

Family office resilience

Key learnings from the pandemic



Introduction



Like most organizations, family offices have to function effectively and deliver services even in times of crisis—with the ensuing havoc touching everything from volatile financial markets, to anxious family members and staff, to the state of the economy. During the pandemic, families also have had to worry about and navigate widespread threats to their health and to the health and well-being of everyone in their circle.

The adversity of the pandemic has altered the state of family offices. Whereas succession planning previously may not have been a top priority or was centered on a single event (death of the principal or family office leader), there's now a sharper focus and higher importance given to having a robust business continuity plan and implementing governance that builds resilience.

Reflecting on the pandemic, one thing is clear: family offices with business continuity plans in place fared better than those without, and the need for contingency planning is more evident than ever. What's more, this crisis forced family offices to implement a governance framework and define their purpose more clearly.

What are the lessons learned from the pandemic? To answer this question, we turned to experts in our UBS Professional Network, a group of external consultants and professionals we have carefully selected to complement the services we offer to clients.

All leading specialists in their fields, they provided a robust and rich set of insights and observations. We have distilled their reflections into five sets of lessons and possible aims for family offices.

The pandemic highlighted both strengths and weaknesses in family office structure, policies and procedures. Though the experience has been challenging, it has provided opportunities to learn, strengthen and change.

Lesson 1: Business continuity, controls, technology and reporting



The pandemic has proved the importance of resilient organizational and operational frameworks. Major business and family decisions need to incorporate security, business continuity and emergency response plans. Family offices aiming to achieve best practices should take note and introduce business continuity policies, as well as review their controls, reporting and technology. Most family offices moved to working remotely, but the

abrupt change revealed organizational and operational blind spots, as well as governance shortcomings.

Notably, those family offices with business continuity plans adjusted more adeptly. They had anticipated similar scenarios and had already put written policies in place. Even so, there were shortcomings. Continuity plans tended to be narrow in focus, concentrating on a key family member or employee—or a specific

type of event. The pandemic highlighted a need for multifaceted plans for multiple people and events.

There is increasing appetite for professionalizing the family office and introducing emergency planning, not just related to the pandemic but for all hazards. Broadly speaking, this involves developing business continuity plans that include:

- Cross-training
- Backup for cash management
- Emergency plans for family members, encompassing medical and travel options
- Access to data
- Physical and cybersecurity

For some, business continuity had involved a work-from-home plan that is now being rewarded. Those that did not have a fit-for-purpose infrastructure in place quickly moved to introduce it. This extended beyond buying the laptops and desks that were hard to source in the early months of the pandemic. Many of those that don't have a suitable architecture, with appropriate controls, are introducing it.

Additionally, there is a significant uptick in family offices wanting more

electronic access through online portals that offer real-time insight into their holdings, including investments, real estate and personal assets. Too many had previously relied on paper reports or Excel spreadsheets, which were not necessarily available to everyone needing them remotely. Looking forward to recovery from the pandemic and their next phase, it seems likely that family offices will embrace the flexibility of working from home part of the time. They will continue to need everything that enables flexible working, including:

- Virtual/video conferencing
- Mobile applications
- Cloud-based systems
- Ability to outsource

It's essential that your business has redundancy of skills, knowledge and function by taking a team approach, where anyone can step in during a crisis to fill a gap or address needs as they arise. Talk to your professional advisors to ensure that they have a similar philosophy around developing bench strength and duplication of skills and function from a risk mitigation perspective.

A checklist for safeguarding business continuity

More generally speaking, one leading security firm¹ is advising all clients to take the following steps to ensure continuity of operations during the pandemic and other emergencies:

1. Establish an emergency communication plan and ensure all internal and external distribution lists, contact information and emergency contacts are up-to-date and easily accessible remotely.
2. Review organizational charts to implement redundancies for all crucial roles and establish secondary decision-making protocols in case key decision-makers are incapacitated.
3. Continuously monitor information from international, federal, state and local authorities in all relevant jurisdictions and disseminate information to all personnel who may be affected.
4. Perform personalized monitoring for key personnel by a personal assistant, security manager or other staff familiar with their calendar. This should be tailored to address all anticipated travel, events or activities.
5. Review all standard operating procedures (SOPs) and emergency action plans (EAPs) to identify procedures/protocols that could be affected by a crisis. Create modified SOPs and EAPs tailored for various levels of escalation, to be distributed if the severity of a crisis increases. Ideally,

automatic triggers should be predetermined for when modified SOPs/EAPs are to be activated.

6. Regularly test all telework hardware and software to ensure all personnel, especially key personnel, are able to telework securely and efficiently.
7. Draw up a list of mission-critical vendors/suppliers, identifying those that are highly susceptible (whether due to geographic or operational reasons) to disruption related to the pandemic or other crisis. Communicate with them to gain an understanding of their response plans and capabilities. Implement redundancies as necessary.
8. Review insurance policies to ensure coverage is in place to protect against materially adverse events related to the pandemic or other emergencies.
9. Regularly review employee policies to incorporate changes to labor laws, local health regulations, privacy and medical privacy regulations (e.g., HIPAA) related to new safety measures that may be implemented (health screening questionnaires, mandated testing, body temperature readings, etc.) to avoid any unintended violations/liability. If possible, you should outsource these duties to properly licensed and insured third parties, which may provide indemnifications.

Lesson 2: Family communication and governance



In a world where meeting in person has become risky, how can families and family offices maintain the effective communications and order that are so fundamental?

To bridge the communications gap, meetings have inevitably become virtual. That applies not only to family gatherings and shareholder meetings,

but also to board and investment committee meetings. An unintended benefit is that this provides an opportunity to engage the “next generation,” which was often unable to attend family meetings due to work, school and other conflicting personal commitments. Acknowledging that a lack of communication is often a source of misunderstanding, some



Reviewing essential documentation and tax arrangements

Foundational estate planning: COVID-19 has deeply affected our daily lives and our sense of normalcy. It is more important than ever to be sure your fundamental estate planning documents are in order. Everyone should review their current wills, powers of attorney and advance directives. If you do not have these documents in place, consider consulting with your attorney. If they already exist, review your named agents and successors to make sure that those named individuals are still in accordance with your wishes. Dealing with a serious illness or sudden death is traumatic. Having your affairs in order, however, can go a long way in easing the stress on your family and loved ones.

State tax residency: Many taxpayers are spending extended periods of time away from their primary residence because of the pandemic. If you spend that time in a different country, or a different state inside the United States, you should consult your tax advisor to determine whether you will have any additional tax filing or payment obligations.

To learn more, see *Foundational estate planning during a pandemic*, a whitepaper from the UBS Advanced Planning Group.

family leaders have increased the frequency of updates. Given the volatility and variability of investment performance in 2020—with a notable difference in the performance of growth and value stocks, for instance—highlights the need for succinct communications.

Families have become more aware of the need to access information remotely, since access to physical documents and information at the office has often been impossible. The pandemic may be the final impetus needed for a clear and concerted push toward digitization of documents, digital signatures, electronic billing and electronic payment adoption acceptance. Create a digital foundation for centralizing and backing up office operations that includes making essential contracts, agreements and plans accessible, and automating end-to-end processes.

Turning to governance, succession planning is clearly relevant—not just for the family but also the family office. As the risk of severe illness or mortality becomes all too plain, succession plans have been revisited, reviewed and developed. Similarly, family office staff should be cross-trained to perform a range of roles.

Lesson 3: Security and privacy



The sudden move to remote working highlighted and increased vulnerabilities in the technology and communications platforms that family members and staff were using to operate. Generally speaking, home networks do not have the same level of effective cybersecurity protections found in offices. Threats

may come in many forms, from phishing or ransomware attacks, that can cripple operations, to targeted intellectual property theft.

While many family offices have struggled with this, they are not alone. The FBI has reported an increase in cyberattacks. It's no

longer just the large financial institutions and multinational corporations that are being targeted: even small organizations have proved vulnerable.

Family offices are beginning to make cybersecurity a top priority. Principals and staff alike share responsibility for making online activities secure. It's challenging to make everyone understand the threat and take steps to plug cybersecurity gaps—but worth the investment.

Beyond cybersecurity, experts in the UBS Professional Network believe that executive protection and security systems generally merit more attention. Family offices must also regularly review third-party risk factors—the vendors and professionals they rely on, including accountants, lawyers and others. Family offices should feel confident that their external partners are protecting data as responsible custodians and aren't exposing their business operations to undue risk.

Finally, putting in place social media, e-mail and communication training and policies for your staff and family members will reduce the risk of security breaches or reputational losses.



Acting with integrity

In a period of uncertainty and increased tension, your actions and sensitive personal data may be placed under the microscope, according to the advice of one reputation and privacy consultancy.²

There is increased scrutiny of the conduct of family-owned enterprises both by the mainstream media and social media “activists.” It is no longer enough simply to make decisions that are legally correct—they also need to be reviewed to be fully in line with your values and your stated position (if you wish to make one).

You may be judged by how well you look after your employees; how well you conduct yourself; how well your families and organizations comply with the letter and spirit of the lockdown regulations and cultural climate; and how well you are positioned to emerge from these crises.

Review of your current and prior digital footprint is advised, and a thorough review of the family members’ privacy is recommended on an annual basis.

² Schillings International USA (LLP)

Lesson 4: Lifestyle



How can you improve life for your family and safeguard the well-being of your children when offices and schools are operating remotely or hybrid? Some families have reacted by staying in vacation homes for extended periods. Others by moving from cities to the suburbs or rural states.

Household staff

As families make these moves, they are considering not just housing but also household staff and family office support. There has been an increase in demand for home staffing, including roles for assistants, chefs, estate managers and housekeepers. It may be necessary to redefine the roles and responsibilities that meet the

demands of this “new normal” and to meet your individual needs.

Having a few critical support and management staff members to oversee both home and office can be invaluable during a crisis such as the pandemic. It can make all the difference to have a few key staff members you can trust to keep all functions of your lives running smoothly.

Travel

During the pandemic, commercial airlines have continued to shrink their networks, cutting back their schedules and routes domestically and internationally. For families of great wealth, private air travel has

become more in demand. We anticipate this trend will continue, particularly to access underserved destinations.

Family office

As families reassess their priorities in life, they are reviewing the role of the family office in managing a family’s complete lifestyle. In the future, the family office may have a wider appeal and its key staff broader responsibilities.



Leadership

One outcome of the pandemic is the need to hire support staff with superior management skills. Since many family offices are currently working remotely and plan to stay that way for the foreseeable future, it’s crucial that you bring on employees with flexible, practical management skills so they can pivot easily to address a change, challenge or crisis.

Family leaders who are aware of the need to show concern for their valued staff have been successful in keeping individuals in critical roles. It is more important than ever to make sure that committed and loyal employees are: healthy, happy and content; comfortable with their compensation packages; engaged in their work; and onboard for the long term. The pandemic has brought to light the importance of compassion, benefactors and the need for leadership. For example, some families assign a “buddy” versus a “boss” to mentor and assimilate a new staff member into the family culture.

Lesson 5: Philanthropy

The field of philanthropy has been profoundly shaken by the pandemic. Many nonprofits have suffered substantial declines in fundraising. In a recent survey by CCS Fundraising, more than 50% of nonprofits reported a fundraising decline, and 72% expected that they would see a decline by year end; at the same time, 20% of nonprofits have been forced to furlough or lay off fundraising staff. When a crisis or

disaster arises, many family foundations and individual philanthropists change their giving focus, strategy and practice. They feel an urgency and responsibility to activate and support the needs arising in real time. During the pandemic, many have shifted into “emergency funding” mode. They are giving even more generously and quickly now, asking questions later.

Innovation is happening at light speed and private philanthropic funding is playing a pivotal role in funding rapid development of new diagnostics, vaccines and treatments. Philanthropists are realizing that they can have a seismic impact on emerging research breakthroughs. At the same time, donors and funders need to keep mid- to long-term objectives in mind and not

pivot exclusively to an emergency response approach. This is especially important, given that it is unclear how long the current crisis will last and what the long-term consequences will be. Thus it is important that philanthropists do not abandon support for other kinds of organizations, missions and priorities that may be deeply affected by the current crisis, directly and indirectly. Arts and culture, education and the environment, just to name a few, still need support. It is imperative the overall nonprofit sector continue to receive funding so as to keep functioning, providing necessary and important services, and also to prevent other crises of viability later.

Foundations are becoming more nimble and engaging more in “trust-based philanthropy.” They are making unrestricted grants, they are communicating flexibility to grantees in how they allocate funds, and they are collaborating and innovating. They are also reassessing their values and priorities. The current time is not only marked by COVID-19 but also by the growing awareness of economic disparity and racial and social justice issues. Many foundation boards are taking a hard look at the role philanthropy plays in addressing diversity, parity in economic opportunities and fighting systemic social issues.



Improving foundation effectiveness

For foundations connected to family offices, the pandemic has brought many lessons, ranging from their purpose to how they operate. It has also revealed ways to improve efficiency and effectiveness.

In times of crisis, your priorities can often become clearer. Take time to clearly define or refine those priorities and make sure that is where your efforts are currently focused.



Concluding thoughts



A global health and economic crisis, the pandemic has tested the ability of family offices to operate under extreme stress. Just as it has affirmed what competencies today’s family office must have, so too it has revealed where the gaps lie—whether in controls, communication, security or even philanthropy. Above all, it has provided an opportunity to reassess, reinvent, strengthen and reinforce the importance of having a robust governance structure in place that includes a business continuity plan.

This has been a tragic and difficult time. It offers an opportunity to bolster resilience, guard against future disruption and emerge better. As we continue to recover from this most challenging period and move toward more normal times, it is imperative to conduct a thorough gap analysis of what worked and what still needs improving. This analysis, reflection and the lessons learned can help you to develop a road map of your next steps, objectives and enhancements. Implementing them will build on the resilience gained during this crisis.

Mapping your current situation

Mapping your current situation will enable all family members to reflect on the gaps in your current setup and what you would like a potential family office to cover. Consider the following questions:

- Who advises and supports the family?
- How can the coordination and consolidation of family affairs be improved?
- How can a professional team augment, complement and collaborate with the family founder and leadership?

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