FAMILY WEALTHREPORT

Family Offices Mull Cyber-Security, Cryptos, Upgrades - Conference

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How best to choose technology upgrades? What can be done to beat computer hackers and is the hype around blockchain and crypto-currencies justified? These were some of the technology issues aired at a recent FWR conference in New York City.

Practitioners in the family office space chewed over challenges of how to buy the right technology across to the challenges of crypto-currencies and threats of hackers at a recent conference held in New York City. The conference was organized by the publisher of *Family Wealth Report*.

Held at the Grand Hyatt Hotel, in Midtown Manhattan, the Family Wealth Report Family Office Fintech Summit ranged across tasks such as how family offices can upgrade technology intelligently; use data to become more successful and see through some media hype to grasp the benefits of latest technologies, whether they be artificial intelligence or crypto-currencies. Speakers also asked the question as to why, with all the talk and investment in systems going on, margin pressure in wealth management isn't easing off.

Sponsors for the event were SEI Archway; PURE Insurance; EY; Oakbrook Solutions; PCR; FundCount; PKF O'Connor Davies; Private Wealth Systems, RedBlack; TM Group; SS&C Globe Op; Mercury iFunds; Solovis; smartKYC.

"Price is a one-time thing but cost goes on for ever and ever," was one of the memorable soundbites from Mike Slemmer, chief operating officer, Americas, at FundCount.

Slemmer, speaking on the first panel of the event, was joined by Melissa Mattison, MD, chief operating officer, Athena Capital Advisors; Chris Martinez, MD, Oakbrook Solutions, and panel chair, Stephen Harris, publisher of *Family Wealth Report*. The theme of this panel was *Making Essential Upgrades to Ensure You Aren't Left Behind*.

Mattison kicked off the discussion by pointing out that before any decisions can be taken about upgrades or putting in entirely new systems, it is essential for a firm to understand its current IT infrastructure. Executives driving a review of a firm's needs must build a "process map", she said.

A challenge, Oakbrook's Martinez said, is that systems can go out of date rapidly; new entrants are joining the sector rapidly. Because of that challenge, firms should use trusted consultants, and make use of peer networks, trusted advisors and confidantes.

Asked how organizations may narrow down a list of vendors/providers in a tech beauty parade, Mattison said potential buyers must start by setting out what they require and what problems need to be solved. Fundcount's Slemmer said that in his experience, one problem is that organizations often haven't made a rigorous self-assessment of their needs in the first place. One issue, Oakbrook's Martinez said, is that firms don't realize how unique and different each family is. For example, the functions and kind of investments managed by a family office (liquid/illiquid, foreign, domestic) can play a big part in deciding what system is most likely to work for a family, he said.

Mattison argued that in purchasing systems, the one that might win won't necessarily have a single "wow" factor but have ticked the boxes on a range of selection criteria.

Finally, in assessing what IT arrangements prove to be the most successful, Martinez said: "The most successful implementations have been by organizations that have embraced change." Slemmer commented: "Further to that point – if it's not endorsed by leaders at the top it will never happen. I always know this will be an obstacle when a prospect cannot tell me clearly what their process for review and approval is." Mattison added that buyers such as family offices should not always rely on a vendor's project manager to get the task done but to have an internal person to drive the project.

Next up was a discussion around the dynamics currently affecting the business of family offices and UHNW individuals, featuring William Trout, head of wealth management research at Celent, and Jamie McLaughlin, founder and chief executive, JH McLaughlin & Co.

McLaughlin addressed what he sees as a strange situation: more efficiencies are coming into wealth management, but "it's not showing up in pre-tax margins and it is not showing up in profitability; at least not yet as unit labor costs have not fallen". Part of the issue, he said, is that parts of the wealth management service matrix are becoming more commoditised, particularly investment management, leading to a loss of pricing power for firms who employ an asset-based fee methodology. "We have socialised clients to the idea that they can get all the non-investment "stuff" for nothing," he said. "We need to re-socialise them to the idea that they need to pay. However, firms will be challenged to staff or out-source to deliver such complex solutions and must demonstrate and communicate their value.

Celent's Trout picked up on the buzz around "robo-advisors". "We are seeing reverberations across the wealth space. He said some of the predictions of robots replacing people in the sector appear to be far-fetched, but foresees the automation of tasks done more effectively by machines than people – such as client on-boarding and the embedded compliance function.

Second panel

In the second panel, speakers were Liora Brener, chief operating officer, Fingerboard Family Office; Bob Miller, CEO and vice chairman at Private Client Resources; Josh Smith, co-founder and CEO, Solovis; the chair was Erin Hulse, founder of Deviate Consulting. The panel theme was *Using Data to Drive Success*.

The discussion started off with PCR's Miller urging attendees "to prioritize their obligation to protect and curate the accuracy of client information ahead of rushing to present insights derived from data of less known provenance." He continued that the "current model of having multiple systems ingest and normalize the same investment data with little governance produces inconsistent and erroneous client communications – that a centralized information management strategy – a hub and spoke model – was critical to this process." Solovis's Smith talked about the kind of information clients and users need about investments and the cashflows coming off them: "It's critical to have accurate insight into liquidity and cash flows – essentially `when will that money be available to me?'" He discussed an area of significant interest – transparency into underlying assets held by ETFs, Mutual Funds, Hedge Funds and other commingled managers. "Hedge Funds aren't an asset class, they own equity and debt securities for the most part, but require more advanced analytics and reporting capabilities when viewed as part of a large-scale multi-asset class portfolio."

There was discussion, led off by Miller, about why it is important to "normalize" data so it is usable. Brener argued that it is essential to accomplish this, given how unwieldy much current data is in organizations. Miller stressed that curating historical data at an organization is vital – it is often of real commercial value. "This is not just about a performance report…there are lots of other behavioral things in there." Smith weighed in by pointing out that with areas such as private equity, internal rates of return and remaining unfunded commitments and fees, which draw on historical data, highlight the need for long-lasting information.

The panel was asked about how the holding of data works at a time when, in some part of the world such as the European Union, rules are being tightened on how personal data must be stored and used. PCR's Miller talked about how data can and should be anonymized so it can be used without falling foul of data protection rules.

Third panel

The third panel featured Sonny Saksena, chief investment officer and MD of Maihar and Rik Willard, founder and MD, Agentic Group, and CEO of Global Blockchain Technologies. This panel was chaired by Tom Burroughes, group editor, *Family Wealth Report*. This panel's theme was *Seeing Beyond the Hype* Surrounding New Technologies.

Willard talked about the rise of crypto-currencies of different types and how, at a time when confidence has been shaken in conventional government ("fiat") money, such innovations were finding a ready audience. "It's a massive opportunity," he said. A world dominated by large, government currency systems in place for over a 100 years is being challenged, he said.

Saksena cautioned that central banks retain "ultimate control" on the monetary system. CB confidence is high after preventing 1920s style great depression following the Great Financial Crises. The debate about crypto currencies and associated systems is taking place against a background of worries about economic viability, AML/KYC, governance, evolving regulation/laws, cyber-security and fraud.

Willard, asked about blockchain technology that underpins crypto-currencies such as bitcoin, pointed out the use of such tech in areas as diverse as communication and audit of medical information, legal documents and intellectual property rights. Through blockchain technology, these applications have the ability to create new forms of peer-to-peer and "C2B" value, such as primary ownership of one's own medical records and leveraging that ownership to create new personal revenue streams.

Saksena said there are limitations to crypto-currency and associated technologies: "Soon the world will find out that it is very hard for majority of these companies to succeed in their current form. There are commercial viability, management integrity, platform scalability and corporate governance issues. It is in the interests of central banks and of the IMF to control the monetary system and the medium of exchange. Regulators across the world are paying attention and enforcement actions are increasing. "

The panel also discussed the promise and potential threat of artificial intelligence. "It is easy to make mistakes with AI," Willard said. Saksena, addressing automation developments in financial services, added: "Large family office investors don't like to talk to a robot."

Fourth panel

The fourth panel featured Martin Hartley, chief operating officer, PURE; Joe Levy, chief revenue officer, Rubica; Theresa Pratt, chief information security officer, Market Street Trusts; the chair was Thomas J Demayo, principal, cyber-risk management, PKF O'Connor Davies. The panel was entitled *Cybersecurity and the High Net Worth Family*.

Levy started the discussion by noting that with many firms and business owners, the vulnerability starts when such a person is at home, rather than in the office. PURE's Hartley agreed: "Cyber-security in the work environment is far higher than at home."

Pratt said the unwelcome news for people is that the bad guys have the lead; it makes sense to assume that breaches will happen and to have a plan and set of processes to deal with them. "You cannot do enough training, you just can't."

Hartley argued: "There are steps you can take that will take you out of the limelight…..the situation gets very different if you are being deliberately targeted."

There was discussion on the panel about ideas such as how organizations should disclose to the public if there have been breaches. One problem, panelists agreed, is that breaches might not be detected for months.

Alongside the panels were a number of presentations: SS&C GlobeOp Private Capital Group, talking about how this firm serves family offices; EY on recent tax changes in the US and implications for clients, and Mercury iFunds, addressing science and art in constructing alternative portfolios.

The conference also featured a keynote address by Peter J Scott, a futurist author who spoke about the threats and opportunities from the rise of artificial intelligence.