

MARC

Rise Of Family Offices In India

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Contents

1. Family Offices: History & Types

3. Factors Leading To Rise Of Family Offices In India

5. Family Offices Investment Allocation

7. Challenges Of Managing Family Offices

2. Family Offices In India: Statistics

4. Where Do Family Offices Of India Invest?

6. Where are Family Offices Based?

1. Family Offices: History & Types

A **Family Office** is a private wealth management advisory firm that serves **Ultra-High-Net-Worth Individuals (UHNWI)**. Family offices differ from standard wealth management firms in providing a comprehensive solution for handling a wealthy individual's or family's financial and investing needs. For instance, many family offices offer budgeting, insurance, charitable giving, wealth transfer planning, tax services, and more in addition to financial planning and investment management.

Family Office Types

Embedded Family Offices (EFOs)

Single Family Offices (SFOs)

Multi-Family Offices (MFOs)

Virtual Family offices (VFOs)

Family Office Types

- While the idea dates back to the DuPont family in France in 1834, the first full-service single-family office was founded in the United States by John D. Rockefeller in 1882.
- Throughout the course of the following 100+ years, these organisations developed, eventually becoming more operationally complex and acknowledged as official organisations.
- By the middle of the 2000s, family offices were widely acknowledged as a separate business with their own trade associations, conferences, and a range of financial services companies that catered their services to them.
- India is among the countries with rapidly expanding number of Asian family offices, which currently outnumber those in the United States and Europe.

2. Family Offices In India: Statistics

India's Growing Wealthy Population

- There are **166 Billionaires** living in the nation.
- By **2026**, there will be twice as many US Dollar millionaires (**16.32 lakh**), up from **7.96 lakhs**.
- India has **1,132 centi-millionaires**, which ranks it third in the world after the **US (9,730)** and **China (2,021)**.
- A centi-millionaire is someone whose net worth exceeds **\$100 million USD**.
- Indians' financial wealth increased by **11%** per year between **2015** and **2020**, and it is projected to continue growing by **10%** annually to reach **\$5.5 trillion** by **2025**.



In India, there are thought to be 300 family offices, with average assets under management (AUM) of \$100 million USD.



In Tier 2 and Tier 3 Indian cities, more family offices are growing.



It's anticipated that there would be 1,000 family offices in India.

3. Factors Leading To Rise of Family Offices In India



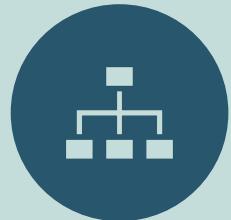
Global Influence

Global trends push family-run businesses to professionalize the way their assets and wealth are managed due to trends like next-generation influence, The succession taboo, and Investing for impact.



Increasing Losses

Family offices were driven also because several wealthy families incurred substantial losses on their investment portfolios that were being managed by Banks and larger Financial Institutions. They seek to have greater control over their investments and a lower cost of investing.



Diversification Of Investment

Families are turning to family offices to invest their wealth into different asset classes such as real estate, fixed-income funds, hedge funds, equities, and private equity.



Search For Better Investment Control

Families are looking for ways to improve the process of analyzing the management of a portfolio with the aim of improving performance.

4. Where Do Family Offices In India Invest?

Family offices are now looking beyond the traditional wealth-creation such as public market, real estate and gold and now they have altered their focus to diversifying family holdings and growing wealth. This new, proactive attitude has led to a change in investment preferences, bringing an increased interest in direct private investments and co-investments to private companies.



Investing In Start-ups -

Family offices have understood the growth potential in investing in start-ups and have started investing more in the same. Investment in start-ups is a high risk, but with high risk comes high return which cannot be afforded by traditional investment classes.



Investing in Venture Capitals -

VC firms are seeing a huge percentage of capital coming from Indian family offices in their recent funds. Indian family offices and Ultra-high-net-worth Individuals (UHNIs) have been the 'top source for domestic capital in the VC ecosystem'. They accounted for nearly **60%** of domestic capital raised in **2021**.



Cross Border Wealth Planning -

Families establish family offices in a geographical location where their accounting and legal teams are housed. Dubai and Singapore are the places most of them invest in because of the business-friendly tax benefits and governance and regulatory standards. This enables effective tax planning, structuring and provides special protections to investments made in countries with whom Singapore has entered into such treaties.



Passion investment -

Passion investment is a term used to describe investing in activities or ventures that you also have a personal interest in. For e.g. Investors investing in a technology or area that they have a passion for or investment in a sports team can benefit at a good pace.

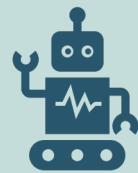
5. Family Offices Investment Allocation (1/2)



It is expected that the family offices in India are going to account for **30%** of the total \$100 Bn of start-up funding by the year **2025**.



3 out of 4 family offices surveyed by Campden Wealth invested in **Healthcare** in **2022**, and **39%** plan on increasing their investment in **2023**.



Other areas that are most likely to see a rise in allocations are artificial intelligence, with **40%** of those invested there planning to increase their allocations, green tech (**35%**) and biotech (**34%**).



And according to a UBS report, over **80%** of family offices invest in **Private Equity**.



5. Family Offices Investment Allocation (2/2)



80% of family offices are interested in **Sector** or **Thesis-driven Funds**, and **60%+** of family offices are interested in ethnically diverse and **Female-led Funds**.



80% of family offices are making investments in **ESG** and **Impact-focused Funds** and **Start-ups**. **Climate change** is the top area of interest.



Family offices reported an **Internal Rate Of Return (IRR)** of **24%** from their portfolio in **2021**, while 2020 respondents reported a **14% IRR**. Family offices expect to increase investment in venture in **2022-23**.



6. Where Are Family Offices Based?



The interest of High-net-worth Individuals (HNIs) in setting up family offices overseas is because many of the second-generation HNI families desire to relocate and settle abroad for education, perceived better lifestyle, business expansion and new opportunities because of the high tax regime in India.



The popular jurisdictions for establishing overseas family office vehicles are **Dubai** and **Singapore**. Singapore recently opened an agency to welcome family wealth management firms. These two are also among the most appealing cities to millionaire migrants and make up the **top three** among **luxury property markets**.

7. Challenges Of Managing Family Offices (1/2)



Increased accounting and reporting complexity

Besides keeping track of performance of investments, they must also manage the technology around it. It becomes difficult for a single person or two to manage reports and tech infrastructure, especially when it's not their area of expertise nor the best use of their time to do so. Even small mistakes in calculations can ruin a report.



Family conflicts

An unfortunate drawback of wealth creation is its ability to cause conflict and in the context of succession family conflict. By some accounts, India has the highest incidence of family feuds. **40%** of the global wealthy have direct experience of their family fortune leading to disputes, while in India an estimated **60%** of the rich have seen relationships deteriorate because of feuds over money.

7. Challenges Of Managing Family Offices (2/2)



Data Security



Wealth owners place a premium on personal privacy. Family offices have a responsibility to protect not only their clients' assets but also their confidential information. This is a major challenge in our increasingly interconnected world, in which virtually every endpoint is a potential target for cybercriminals. Considering the amount of wealth family offices control, they are increasingly likely to be targets of cyberattacks.

Keeping Pace With Technology



Given the pace at which technology advances, offices must constantly review their systems to ensure they are not at risk of falling behind or outgrowing their capacity. The variety of vendors and their offerings simply adds another layer of confusion. For all these reasons, family offices are increasingly asking themselves if it makes sense to own and maintain their own technology infrastructure, or if they should find an outsourcing partner to take on that burden so they can focus on the family's financial objectives.

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