DENTONS

The Evolving Risk Landscape for Family Offices

A Dentons Survey Report

Grow | Protect | Operate | Finance

May 2024

Contents

Foreword

This is our second report on risk management for family offices, following our initial 2020 study, "Surveying the Risk and Threat Landscape to Family Offices." This report comes at a time when the world is undergoing significant change, uncertainty, and volatility.

Much has changed since our last risk and threat assessment, conducted in the midst of the COVID-19 pandemic. We have now witnessed many new developments, including hybrid work models, information warfare by nation states in our digital lives, the advancement of artificial intelligence, and rapid medical innovation. Today, the US economy hums along, markets are near all-time highs, but the geopolitical landscape is far more volatile.

Russia's full-scale illegal invasion of Ukraine is in its third year. We have seen historical flooding in Dubai. We have learned to deal with spy balloons, cyberattacks, and intellectual property theft as tensions between Taiwan and China escalate. The October 2023 terrorist attacks in Israel, followed by military operations in Gaza, as well as the most recent clashes between Iran and Israel, point to a possible resurgence of Middle Eastern instability. Although these issues may not be on the doorstep of all family offices, their widespread impact on an interconnected world necessitates their inclusion at the forefront of risk mitigation strategies.

From December 2023 to January 2024, we surveyed over 200 family office respondents from 33 countries around the world. Participants included family members, C-suite executives, investment professionals, and other family office staff, providing a comprehensive overview of how family offices manage risk in their operations and investments. To add depth to this study, we examined various types of family offices based on region, net worth, organization, and maturity.

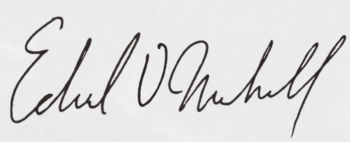
Family offices continue to be hampered by resourcing challenges across core functional areas and mindsets, as identified in our last risk report. Families continue to have reactionary risk mindsets, lack robust insider threat programs, and see technology as a risk management panacea.

These issues, which we will discuss further in this report, are creating potentially dangerous gaps in risk management defenses that cannot be filled with quick fixes. Rather, it will require a fundamental shift in culture and mindset toward prediction over reaction, as well as increased professionalization of the risk management function in family offices. Furthermore, innovative operational strategies, such as the leveraging of fractional risk and security resources, offer a potential solution to family offices' risk management postures.

This report covers the main findings mined from a rich reservoir of family office survey data. Therefore, should you require any additional information or data cuts beyond the following charts and commentary, please get in touch with me or your contact at Dentons.

I am especially grateful to all of the survey partners and everyone who took part in the research for their time and insights. Thank you for helping to create a resource for the entire family office community.

If you are part of a family office, whether as a family member, employee, board member or senior executive, we hope you find this report thought-provoking, insightful, and actionable.



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Key Findings

Reactionary mindset highlights complacent risk management culture at family offices

Awareness has improved since our 2020 report in terms of the proportion of family offices underestimating risks declining from 42% to 30% today. However, the percentage of family offices reporting a "reactionary rather than preventative approach" has increased from about one in four to one in three. Furthermore, nearly one-third cite a lack of family concern/awareness of risks as a key challenge. This reflects wider deficiencies in the risk management culture that need to be addressed.

Family offices continue to lack robust insider threat programs

Negative publicity, scandals or ethical lapses can damage the family's reputation and erode trust with stakeholders, affecting relationships and business opportunities. Family is pinpointed as the biggest potential source of reputational risk (36%). Plus, only half of family office staff participate in risk mitigation and security training. Furthermore, while four in five conduct pre-employment background checks on all staff, only 37% periodically reassess the security profile of employees. This gap between pre-employment checks and ongoing security profiling indicates low usage of intelligence, due diligence and security tools that can monitor employees and address diligence issues.

Family offices still slow to strengthen cybersecurity as threats multiply

Seven in 10 family offices see a greater likelihood of a cyberattack today, with the number of North American family offices suffering recent attacks rising to 25% now, up from 17% in 2020. Despite the clear and obvious threats, only 31% have robust cyber risk capabilities and just 29% say staff training programs are sufficient. This uncovers an alarming gap between levels of cyber concern and preparedness, highlighting the need for outside firms to conduct regular cybersecurity audits and potentially simulate attacks to better prepare for actual cyber-criminal behavior.

Family offices view technology as a risk management magic bullet

Nearly half of family offices believe that technology upgrades are the most important lever for modernizing risk programs. However, technology should not be used as a one-size-fits-all solution to fill all risk management gaps. Technology advancements can aid in a variety of risk management issues, but they should not come at the expense of investing in human capital development and process improvement.

Staff shortages are creating holes in risk management defenses

Three in 10 family offices are short staffed in critical areas such as IT/cybersecurity, general risk management and investment management. This is an ingrained issue, with key person risk seen as the biggest staff risk and attracting and retaining talent also considered a major risk, illustrating this perennial problem in the family office space. Family offices should view human capital as a critical component of their "quality of life balance sheet" spanning family members, staff and even portfolio companies. The blind spots around actively managing human capital expose family offices to other risks including tax and investment.

Outsourcing aviation operations potentially creates risks

Two-thirds (65%) of family offices operating private aircraft prefer to outsource key functions to specialized aviation professionals. Additionally, only 32% have an emergency response plan to manage aviation crises – an essential component when protecting family privacy and coordinating with different government agencies.

Insurance gaps expose family offices to potential big losses, as coverage varies regionally

Our data indicates that cyber insurance is held by nearly half of North American family offices, compared to just over a third in other regions. Such thin coverage potentially exposes offices to huge losses should an attack materialize and underlines the need for development of cyber insurance coverage outside North America. Paradoxically, family offices indicated that they rely on insurance as their first line of defense in the event of a cyberattack. This disconnect underlines the need for more frequent interactions with trusted partners, including insurance firms and legal advisors. Gaps also exist in other insurance realms, with 60% saying family members serving as trustees lack trustee insurance.

Geopolitical instability is rising but remains a largely unmitigated risk

More than half (55%) are concerned about geopolitical instability as conflicts play out across the world. Despite being one of the top risk management concerns, only 17% have clear plans and processes to protect against these wide-ranging and potentially impactful unknowns.

European family offices are less confident about quality of and access to healthcare

While most agree that primary care physicians understand their needs and goals, only a third of European family offices receive support from their primary care doctor while travelling. Also, European family offices display heightened concern over accessing healthcare services when needed. Every minute counts in emergency situations, and prompt access can be a matter of life and death. However, it's not just about the immediacy of care — it's also about ensuring patients receive the right care from the appropriate medical providers.

Reliance on subpar external support could leave family offices exposed

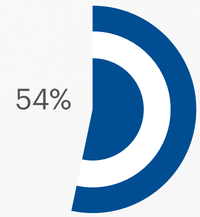
The small proportion of external advisors proactively flagging key risks suggests support in some areas is lacking or superficial. However, advisors are not being helped by internal parties responsible for obtaining legal and risk advice who may be in over their heads. Only half (55%) say internal teams know the right questions to ask advisors about managing and mitigating risks.

Introduction

A toxic cocktail of risks

Family offices face a complex and wide-ranging array of ongoing risks spanning the investment, compliance, regulatory and operational arenas. Nonetheless, they also need to contend with new risks stemming from emerging technologies and the growing menace of cyberattacks. And geopolitical risks loom large: Russia's full-scale invasion of Ukraine, Middle East conflict and a new cold war dynamic amid tensions with China, among others.

Family offices face a toxic cocktail of known, existing threats and new, evolving dangers that they need to monitor and manage. The risk landscape is being fundamentally reshaped, and this necessitates new strategies adapted to new realities.



We rely heavily on external legal support when it comes to managing and mitigating risks.

% Agree (Agree + Strongly agree)

The need for external support

Given the increasingly dangerous and fragmented risk environment, it is imperative that family offices secure support from outside specialists who can help them navigate multiple and evolving threats. This study shows more than half (54%) of family offices rely heavily on external legal support to manage and mitigate risks. Newer offices established within the last two years (77%) are particularly reliant on such help. In addition, single family offices (SFOs) lean on outside support more than multi-family offices (MFOs), - 56% vs. 45%[1].

> **"Few seldom believe the risks they confront are as significant as reality, and our study confirms this remains true for family offices. Reactionary mitigation, over reliance on technology and insurance, and even geopolitical indifference hide the heart of the risk challenge: human capital. Intentionally choosing to acknowledge the dichotomy that people - family members, executives, advisors, vendors - are both weak links and critical components in risk management is paramount. Risk will be insufficiently assessed absent a proactive plan to intensively surround the situation with the right talent, internally and externally, and to do so today."**
>
> — Mike McNamara, Dentons US, former CEO

1 A single family office supports one family, while a multi-family office supports more than one family.

Assessing Risk Management Processes of SFOs

> **"With the multitude of risks facing family offices today, I believe family offices need to take a comprehensive holistic view toward risk management. This would include proactive monitoring, strategic planning, robust governance structures, cybersecurity measures, compliance protocols and contingency planning for various scenarios. In doing this, family offices need to consider risks which arise from both internal and external threats. To properly address these risks all stakeholders should be involved in this process."**
>
> — Rick Ross, Partner, Dentons (US)

Most developed capabilities

Our study shows family offices are prioritizing three main areas: investment risks, legal/regulatory risks and financial risks.

Investment risks, such as performance and illiquidity, are unsurprisingly a key area of focus. Respondents from SFOs point to investment risks as the most developed component of their risk management processes (57% well-developed) and the area they are most focused on improving (60% very focused). These risks are also the second-most flagged area by risk or legal advisors (39% frequently flagged).

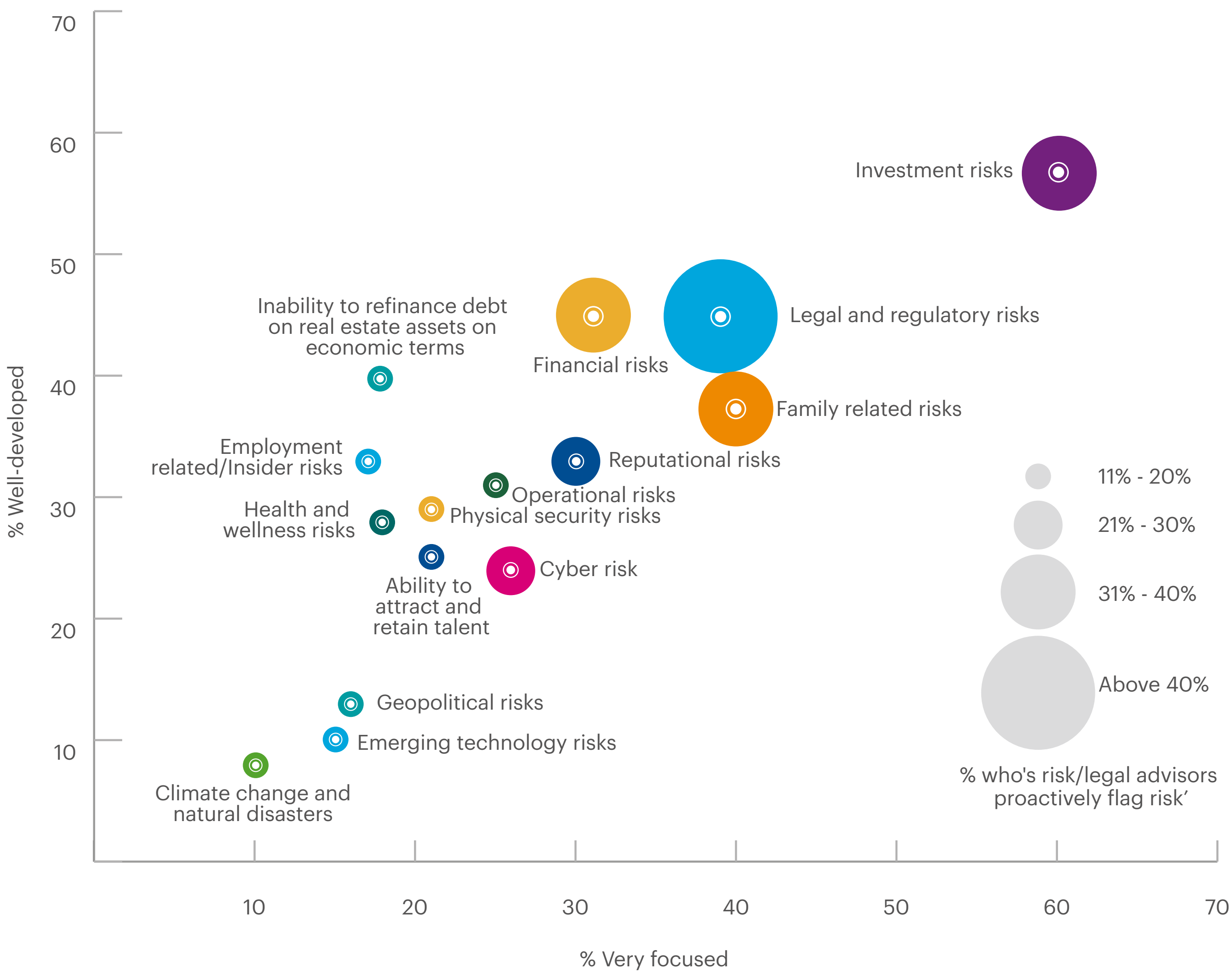
Similarly, processes around legal/regulatory risks and financial risks rate highly in terms of being well-developed (both 45%), frequently flagged (40% and 30%, respectively) and a focus of improvement (39% and 31%, respectively).

There is a clear interrelationship among these assessment criteria. Those areas most flagged by advisors tend to be more developed from a risk management perspective and the main focus of improvement. This suggests that the more family offices understand a certain category of risk, the more they can identify elements in need of improvement.

While legal/regulatory risks and investment risks are most proactively flagged globally, regional variations emerge. More SFOs in Europe (42%) and Asia (40%) say legal/regulatory risks are frequently monitored compared to those in the Middle East (33%). In addition, offices in Asia (50%) and North America (43%) are more likely to point to investment risks being flagged than in Europe (33%) and the Middle East (33%).

> **"The growing sophistication of family offices is driving an increased focus on risk management -- going beyond traditional measures associated with insurance, cyber security, liquidity, legal and tax, and investment risk mitigation. Leading families embed risk management across the entire organization into culture, hiring, strategy, operations, communications, and governance."**
>
> — Molly Simmons, Founding Partner, McFarland Partners

How developed is your organization's current risk management program/process and to what extent are you focused on improving your risk management capabilities?



> **"Geopolitical uncertainty continues to be largely viewed through the lens of investment portfolio risk vs. human capital in terms of travel and family office corporate espionage. The tools to incorporate geopolitical implications into investment portfolios both form a liquid and operating business perspective are limited but emerging as the use of open source and AI enables new dashboards to monitor and manage geopolitical turmoil."**
>
> — David Friedman, President,
> Forbes Banister International

Underdeveloped capabilities

Beyond the high-priority areas, fundamental sectors such as cyber risks, operational risks, and reputational risks are underdeveloped and underreported. Inefficient processes, lack of adequate controls, and reliance on manual systems increase the potential for operational failures, errors and fraud. For instance, 19% of SFOs have no risk management processes in place for reputational risks.

Furthermore, geopolitical risks, developing technology risks and environmental hazards rank even lower in terms of risk protocols, monitoring frequency and targeted improvement.

Half of SFOs say their organization has no risk management processes for climate change/natural disasters (50%), geopolitical risks including wars and terrorism (49%), and emerging technology risks, such as artificial intelligence (53%).

For SFOs, risk management capabilities around emerging technologies are linked to the age of organizations. More family offices established over a decade ago lack any processes in this area compared to newer offices set up within the last 10 years (64% vs. 38%). This suggests mature SFOs are less equipped to deal with threats posed by new technologies.

MFOs, on the whole, have more advanced risk-management practices. For all areas under review, a higher proportion of MFOs say they have well-developed programs compared to SFO peers.

Risk Management Gaps

Advisor shortcomings

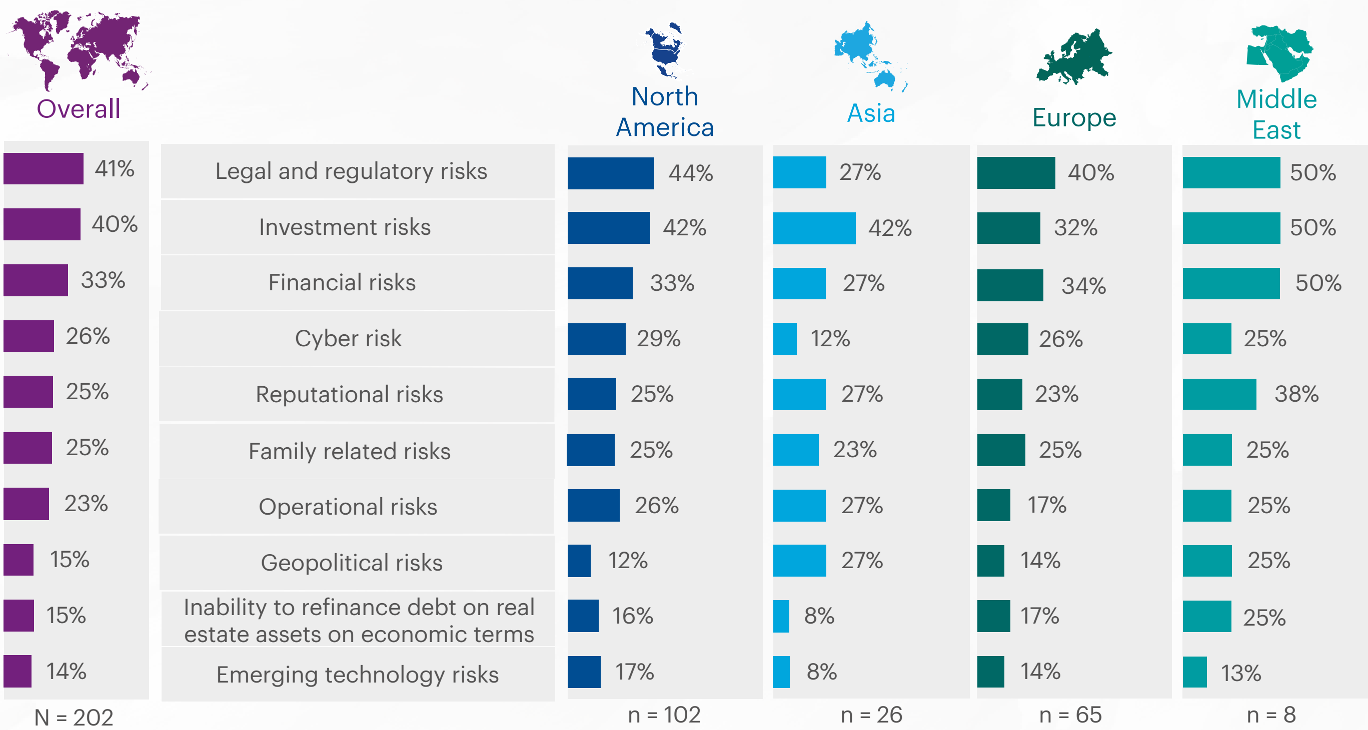
Given the existential nature of the dangers and public prominence of many family offices, it is remarkable that geopolitical and environmental concerns rank so low in priority. Infrequent monitoring by advisors explains why these hazards do not appear more prominently on family offices' risk radars.

Just 7% overall say their advisors frequently flag climate change/natural disaster risks. And only about one in seven report geopolitical (15%) and emerging technology (14%) risks as being proactively tracked. Even fewer in Asia say climate change (4%) and emerging technology (8%) risks are frequently flagged.

Employment related/insider risks represent another significant blind spot, with just 14% globally saying their advisors are actively monitoring this area.

> **"Mitigating risk in an environment oversaturated with information is complex. Advisors need to identify which risks have a direct impact by sifting through the noise and providing actionable intelligence."**
>
> — Brad Dragoon, Principal, Charles River Associates

Extent to which risk and/or legal advisors proactively flag risk elements for consideration and decision

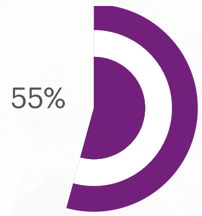


Top 10, % who's risk/legal advisors proactively flag risk

Extent to which risk and/or legal advisors proactively flag risk elements for consideration and decision (cont')

Overall		North America	Asia	Europe	Middle East
14%	Physical security risks	18%	4%	11%	38%
14%	Employment related/Insider risks	19%	4%	9%	25%
13%	Ability to attract and retain talent	16%	12%	9%	25%
12%	Health and wellness risks	12%	4%	14%	25%
7%	Climate change and natural disasters	6%	4%	9%	13%
N = 202		n = 102	n = 26	n = 65	n = 8

Bottom 5, % who's risk/legal advisors proactively flag risk



Our internal team responsible for obtaining legal/risk advice knows the right questions to ask regarding managing and mitigating risk to our family generally.

% Agree (Agree + Strongly agree)

Deficient internal resources

Symptomatic of poor internal processes are the underdeveloped nature of certain key risk management areas. Only a slim majority (55%) overall say their internal teams know the right questions to ask advisors regarding managing and mitigating risks. This suggests that family office personnel lack the essential expertise and awareness to raise the most important issues with advisers.

The gaps in risk management programs thus result from both internal and external shortcomings. While external advisors are failing to raise red flags over key threats, family office staff are lacking the know-how to get the best out of their advisors.

> **"Family Offices should consider engaging in a risk-based security approach, assessing their risk and then investing in proactive measures like physical security programs, penetration testing, and insider threat awareness while also maintaining adaptable crisis and emergency management plans. These strategies, regularly reviewed to reflect current and emerging global conditions, ensure the protection of assets and operational continuity in a dynamic threat environment."**
>
> — Tristan Flannery, Managing Partner, Orbital Risk, LLC.

Risk management culture

> **"Geopolitical instability is emerging as a critical concern for family offices, underscoring the need for agile and informed risk management frameworks."**
>
> — Christopher Rose, Partner, Dentons (UK)

The lack of internal awareness in asking the right questions of advisors reflects larger flaws in the risk management culture within family offices.

Indeed, three of the top four risk management challenges revolve around culture. These include a reactionary rather than preventative approach (32%), lack of famly concern about, or awareness of, risks (31%), and underestimating risks (30%). Encouragingly, the number of people reporting underestimating risks has decreased from 42% in 2020 to 30% today.

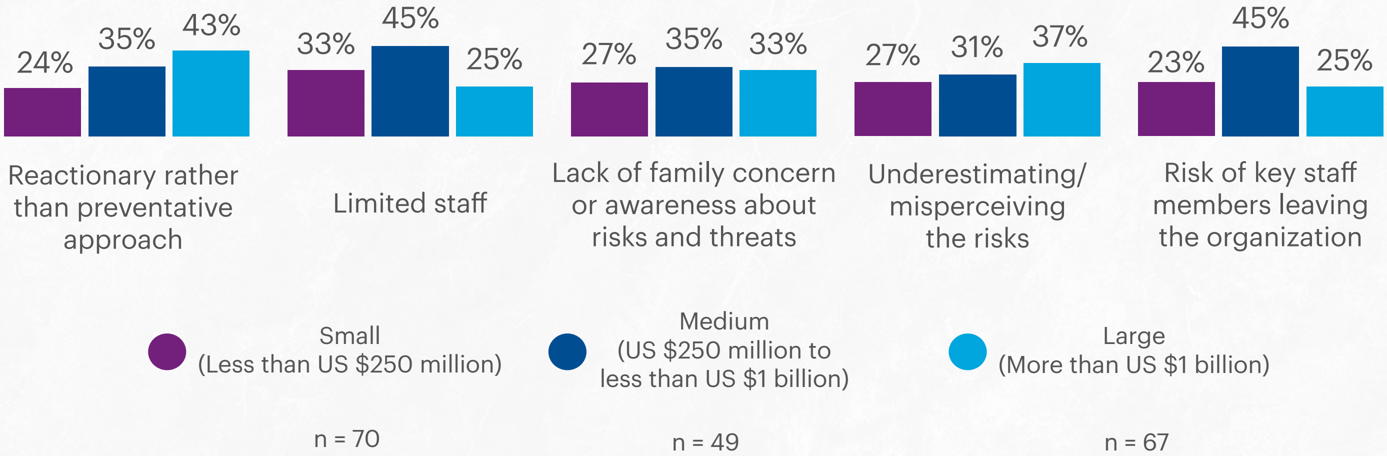
Large family offices with a net worth of more than US $1 billion are more likely to possess a reactionary mindset (43% vs. 24% of small firms with less than US $250 million). These bigger organizations are also more inclined to say they underestimate risks (37% vs. 27% small firms). This could be a function of the fact they have deeper monitoring resources at their disposal and are therefore more aware of gaps in coverage. Indeed, almost half of large family offices have dedicated internal resources to support investment risk monitoring compared to a quarter of small firms (46% vs. 26%). This reinforces the earlier point that the more family offices understand the risks they face, the more they recognize the weaknesses that must be addressed.

A reactionary mindset is regarded as the most significant and growing risk management challenge. The proportion reporting a reactionary approach has risen from 26% in 2020 to 32%, indicating a growing sense of complacency and a lax risk management culture.

Top risk management challenges for family offices (Responses in aggregate)

*2020 data; US Respondents only

Top risk management challenges for family offices (Responses based on size of family office)



Top 5, % Multiple answers allowed

This increasingly reactionary mindset is all the more surprising given the greater threats facing family offices in today's more perilous world. Furthermore, family offices recognize these dangers. More than half (55%) worry about geopolitical instability, as large firms display more pronounced anxiety (66%). However, levels of concern are not matched by levels of preparedness. Just 17% have well-developed processes to guard against these wide-ranging geopolitical risks including wars, political instability and terrorism.

Even more concerning is the impact of future government policy/regulatory changes (64%). With a record number of elections taking place around the world in 2024, family offices will need to closely monitor changes in government policy.

> **"Family offices must be proactive in identifying beneficial environments for decreased risk and increased growth, including vetting macroeconomic trends, political stability, and the legal landscape of their country of residence or operation. With countries changing the rules of the game all the time, ultimately picking the right jurisdiction and vehicles – to preserve and grow their assets for future generations - becomes key."**
>
> — Virginia Brause, Partner, Dentons (Uruguay)

These top concerns are uncertain, unpredictable and unknown which underlines the need to articulate a forward-looking risk management approach. This is an area where family offices could use tools such as war gaming, scenario analysis, intelligence collection and predictive analytics to help plan and prepare for future events.

Lessons could be learned from younger family offices, some of which have developed a more progressive risk management culture. Nearly a third (30%) of offices established over the last three to five years have robust programs for geopolitical risks – compared to just 13% of organizations established 11 to 20 years ago. Similarly, 22% of these younger entities have well-developed processes for climate change compared to just 9% of those established more than 20 years ago. As a result, younger family offices appear to be better at managing and monitoring today's key existential risks.

Areas of concern for family offices

Overall		North America	Asia	Europe	Middle East
64%	We are concerned about future government policy and/or regulatory changes that could affect our family office	66%	73%	62%	50%
55%	We are concerned about geopolitical instability, conflicts, and developments	55%	54%	58%	38%
48%	We are concerned about family business succession	41%	58%	54%	50%
42%	We are concerned about the longevity of the family business.	37%	50%	40%	75%
40%	Inflation is a major risk for our family office and/or business.	42%	42%	34%	63%
40%	Interest rates are a major risk for our family office and/or business.	42%	46%	34%	50%
35%	We are concerned about the implications of the U.S. Corporate Transparency Act (CTA) for our family office and related entities	46%	27%	25%	13%
33%	We are actively planning for new business risks that could stem from advancements in AI.	35%	23%	35%	13%
N = 202		n = 102	n = 26	n = 65	n = 8

% Agree (Agree + Strongly agree)

The Human Factor and Insider Threat Considerations

Family offices have identified cultural weaknesses and staffing issues as their top risk management challenges. Poor human capital management is at the root of risk management vulnerabilities.

Attracting and retaining staff

Key person turnover risk, cited by more than half (54%), is seen as the biggest risk when it comes to internal staff. This shows that family offices need to implement succession planning and knowledge sharing to mitigate the impact of critical employees departing. Absence of a robust succession plan can disrupt operations in the case of key personnel departures or unforeseen events, jeopardizing continuity and stability.

Attracting and retaining talent, cited by 38%, is the third-biggest risk. Such concerns are justified, given that the same percentage say they've had increasing difficulty retaining employees over the last two years.

All of this culminates in family offices left with inadequate staffing levels, which is understandable given the current market battle for family office talent. Three in 10 (29%) are currently short-staffed in key positions, with the biggest gaps occurring in critical areas including IT/cybersecurity (39%), risk management (37%) and investment management (32%). Such gaps are rendering family offices more vulnerable to cyberattack, with nearly half (45%) pointing to cyber and data security management as a key internal risk.

> **"This report echoes a major point we've been emphasizing to our clients – the importance of recruiting, vetting, training and retaining human capital."**
>
> — Peter Quinn, President,
> Peter Quinn & Associates LLC

Family offices acknowledge the impacts of these staffing problems. A third (32%) point to limited staff as the joint top risk management challenge. Despite this, only 20% use an outside risk management professional. Awareness of challenges is not translating into a readiness to solve them.

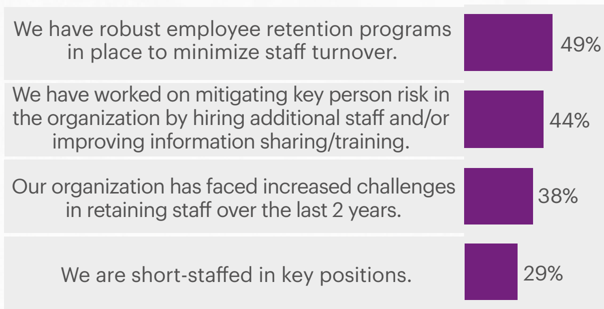
Inadequate staffing reflects the ineffectiveness of internal programs designed to keep employees on board. Nearly half claim to have established robust employee retention programs to minimize staff turnover (49%) and mitigate key person risk (44%). Nonetheless these efforts are failing to bear fruit, indicating a need for competitive compensation packages and other benefits to reduce staff attrition.

> **"In today's increasingly complex family office landscape, it is critical for families to proactively focus on thoughtful and deliberate human capital management as the risks of not doing so are daunting."**
>
> — Neil Kreuzberger, President and Founder, Kreuzberger Associates, LLC

Top risks family offices face with regards to internal staff

Overall		North America	Asia	Europe	Middle East
54%	Key person (critical employee) turnover risk	53%	54%	54%	63%
45%	Cyber and data security risk management	48%	23%	49%	38%
38%	Attracting and retaining talent	38%	54%	34%	25%
32%	Privacy and breach of confidentiality	31%	19%	35%	38%
28%	Inadequate knowledge due to lack of ongoing professional development for family office staff	25%	42%	25%	50%
8%	Insider threats	8%	8%	8%	25%
6%	Physical security concerns	4%	12%	8%	
2%	Other	2%	8%	2%	
N = 202	% Multiple answers allowed	n = 102	n = 26	n = 65	n = 8

The extent to which family offices agree with the following statements related to staff



% Agree (Agree + Strongly agree)

Areas where family offices are undersaffed

% Multiple answers allowed

Training and Insider Threat Programs

While family offices are struggling to attract and keep talent, existing staff are under-resourced, in part due to inadequate levels of training and development. Just a small majority (54%) say all staff participate in risk mitigation and security training, and among those taking part, most (59%) do so only annually.

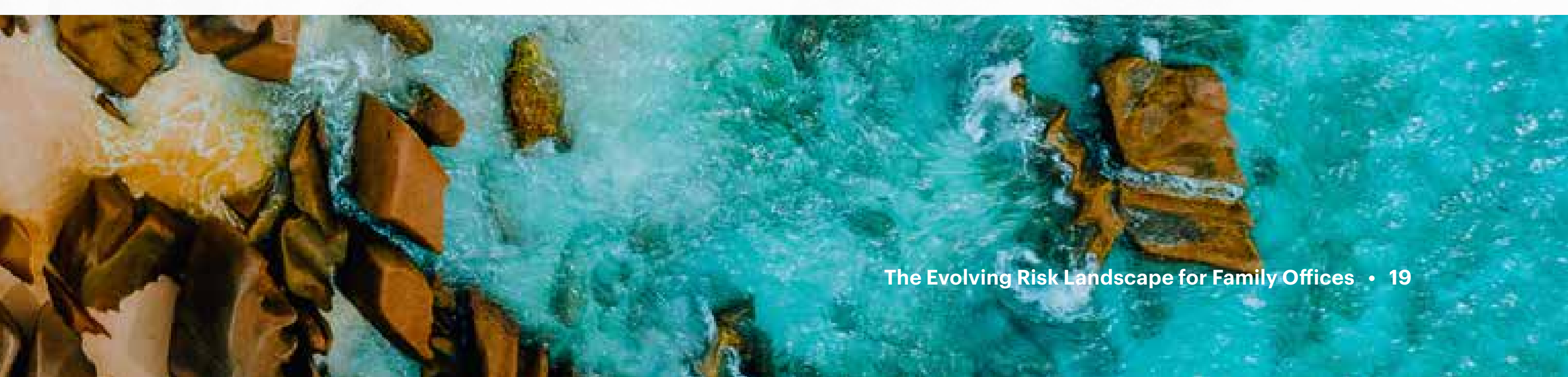
Family members are also seen as the biggest source of reputational risk (36%).

Family offices continue to fall short in terms of monitoring employees' security profiles and developing effective insider threat programs. Just 37% periodically reassess the security profile of employees, although this is up from 19% in 2020. More positively, four in five (80%) conduct pre-employment background checks on all staff members compared to about two in three (68%) in 2020.

Poor staff knowledge presents a further hurdle. Nearly three in 10 (28%) cite inadequate knowledge due to a lack of ongoing professional development as a top risk. This challenge is more acute in Asia (42%) and the Middle East (50%). These findings suggest low levels of staff development are contributing to high turnover.

Family offices therefore are suffering from a talent and skills shortage, which is creating holes in risk management defenses. Staff shortages are exerting additional pressure on existing employees who are poorly trained and lack development paths. As a result, retaining hard-to-find and experienced employees is becoming increasingly difficult in what appears to be a self-perpetuating human resources crisis.

> **"The greatest risk to a family office is the people around the dinner table. Internecine feuds and divorce are a much more significant threat to a family's financial and cultural capital than many of the other less existential risks they typically focus on"**
>
> — Henry Brandts-Giesen, Partner, Dentons New Zealand

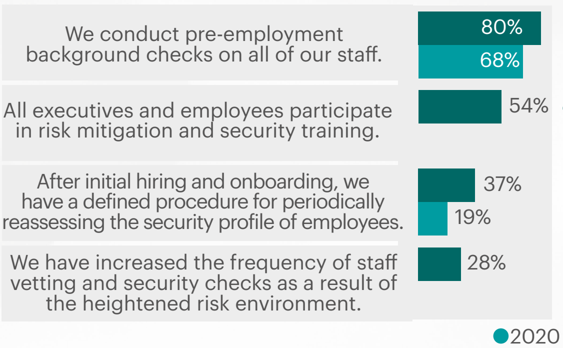


On the one hand, due to their size, and often easily traceable connection to the founder, large family offices are more vulnerable to a multitude of attacks. Their size should (relatively speaking) allow for a more holistic security risk management approach, and allocation of resources to accomplish mitigation. Frequent assessments, focused on both cyber and physical security need to be ongoing as the threat landscape evolves.

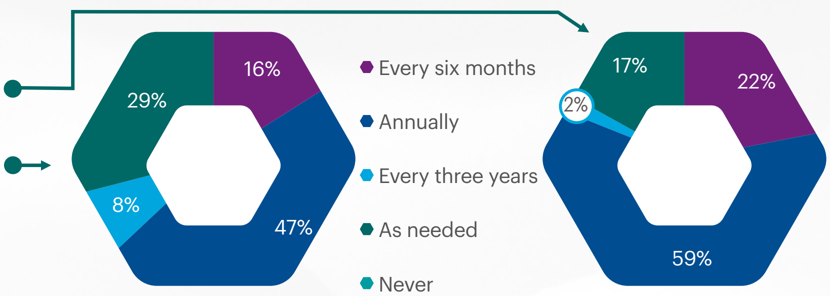
On the other hand, smaller family offices lacking the resources or structure to absorb dedicated personnel to manage security risk would benefit from a fractional Chief Security Officer (CSO) model. Rather than going with a former retired government official, who also may not have readily translatable skills to work with family offices, these smaller family offices may be better served by a fractional CSO service provided by agile boutique risk management companies. This approach could present a strong value option in terms of pricing and hours dedicated to the family office. It also allows for someone to coordinate the security needs with intimate familiarity, rather than having security as an add-on duty for an already existing family office staff member.

The lessons are clear. To improve their risk management profiles and to attract top talent, family offices must strengthen insider threat programs and improve recruitment efforts, as well as provide better training, support and benefits to existing employees in order to keep them.

Frequency of reassessing security risk profile of family office employees



Frequency of family office employee participation in risk mitigation and security awareness training



Reassessing the security risk profile of employees

Employees participating in risk mitigation and security awareness training

*2020 data; US Respondents only
% Agree (Agree + Strongly agree)

Strengthening Risk Management Capabilities

> **"Generative Artificial Intelligence (AI) provides Family Offices significant opportunities to improve operational efficiency and insight into their clients' needs. However, this powerful technology platform also creates new and sometimes hidden risks in cybersecurity and third party relationships, even if family offices don't adopt the use of Generative AI themselves."**
>
> — Scott Peyton, Partner, IT and Cybersecurity Internal Audit Practice Leader, Grant Thornton

The role of tech

Family offices are looking to both technological and human solutions to bolster their risk management processes. Nealy half (48%) plan to upgrade technology to strengthen risk capabilities over the next 12 months. Furthermore, a fifth (19%) rank this as their number one priority.

The emphasis on technology upgrades suggests that current risk management technologies are obsolete. It also implies that some family offices see technology as a quick fix or magic bullet to address a variety of risk management issues, instead of focusing on human capital development and process improvement. Rather than serving as a one-size-fits-all solution, technology is best used to fill specific gaps.

Most family offices recognize the need to seek external human assistance. More than two in five (43%) plan to strengthen capabilities by conferring with peers, while 38% are looking to use vendors/consultants and other external solutions. About a third (35%) intend to bring in outside professionals to cover gaps and evaluate risks.

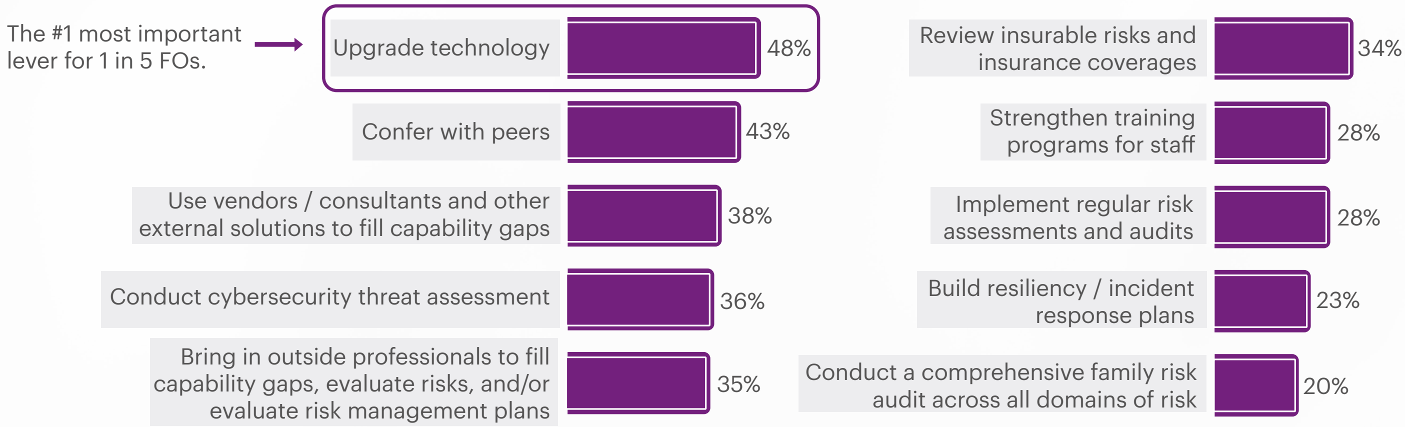
In addition, there is less emphasis on refining internal skillsets. Less than three in 10 plan to strengthen training programs for staff (28%) or implement regular risk assessments and audits (28%). Alarmingly, only about a fifth intend to build incident response plans (23%) and conduct comprehensive family risk audits (20%).

Family offices established more than a decade ago are more likely to use vendors/consultants and other external solutions than offices established in the last decade (39% vs. 33%). This indicates a greater willingness among mature offices to seek outside assistance.

Looking at organization type, more SFOs than MFOs plan to confer with peers and bring in outside professionals (46% vs. 36% and 36% vs. 29%, respectively).

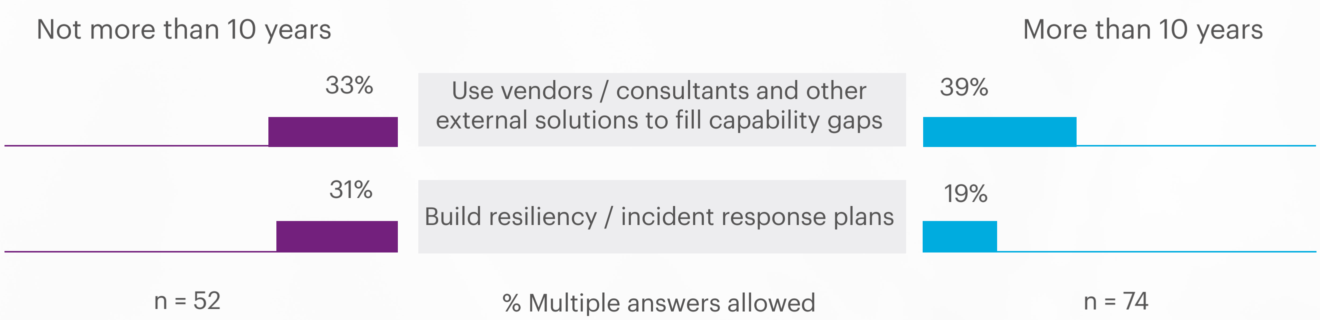
> **"Technological improvements have empowered family offices to tackle data analytics, AI, and other cutting-edge tools to enhance their investment decisions and modernize their risk programs."**
>
> — Ines van Dijk, Partner, Dentons (Netherlands)

Levers family offices plan on using to strengthen risk management capabilities in the next 12 months (Responses in aggregate)



% Multiple answers allowed

Levers family offices plan on using to strengthen risk management capabilities in the next 12 months (Responses based on number of years of family office existence)



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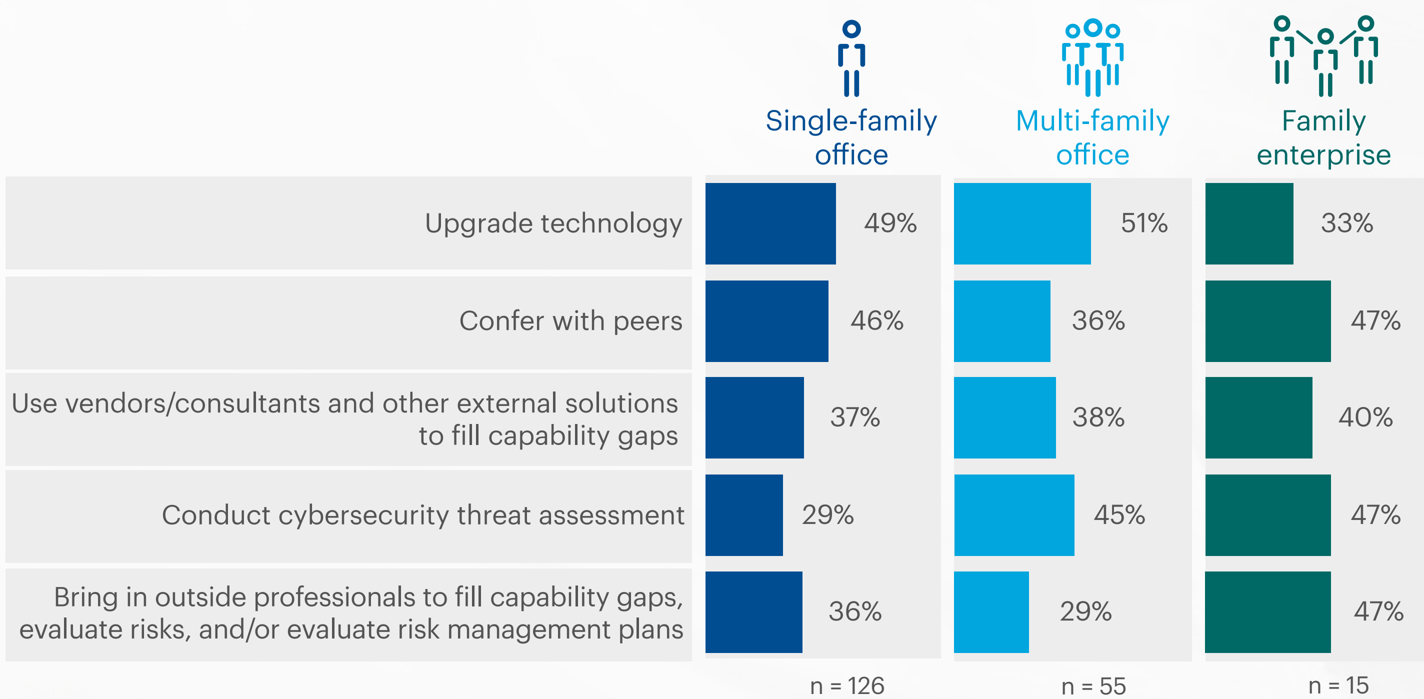
Levers family offices plan on using to strengthen risk management capabilities in the next 12 months (Responses based on type of family office)



Top 5, % Multiple answers allowed

In Focus: Investment Risks

The need for specialist support

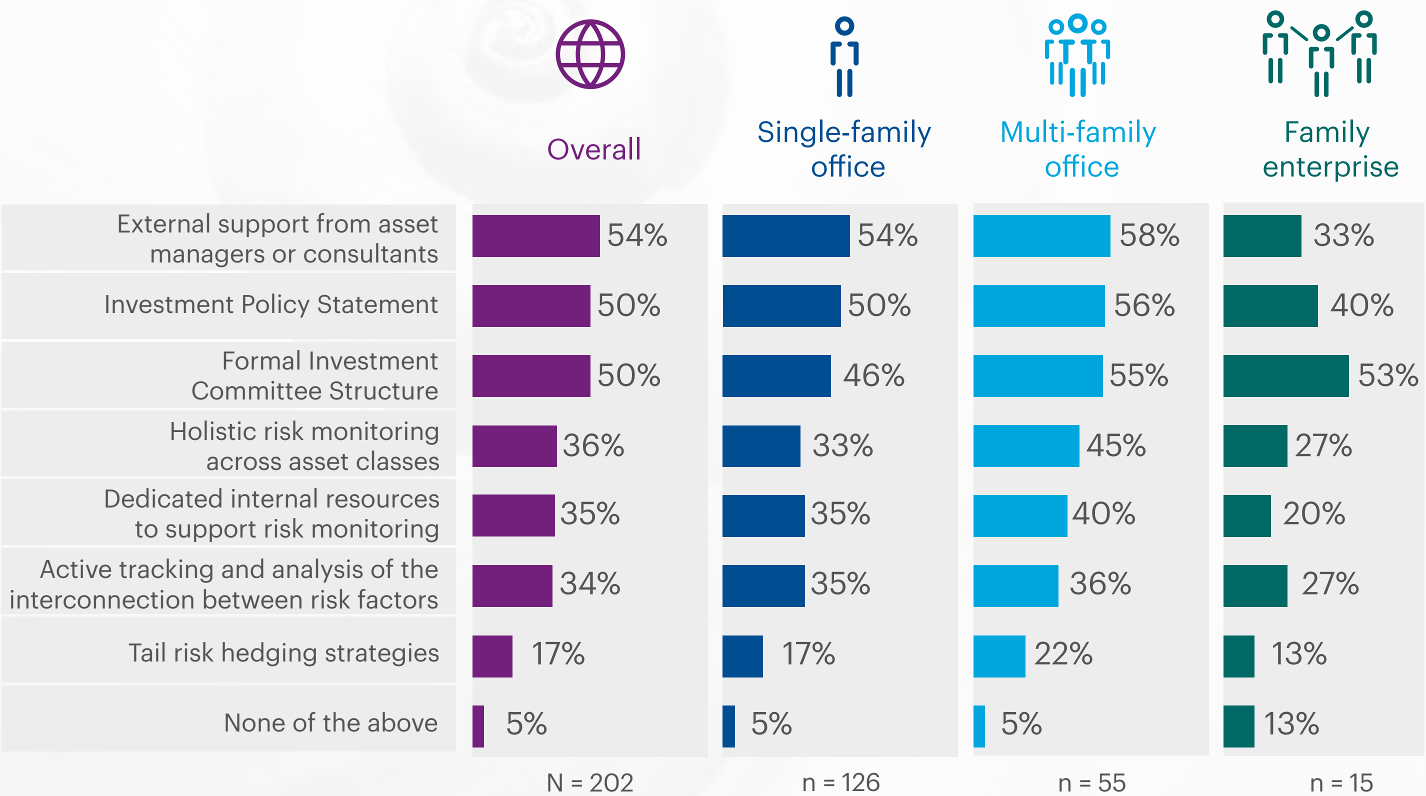
Investment risks clearly are a key priority for family offices. At the same time, family offices display weaknesses when managing these risks. A core deficiency is the lack of concrete structures and formalized policies. Only half have an investment policy statement (50%) or formal investment committee structure (50%).

Family offices are also coming up short when monitoring and analyzing investment risks. Only about a third holistically monitor risks across asset classes (36%) or actively track the interconnection of risk factors (34%). Plus, just 17% have tail risk hedging strategies.

These shortcomings reflect a lack of internal expertise. Only 35% have dedicated internal resources to support risk monitoring, underscoring the need to outsource investment functions to specialists. However, only a slim majority (54%) use external support from asset managers or consultants.

MFOs have more advanced capabilities than SFOs across all areas of investment risk management. This is particularly evident when holistically monitoring asset classes (45% vs. 33%).

Processes currently in place for managing investment risk



% Multiple answers allowed

> **"This global survey of existing and emerging risks highlights the need for family offices to work with high quality advisors that can assist them better serve their families."**
>
> — Paul Tompkins, President, Tompkins Insurance Services Ltd.

An evolving risk landscape

The task of managing investment risks is made more difficult by the changing nature of threats set against a volatile and uncertain market backdrop. This is prompting family offices to implement meaningful portfolio modifications in line with revised investment objectives. Two in five (41%) have significantly changed portfolios in response to higher investment risk assessments. A similar proportion (40%) have greater appetite for direct investments due to shifting risk conditions. Finally, 38% agree their investment objectives have significantly altered over the past three years owing to changing risk evaluations.

More respondents in the Middle East (50%) and Europe (45%) have enacted portfolio changes. Offices in the Middle East also have greater appetite for direct investments (88%) and are more likely to make major revisions to investment objectives (63%).

> **"Identifying and managing risk is a critical function of the family office, enabling family principals to make decisions with confidence, competence and a feeling of success and control."**
>
> — Michael Zeuner, Managing Director, WE Family Offices

The challenges presented by these fluctuating market forces bring into sharper focus the benefits of hiring external investment experts. Active asset managers in particular can help family offices navigate market volatility through tactical asset allocation. They can also help them gain exposure to direct investments and other diversifying alternatives uncorrelated to public markets. In today's uncertain markets, family offices recognize the need to work with the right asset managers. Nearly half (47%) say the evolving risk environment is encouraging them to reevaluate their asset managers. This is particularly important as the dependence of asset managers on external partners, such as financial institutions and service providers, exposes the family office to counterparty risks, including defaults and operational failures.

Another area where asset managers can lend support is environmental, social and governance (ESG), which is not currently high on the agenda. Just 28% say ethical strategies and ESG considerations play an important role in their investment strategies. Europeans (35%) attach the most importance to ESG.

Investment portfolio re-evaluation

Overall		North America	Asia	Europe	Middle East
47%	The evolving risk environment is putting pressure on us to re-evaluate our asset managers and asset allocation.	42%	58%	49%	50%
42%	We rely on outside expertise to raise investment risk issues and their impact on our portfolios.	42%	27%	48%	50%
41%	My organization has significantly changed our investment portfolio to combat higher investment risk assessments.	40%	31%	45%	50%
40%	Shifting risk conditions in the wider market are increasing my organization's appetite for direct investments.	41%	27%	37%	88%
38%	My organization's investment objectives have significantly shifted in the past three years as a result of changing risk evaluations.	39%	27%	38%	63%
28%	Ethical investment strategies and ESG considerations play an important role in our investment selection strategies.	23%	31%	35%	25%
N = 202	% Agree (Agree + Strongly agree)	n = 102	n = 26	n = 65	n = 8

> **"Families are becoming more aware of the uncertainties and risks of our deeply interconnected world. However, it is how family offices are responding to the challenges with appropriate skills and expertise for risk assessment and management that may build resilience or adopt strategic responses in pursuit of opportunities. Some families are re-examining key priorities and values to double down on impact investing, philanthropic giving or other forms of catalytic support to multiply impact and deliver desired sustainability or social outcomes, while maintaining alignment with corporate values and the family's vision."**
>
> — Vivien Teu, Partner, Dentons (Hong Kong)

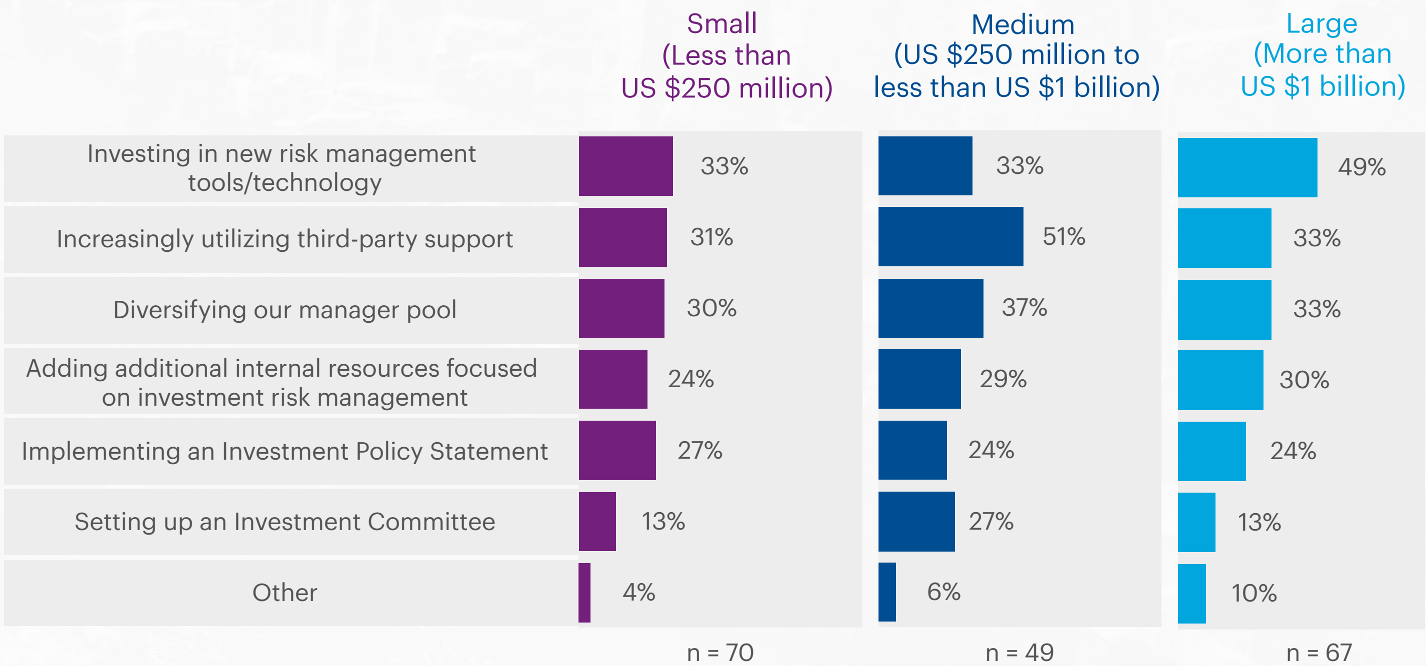
Investment risk solutions

Nearly four in 10 are looking to improve their capabilities by investing in new risk management tools (39%) and using third-party support such as consultants (36%). About a third (32%) are working to diversify their manager pool.

However, internal factors are less of a priority. Only about a quarter plan to implement an investment policy statement (25%) or add investment-focused internal resources (27%). Just 17% are looking to set up an investment committee.

The methods chosen to boost capabilities are influenced by organization size. More medium-sized firms turn to third-party support (51%) and look at diversifying their manager pool (37%). Large entities, on the other hand, are more likely to invest in risk management tools (49%), reflecting their deeper resources.

How are family offices working to improve investment risk management capabilities? (Responses based on family office AUM)



% Multiple answers allowed

> **"Understanding, prioritizing and managing risk is underappreciated yet critical component of effective wealth stewardship for families of significant resources."**
>
> — Michael Cole, Managing Partner, R360 Global

In Focus: Cybersecurity Defense Gaps

A growing threat

Family offices are becoming increasingly concerned about cyberattacks. More than seven in ten (71%) believe they are more likely to suffer a cyberattack now than they were a few years ago. A larger proportion of North Americans (79%) are preparing for an attack.

Escalating fears over cyberattacks come amid a rise in the number of family offices reporting incidents. Globally, more than a fifth (21%) say they have suffered a cyberattack in the past 12 months. This rises to a quarter (25%) of North American family offices, which is up from 17% in 2020. Adding to these fears, 42% say they know other family offices that have suffered cyberattacks, and this increases to 51% in North America.

Greater awareness and knowledge of incidents is therefore fueling worries about cyberattacks. Nonetheless, despite the growing concern, just 31% say their cyber risk management processes are well-developed. The figure is even lower in Asia (15%) and the Middle East (13%). These findings reveal an alarming gap between awareness of cybersecurity risks and the actions put in place to prevent and repel attacks.

> **"Few family offices have the capabilities to sufficiently manage the complexities of cyber risks and most are better served by transferring as much as possible - particularly given the recent decline in cyber insurance premiums. Bottom line, for the 52% of respondents who don't have cyber insurance – look into whether insurance is proper for you"**
>
> — Billy Gouveia, CEO and Founder, Surefire Cyber

Poor cybersecurity capabilities also reflect inadequate staff training. Just 29% say staff cyber/tech training programs are sufficient, and less than half have upgraded staff training programs to address rising risks (48%) or regularly update cyber policies (49%). Such shortcomings are compounded by lack of leadership. One in seven (15%) globally say their office lacks an internal lead for cybersecurity and data protection, rising to 31% in Asia.

Reliance on third-party technology vendors and infrastructure exposes the family office to technology failures, cyber threats and data breaches, necessitating robust contingency plans and cybersecurity measures. Family offices may be better served by replicating real-life scenarios. Running mock cyberattacks such as phishing exercises, for instance, would allow firms to assess how staff react and identify where improvements are needed.

Beyond these internal weaknesses, only a quarter (26%) say cybersecurity risks are proactively flagged by advisors. This is a key – and potentially damaging – oversight on behalf of advisors.

Threat of cyberattack toward family offices

	Overall	North America	Asia	Europe	Middle East
The likelihood of our organization undergoing a cyberattack has increased dramatically in the past few years.	71%	79%	58%	65%	63%
Another family office we know has suffered a cyberattack	42%	51%	31%	32%	38%
Our family office has suffered a cyberattack in the past 12 months.	21%	25% 17% (2020)	27%	15%	13%
	N=202	n = 102	n = 26	n = 65	n = 8

*2020 data; US Respondents only
% Agree (Agree + Strongly agree)

Cybersecurity awareness and preparedness

Overall		North America	Asia	Europe	Middle East
61%	Our internal team understands the legal obligations around cyberattacks and data protection.	63%	58%	62%	63%
49%	Our organization regularly reviews and updates our policies regarding cyberattacks to align with legal obligations and stay ahead of potential threats.	49%	50%	48%	50%
48%	We have upgraded our staff training program to address the increasing challenges posed by cybersecurity threats.	49%	46%	45%	50%
46%	We go above and beyond the recommended standards for data privacy and cyberattack prevention.	53%	35%	38%	38%
41%	Everyone in our organization, including family members, understands what to do and who to contact in the event of a cyber incident to begin remediation.	42%	38%	37%	50%
38%	Everyone in our organization or family uses a VPN to connect to Wifi in public spaces.	37%	31%	43%	25%
37%	We have in place adequate insurance and retainers for specialists to manage a cyberattack.	46%	27%	25%	38%
29%	The existing cyber and data security training program for the organization, including family members, is sufficient.	31%	27%	26%	25%
N = 202		n = 102	n = 26	n = 65	n = 8

% Agree (Agree + Strongly agree)

In Focus: Insurance, Healthcare, Aviation

Insurance

While cybersecurity risk programs are not up to scratch, a lack of adequate insurance coverage is amplifying vulnerabilities. Cyber insurance is held by less than half (48%) in North America, but this plunges to about a third in other regions. Furthermore, only 37% globally have adequate insurance and retainers for specialists to manage a cyberattack. While this rises to 46% of North American offices, it still means a majority are underinsured.

These two factors expose firms to potentially huge losses in the event of an attack. Family offices can be targeted for both business email compromise and/or wire fraud, so having cyber insurance is essential.

The lack of insurance is even more surprising given that a third of family offices turn to insurance companies (33%) as their first port of call in the event of a cyberattack. This highlights a further dichotomy in the way family offices approach cybersecurity in particular, and risk in general.

Although tech upgrades are seen by family offices as an effective way to strengthen risk capabilities in general, cyber insurance offers the most straightforward and effective method of mitigating this particular risk. Moreover, most cyber insurance policies provide access to specialized resources, while cyber insurance firms can help with risk assessments.

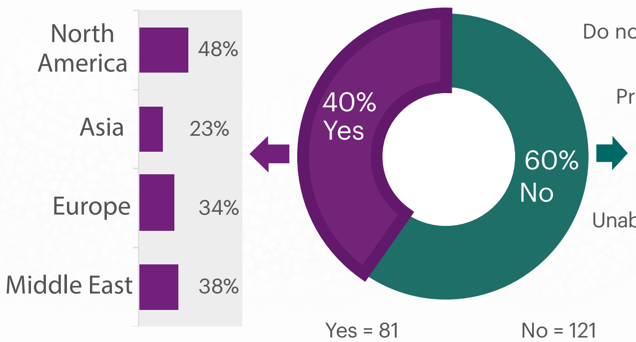
Proactive approaches are always warranted when evaluating risk management measures. Family offices would benefit from more regular engagement with legal advisors, designated outside counsel for risk management, insurance brokers, or even dedicated General Counsels or risk managers. While these are only two areas of concern, directors and officers (D&O) insurance shields individuals, while cyber coverage safeguards the entity itself. Proper protection demands a comprehensive strategy, particularly in today's evolving risk landscape and rapidly shifting cyber environment. The crux lies in aligning insurance coverage with the actual and estimated financial risks. This disparity highlights a pressing need for strategic collaboration with trusted insurance brokers to ensure adequate coverage and effective risk mitigation.

Further holes in coverage are evident in other insurance realms. Six in 10 (60%) say family members serving as trustees do not have trustee insurance. The primary reason cited is lack of concern over lawsuits (50%), followed by a preference to self-insure (37%), and cost (15%). More offices in the Middle East (80%) and Asia (60%) point to a lack of fear over lawsuits, while cost is a bigger factor for Europeans (26%). About a third (34%) plan to review insurable risks and insurance coverage over the next year.

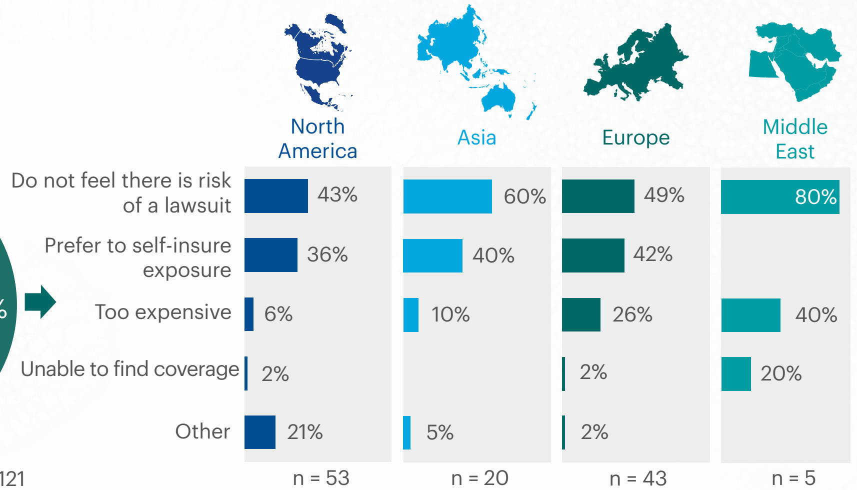
“Bridging the gap between insurance coverage and effective risk management is paramount for family offices - initially preserving operational and financial resources and consequently the integrity of the family office or high net worth principal. By fostering a deeper understanding of their vulnerabilities and engaging in proactive risk management strategies, family offices have the ability to navigate the evolving insurance landscape with confidence and resilience.”

— Matthew Flug, Senior Vice President, Sands Point Risk Agency, LLC

Do all family members who serve as trustees have trustee Insurance?



Why don’t all family members who serve as trustees have trustee insurance?



% Multiple answers allowed

Healthcare

Family offices point to specialists (54%) and quality of hospital care (54%) as the healthcare services they are most concerned about accessing. Around a third worry about accessing primary care (35%), emergency services (32%), and mental health resources (29%).

Reassuringly, seven in 10 in North America say their primary care physician understands their medical history and goals (71%), and that quality of healthcare is not a concern where they live (70%). Half (51%) receive support from their primary care doctor while travelling.

However, the findings show a transatlantic chasm in terms of satisfaction with health care. Europeans are more concerned than North Americans about access to specialists (66% vs. 50%) and the quality of hospital care (59% vs. 47%).

“As family offices have evolved, emerging from behind the scenes to become more dynamic in their approach in both operations and investments, so too has their approach to risk needed to evolve to become both more aware and proactive. Knowing how to deal with these risks - or mind blind spots - requires a pragmatic approach blended with a good bit of curiosity.”

— Francois Botha, Founder & CEO, Simple.

> **"The concept of a family office, designed to manage a family's financial interests, shares striking similarities with the idea of having a dedicated physician or healthcare advisor who understands your medical history and advocates on your behalf. Both roles act as specialized, trusted advisors, ensuring that the family's or patient's best interests are represented in their respective domains."**
>
> — Dr. Chris Sidford, Founder and Medical Director, Black Bag

Additionally, Europeans are less likely to say their primary care physician understands their goals and that healthcare in their area is not a concern (62% vs. 77% for both). Moreover, considerably fewer Europeans receive support while travelling (33% vs. 63% North Americans). Further highlighting this gulf, only 17% of North Americans are concerned about accessing healthcare services when required, compared to 41% of Europeans.

Family office confidence in and access to healthcare

Overall		North America	Asia	Europe	Middle East
71%	My primary care physician understands my medical history and my health-related goals.	77%	64%	62%	100%
70%	I live in a location where the quality of healthcare access, resources, or quality of care is not a concern.	77%	71%	62%	75%
51%	Even when traveling, I am able to receive support and/or care from my primary care doctor.	63%	57%	33%	75%
33%	I have concerns about accessing appropriate healthcare services when required.	17%	36%	41%	75%
33%	We have engaged a firm that provides medical guidance when traveling.	35%	43%	28%	25%
N = 202	% Agree (Agree + Strongly agree)	n = 102	n = 26	n = 65	n = 8

> **"Health is your most valuable asset, full stop. It is irresponsible not to have a private doctor that can detect and prevent disease, access top specialists and navigate the local and global healthcare system."**
>
> — Dr. Jordan Shlain, Founder, Private Medical

Aviation

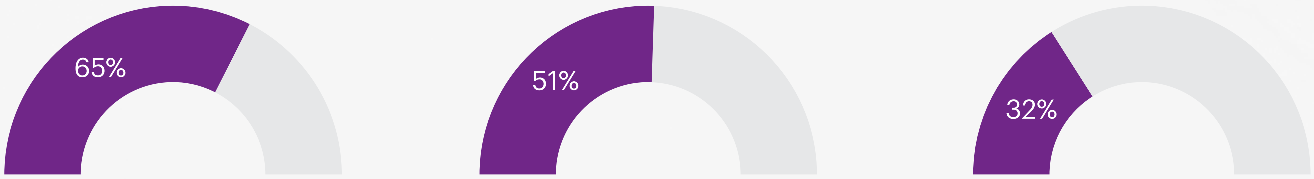
Nearly one in five (18%) family offices surveyed indicated that they manage an aviation operation. These operations are more common in North America (25% vs.13% Middle East, 12% Europe, 4% Asia).

Of those managing such operations, two-thirds (65%) prefer to outsource specific aviation functions such as strategic planning and safety management to specialists. Europeans have greater tendency to outsource these functions compared to North Americans (88% vs. 65%).

Meanwhile, half (51%) state they have an aviation safety management system to mitigate risk in flight operations. However, only a third (32%) have an emergency response plan (ERP) to manage operational or reputational crises involving aviation operations. North Americans (35%) are more likely to have an ERP than Europeans (25%).

> **"Private aviation risk is best mitigated through well-known best practices and a few highly competent advisors, thus freeing the family office to pursue their interests with peace of mind."**
>
> — David Clark, Founder, Integris Aviation Consultancy

Aviation operation management



The family office prefers to outsource specific aviation functions

The family office has an aviation safety management system (SMS) in order to mitigate risk in the flight operation.

The family office has an Emergency Response Plan to manage operational or reputational crises involving the family's aviation operation.

% Agree (Agree + Strongly agree)

Conclusion

"A comprehensive survey calling to action effective risk management in family offices requiring a holistic approach that addresses both internal & external deficiencies through proactive identification, assessment, & mitigation of risks, while also fostering a culture of transparency, accountability, & continuous improvement."

— Michael G. Perez, Managing Director – Family Office Practice, F2 Strategy Inc.

This study reveals concerning gaps in family office risk management processes caused by both internal and external deficiencies.

Although family offices see technology upgrades as critical to closing these gaps, technology cannot solve long-standing internal issues such as staff and skill shortages, poor risk processes in family office operations, and risk awareness culture deficiencies.

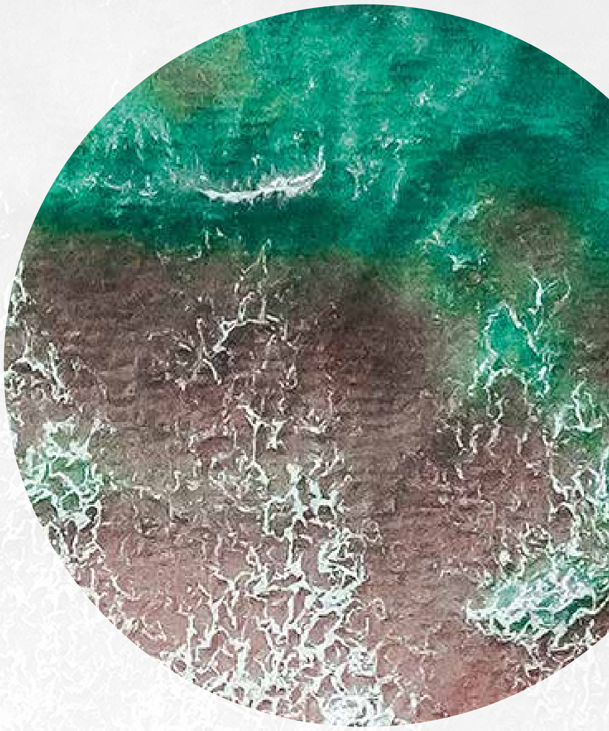
All of these factors call for a comprehensive overhaul of training practices and a laser-like focus on attracting and retaining top talent. Family offices must recognize that human capital is their most-prized asset. A more knowledgeable and risk-aware workforce will help break down the barriers of complacency and reverse the reactionary mindset that has continued to plague family office risk management.

In addition to hiring internal specialists, family offices need to find and recruit external experts that can put in place more sophisticated monitoring strategies and offer wider support packages.

Family offices need to navigate new threats in a more volatile environment, and this necessitates a new set of answers and a cultural reset of risk management practices. Critically, a sense of urgency needs to be embedded into risk management culture, because a wait and see approach is no longer viable. Amidst an unprecedented array of threats, family offices must act now to avoid a day of reckoning.

"Congratulations to Dentons Family Office on another outstanding Risk Report. This comprehensive industry report captures not only invaluable insights from family offices on this rapidly changing environment, but also serves to heighten awareness of the external support and proactive/preventative approach needed today, in order to mitigate risk in the future."

— Steve Prostano, Chairman of Board, The UHNW Institute



Background to Survey

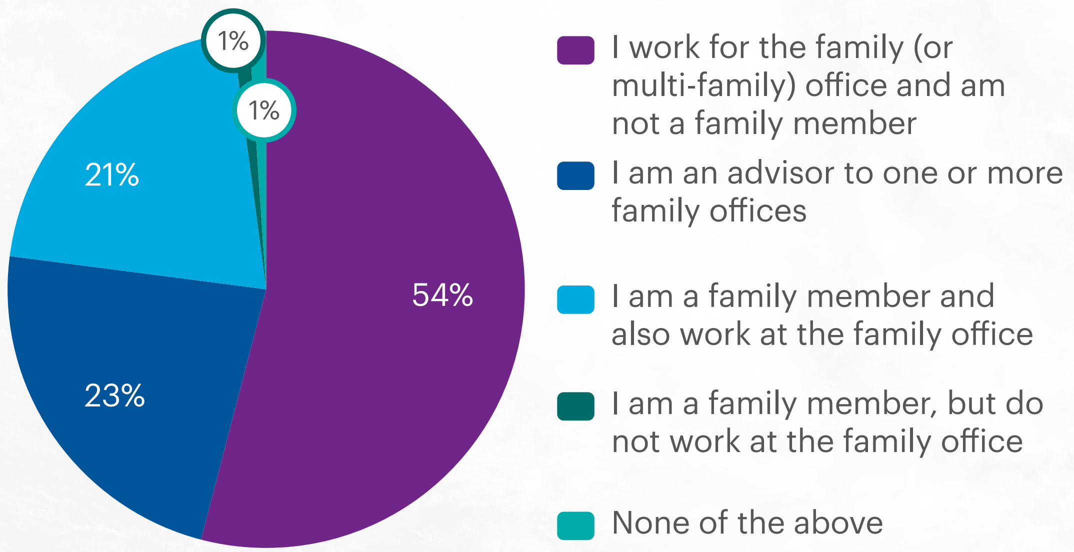
The findings here are based on the views of 202 individuals at family offices from 33 countries around the world, with 49% in the United States. Most respondents (77%) either work at family offices or are advisors to one or multiple family offices. About a fifth of respondents (21%) are family members that also work in their family office.

Nearly half (43%) of the respondents are C-suite (e.g., CEO, CFO or COO), while 11% are investment professionals, 10% are portfolio managers and 5% are investment committee members.

By region, 50% of respondents are based in North America, 32% in Europe, 13% in Asia and 4% in the Middle East. A small number of respondents (less than 1%) represent the Latin American region and thus, may be omitted from depiction in certain data charts noted in this survey report.

SFOs are the most common type of family office, for 62% of respondents, while 27% are at MFOs and 7% are at FEs (i.e., family-owned operating businesses that also manage the assets and/or affairs of the family).

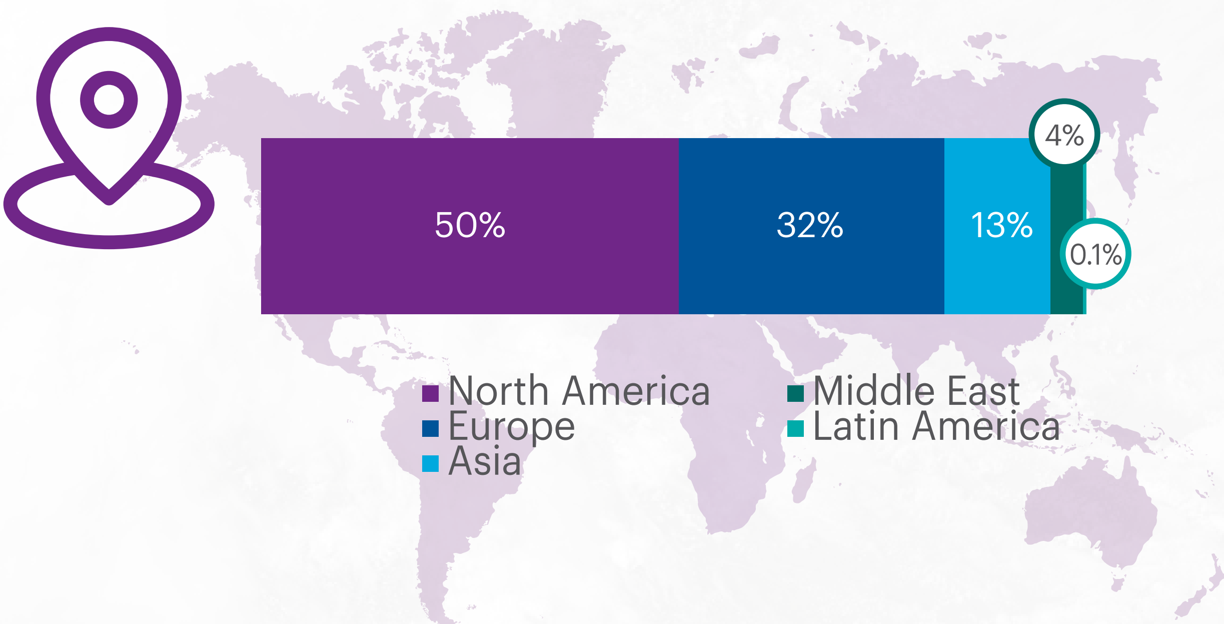
What is your relationship to the family office?



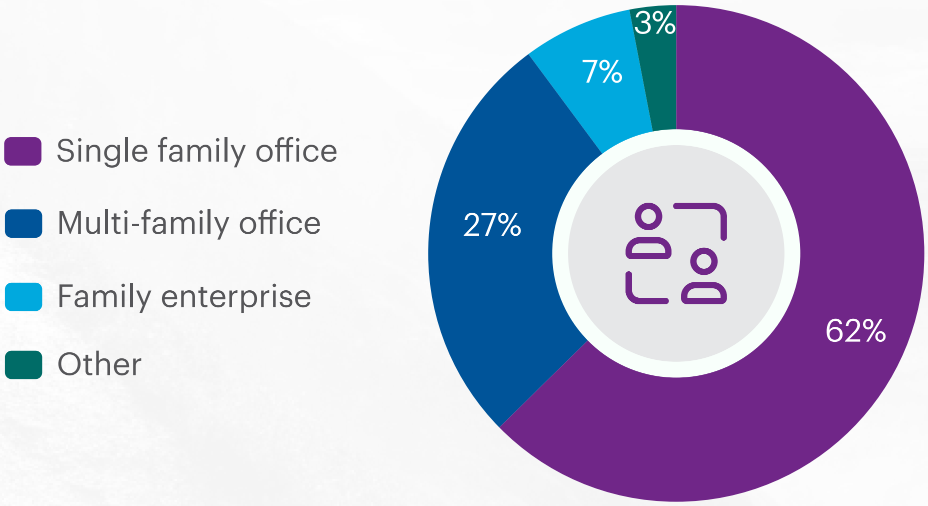
Please select your primary title and/or functional role

C-suite	43%	In-house lawyer or general counsel	2%
Investment professional	11%	Accountant or Controller	1%
Portfolio manager	10%	Fiduciaries	1%
External advisor	9%	Tax specialist	0.5%
Investment Committee member	5%	Property or estate manager	0.5%
Board member	4%	Other	7%
Family member	3%		
Security manager/director	2%		

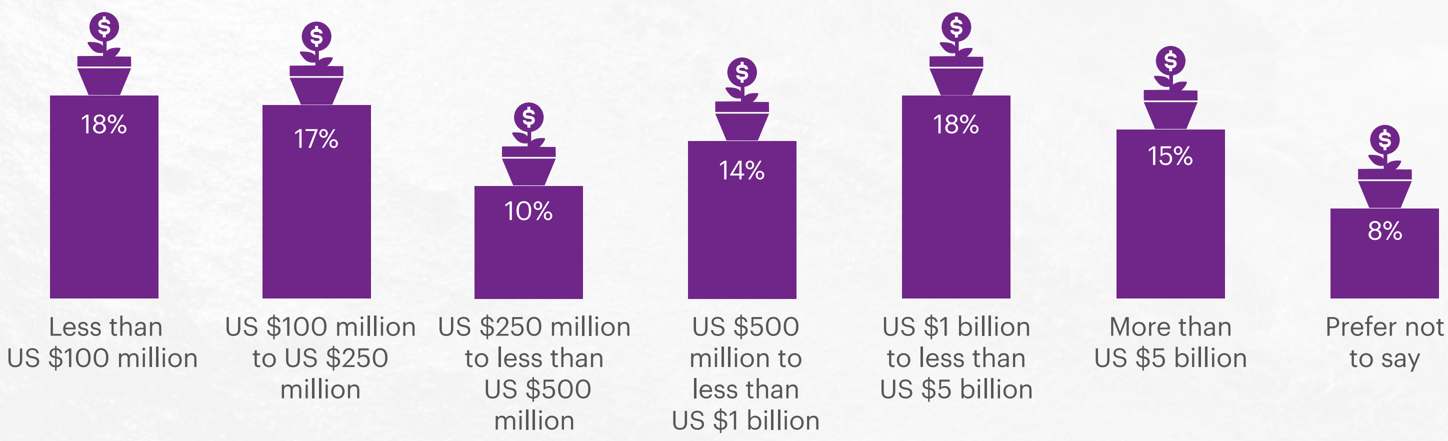
Please indicate the primary location of your family office



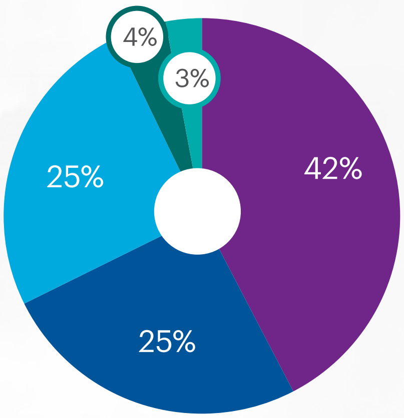
How would you describe your family office?



What is the net worth of the family associated with your family office?

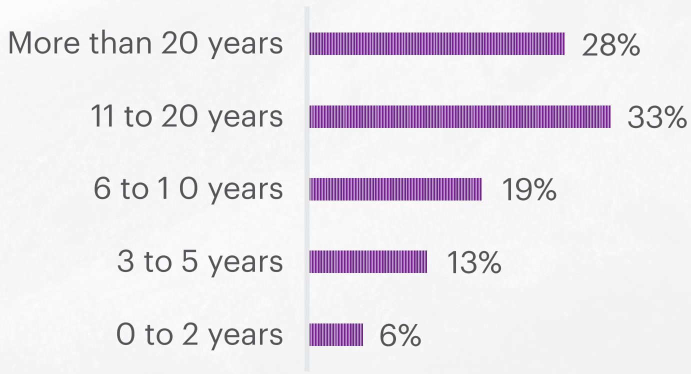


Please describe the primary source of the wealth managed/administered by the family office



- From the business interests of a leading family member, which they have formed and/or are currently involved in on a day-to-day basis.
- From the business interests of a leading family member, which they have either sold, or are no longer involved in on a day-to-day basis.
- From past founders, business interests or accumulated family wealth, are now inherited by founder-descendants and managed for them and their descendants.
- Other
- Does not apply

How long has the family office been in existence?



Survey Partners and Colleauges

Thank you to our partners and friends in the family office space for their thoughtful input and feedback on this survey report. And a special thanks to Henry Brandts-Giesen, Virginia Brause, Mike McNamara, Anna Metrakos, Christopher Rose, Rick Ross, Vivien Teu, Ines van Dijk and many more.

Additionally, Dentons thanks our survey partners for their assistance and leadership in bringing these findings to the family office community.

For more information on how Dentons works with family offices, please visit

www.dentons.com/familyoffice

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The entire survey report can be found at
www.dentons.com/familyofficerisksurvey

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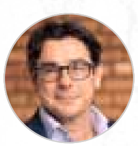

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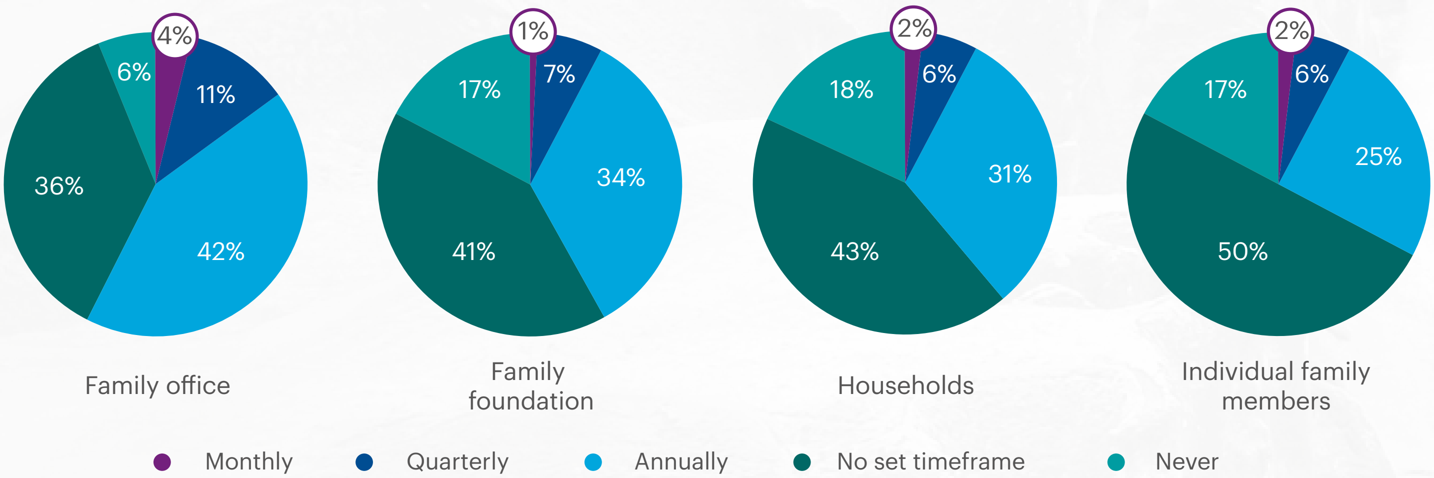
Appendix: Supplemental Data

The below is a sample of additional data points gathered from our survey respondents. If you have questions or require additional information, please reach out to us at familyoffice@dentons.com.

How often are family offices carrying out risk management assessments (identifying hazards and exposures) for the following groups?

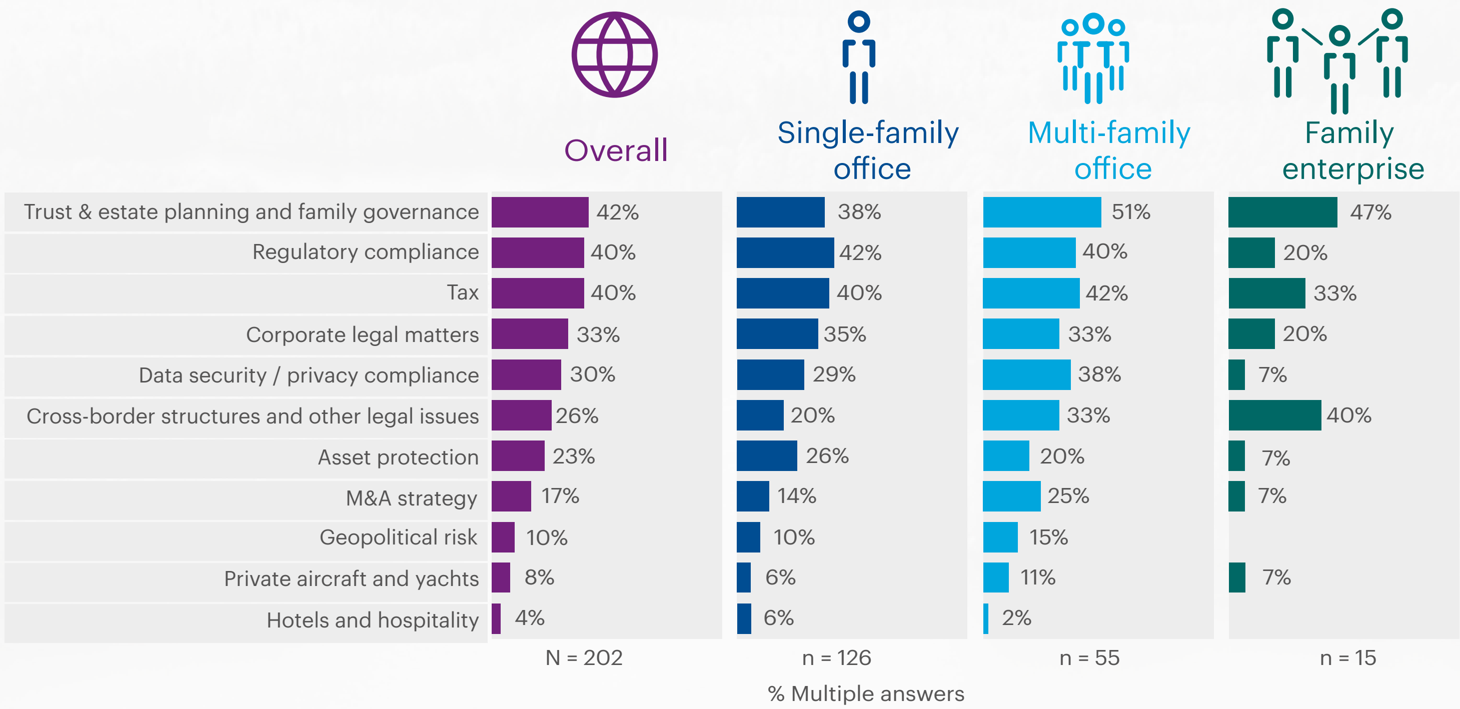


Who is responsible for conducting the risk management reviews of the family office?

	Overall	Single-family office	Multi-family office	Family enterprise
CEO	28%	29%	33%	13%
Internal risk management professional	26%	23%	31%	27%
External risk management professional	20%	16%	31%	7%
In-house legal team	17%	17%	13%	20%
External legal team	14%	17%	11%	13%
COO	12%	11%	13%	7%
CFO	11%	12%	11%	7%
Insurance broker / agent	10%	7%	13%	20%
Not applicable	8%	10%	2%	20%
	N = 202	n = 126	n = 55	n = 15

% Multiple answers allowed

In which areas are family offices looking for more support from legal partners?

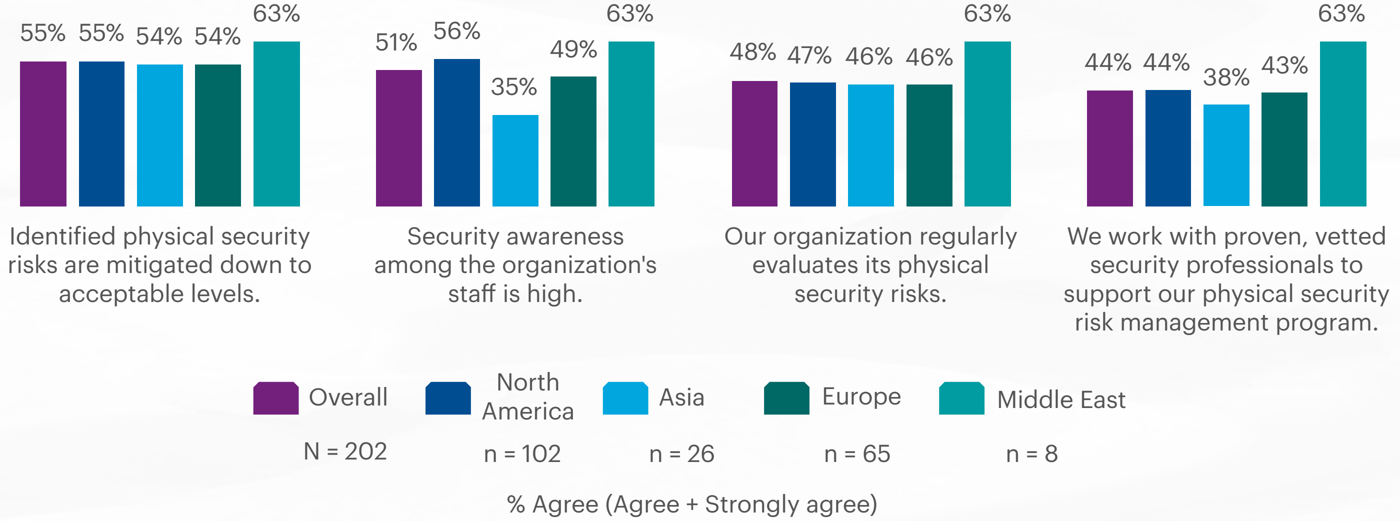


Which of the following sources are most worrisome in terms of generating reputational risk?

Family members	36%
Political participation	26%
Investment portfolio	25%
Family office staff	24%
Family business	24%
Former employees of external service providers/ vendors	23%
External support/vendors	19%
Philanthropy	12%
Other	3%

% Multiple answers allowed

Family office stance on physical security



Which category of external support do family offices contact in the event of a cyberattack?

	Overall	Single-family office	Multi-family office	Family enterprise
Insurance company	33%	28%	45%	27%
Cyber remediation firm	27%	26%	29%	20%
Cyber incident response and forensics firm	26%	26%	29%	20%
Lawyer - cyber/data security specialist	23%	21%	33%	7%
Lawyer - general relationship	22%	24%	18%	13%
Law enforcement	22%	18%	38%	
Risk management firm	18%	17%	24%	7%
Public relations / reputation management firm	9%	6%	16%	
I don't know	13%	13%	11%	13%
None of the above	6%	7%	4%	13%
	N = 202	n =126	n =55	n =15

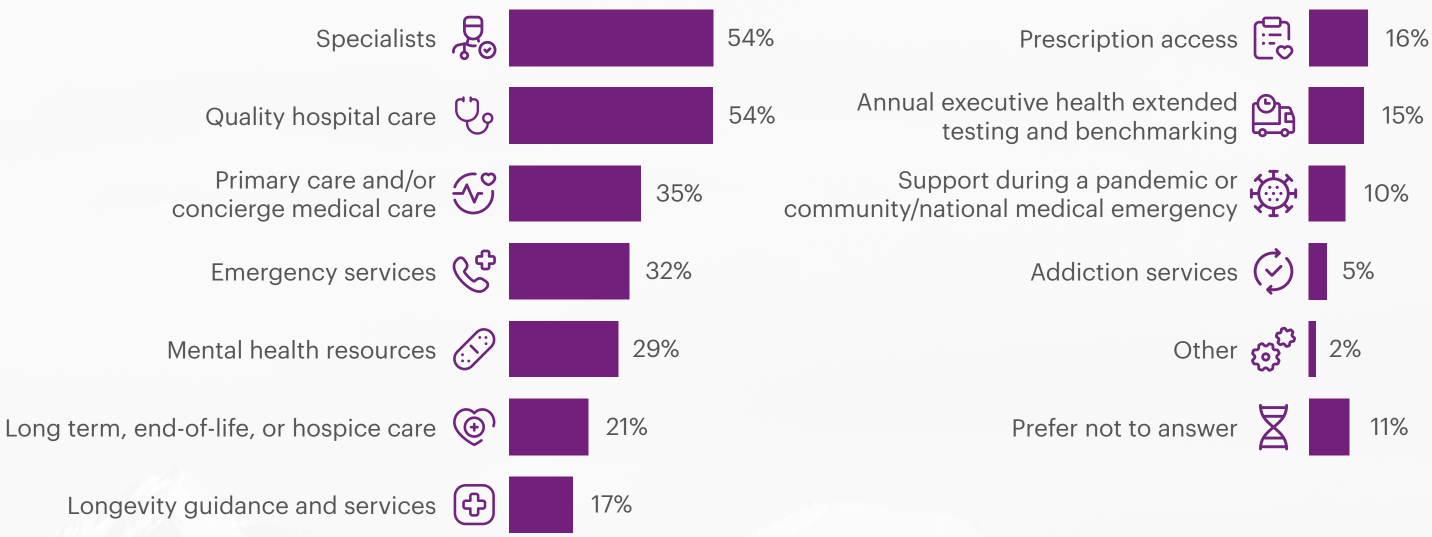
% Multiple answers allowed

What insurance policies and coverages do family offices have in place to protect business activities?

	Overall	North America	Asia	Europe	Middle East
Professional liability	68%	71%	69%	63%	75%
Property	67%	69%	69%	63%	75%
Cyberattacks or cybersecurity	48%	54%	42%	40%	50%
Workers' compensation	47%	65%	46%	20%	50%
Art	32%	39%	15%	26%	25%
Crime	27%	31%	15%	25%	25%
Aviation	20%	30%	12%	6%	13%
Kidnap, ransom, and extortion	19%	25%	31%	9%	
Classic cars	19%	19%	19%	23%	
Yachts and watercraft	16%	25%	4%	8%	13%
Other	6%	8%	8%	3%	
	N = 202	n = 102	n = 26	n = 65	n = 8

% Multiple answers allowed

Which healthcare services are family offices most concerned about accessing?



% Multiple answers allowed

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