6 Family Office: Which Role in Europe?

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6.1 Introduction

The sector of private banking is undergoing growing changes and family office has now become an interesting and highly potential reality. Customer requirements increase and grow diversified and the deeper awareness of risk/return profiles provoke migration from one bank to another, in pursuit of reliability and professionality. In Western countries families show a more critical attitude versus financial intermediaries: the relevant losses experienced by asset management, often higher than expected, have led a lot of private customers to reconsider the trustworthy relation with their advisor. The phenomenon has been undoubtedly accentuated by the deeper awareness of possible conflicts of interest within the financial intermediary, a problem that has involved not only great international merchant banks, the protagonists of several legal proceedings in the past few months, but also national banking groups. In this respect, a recent study by Price Waterhouse Coopers Consulting has shown how some of the change fundamental motivations that up to some years ago had only a minor relevance (e.g. product and service pricing, lower performances, dissatisfaction with services and new regulations, etc.) are now growing more important and will become of crucial importance in the forthcoming future of family business, the demand often goes beyond mere asset management to embrace the management of the complex relation between the family and the enterprise. As we have seen in the previous chapters, the effort made by several financial intermediaries aims at successfully managing the evolution from private banking to wealth management logic, for the purpose of coordinating the set of variables making up the firm and the family wealth. If the set of services provided by the intermediary can be easily listed, from asset management to corporate finance – here including for example fiscal, legal and real estate advisory – it seems much harder to establish, in the first place, whether skills and re-

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1 See contributions by Corbetta G. and Marchisio G. in this research.
2 The study has been carried out in Europe, USA, Australia, Canada, Switzerland, Japan and Hong Kong. See PWC Consulting,” Global Trends in Performance Measurements”, 2001.
sources required by such strategic and organizational changes are actually available in Italian banks and, in the second place, which change implementation modes might be applied by executing processes designed to integrate customer-oriented services.

It is of primary importance to tackle the issue of wealth management for HNWIs, who now in Italy account for about 1% of clients with a net worth equal to 14% of the total wealth\(^3\); the growth rate for the next few years is expected to be about 8% despite the current financial downturn. Competition for market share increase should become even keener, especially when considering that this segment presents the bank with a 28% average contribution margin\(^4\). As a result, the segment is quite important for trade banks and for all of the institutions interested in operating in wealth management. In addition, Italy is still a fragmented market, subdivided into global players and small operators: no bank exceeds the 6% market share; development potentialities are striking and the industry is facing a period of constant evolution and consolidation.

As the competitive scenario is undergoing remarkable changes, a lot of banking groups are deciding which model of corporate governance they intend to develop and which market segment or niche they are about to focus on. Each bank must consider a lot of aspects with consistency and determination: the business strategy to be adopted, the organization model, the service to be provided, the development of human resources and IT systems. According to the different path pursued, there will be multiple possible solutions. Within this context, the family office is one of the possible models available.

The chapter is structured as follows: paragraph 2 outlines the phenomenon of the family office within wealth management by illustrating strengths and competitive advantages; paragraph 3 distinguishes the prevailing business models in the family office according to demand-supply combinations: the analysis is focused on the fundamental requisites the family office must comply with in order to provide an excellent service in the market of wealth management; paragraph 4, on the contrary, focuses the attention on the costs of the family office structure; paragraph 5 will try to clarify whether the family office is an effective operative solution for Italian banks and which organization structure it should adopt within the group.

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\(^4\) The affluent segment accounts for 9% of retail clients and generates 42% of margins; mass clients account for the remaining 91% and generate only 30% of profits. Data are taken from an analysis by Delia-Russell and Di Masci 2002.