared to ''Traditionals'', because they don't have mature processes and is very low in terms of growth potential also as they don't have technology to scale up the process. In order to survive in this competitive market they must scale up their technology and process either to become ''**Early Adopters**'' or to become a ''**Traditionals**''.

Conclusion

Technology is a very critical business function for Family Offices and use of technology, when done right, enables Family Offices to attain growth, stakeholder satisfaction and retention. This insight paper, we hope, will serve as a starting point to evaluate an organization and motivate them to embark upon best practice reporting framework journey.

There are other aspects, like how to implement this best practice framework, build vs. buy, cost of ownership which is big enough to warrant insight paper on their own, are critical to decide the approach for an organization. At the end, there is no silver bullet or ''one size fit all'' solution, it should be

determined based on the vision organization has for itself and its unique situation based on its client type, client size and current state of organizational processes.

About ConvergeSol

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Custom Software Development

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- Reporting Solutions
- Portal Solutions - Microsoft SharePoint Solutions, Web Portals.
- Integration and Customization Solutions — Order Management systems, portfolio accounting systems, CRM, Work flow management etc.. for 3rd party products like Backstop, Charles River, Palladyne, Advent and Relativity.

Product Development

- Product Management
- Software Development
- Quality Assurance Solutions.

Managed Services

- Application Lifecylce Management Offerings, a one stop end-to-end solution perfect for organizations looking to use IT to their advantage, low touch and lower costs.
- Operations and Support offering.

We bring deep expertise in understanding your needs be it order management system, enterprise content management, portals, account opening process or reconciliation process just to name few areas. We complement it by our proven execution expertise across entire software life cycle: project management, business requirement, software development, quality assurance, deployment and support.

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