



# Family Office Services

ABA Stonier Graduate School of Banking – Class of 2019 Capstone Project

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## Executive Summary

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Offering high-end family office services will differentiate Seattle Bank from other private banks in the area. Family office services include such things as bill payment, budgeting and cashflow analysis, financial reporting and accounting, tax support, data management and recordkeeping. These services would be a nice complement to what is already being offered through client wealth advisors, solidify new and current relationships, and would be offered with the same high-touch personal service the Bank is known for and has been very successful with.

Based on the profile of Seattle Bank's existing private banking clients, it should be expected that family office household acquisitions could run at a rate of approximately 20 clients per year. Over three years' time, these 60 new family office clients would drive approximately \$30MM in new deposits and \$17MM in new loans. This would represent a mix of new private, mortgage and commercial banking business.

After a short, three-month pilot and an initial six months getting up and running, Family Office Services is expected to break-even or better by year two. With careful watch over client security, staffing, and quality of service, Family Office Services will differentiate the Bank and should enable growth of new private banking households, their deposits, and related business that will come because of these new or increased relationships. Additionally, the credibility awarded by offering these services will help the Bank get noticed, considered, and selected by more clients.

# Introduction and Background

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Seattle Bank is focused on the needs of individuals, businesses, business owners, and community organizations in the Seattle area. Seattle Bank combines premier products with personal service, blending big-bank solutions with a boutique-bank touch. Through a combination of customized solutions, exceptional service and accelerated answers from local decision-makers, the Bank strives to make the complex simple.

## **History of Seattle Bank**

Seattle Bank started as Seattle Mortgage in 1944. In 1999, Seattle Savings Bank was established to be a liquidity source for the mortgage company. Along with operating a large traditional mortgage operation, the company developed one of the largest reverse mortgage loan operations in the United States, which it then sold to Bank of America in 2007, for \$220 million. Following the sale of the reverse mortgage division, the Bank significantly expanded its commercial real estate lending activities, reaching its peak size of \$775 million in 2009, with five bank branches and over 20 mortgage production offices.

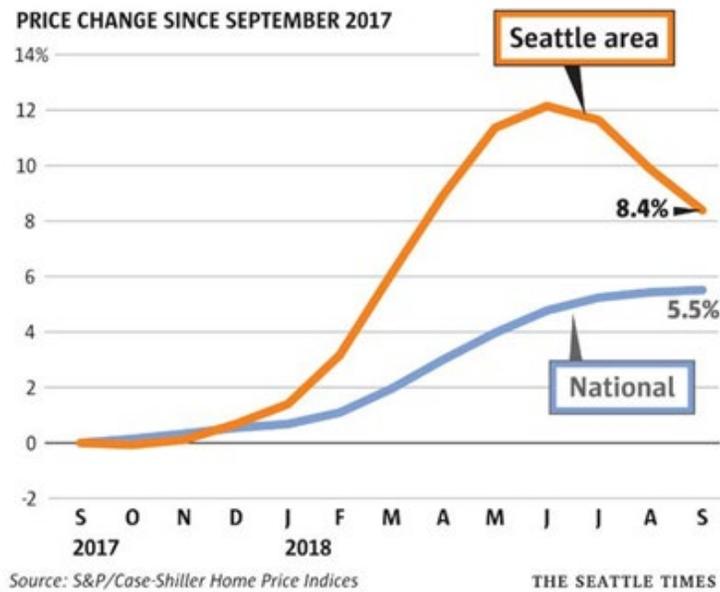
The economic downturn caught the Bank with a large concentration of commercial real estate and construction loans, resulting in a high level of loan charge-offs and nonperforming assets. It also took quite a loss from its investment in Fannie Mae preferred stock. In May 2011, the Bank was recapitalized, and new investors infused \$62 million of new capital, with an additional \$10.3 million raised in 2013.

After the capital raise a new board and management team was assembled and over the following several years worked diligently to clean up the significant legacy issues at the Bank. In response to

this change the bank closed four out of five branches and continues to implement many new client technologies. This clean-up process resulted in a well-capitalized institution with minimal legacy constraints, positioned to take advantage of major changes confronting the banking industry and a booming local economy. The new model is a boutique commercial and private bank, encompassing an approach more in line with local market opportunities, and leveraging the technological advancements that have rapidly evolved in financial services in recent years. The model includes focusing on large relationships, specialty mortgages, private banking, high quality client technology, and minimal branching.

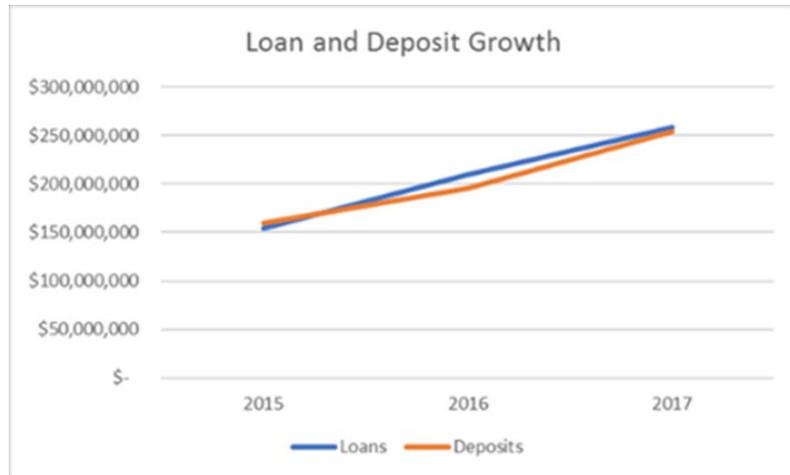
### **Demographic Footprint**

The Seattle area is home to an exciting economy that is filled with major innovators such as Amazon, Microsoft, Boeing, Starbucks, Zillow, Expedia, and Costco. These companies create high paying jobs, spin-off new ventures, and support many small businesses. Factors that have all helped in creating a market full of businesses, owners, and a high degree of wealth. In the metropolitan areas of King County, the economy is very strong with substantial job growth, housing price appreciation, and construction. Through September of 2018, Seattle area home prices, even though having slowed overall, still rose 8.4%, versus the national growth rate of 5.5%. Seattle median income is also outpacing other cities. (Indices, 2018)



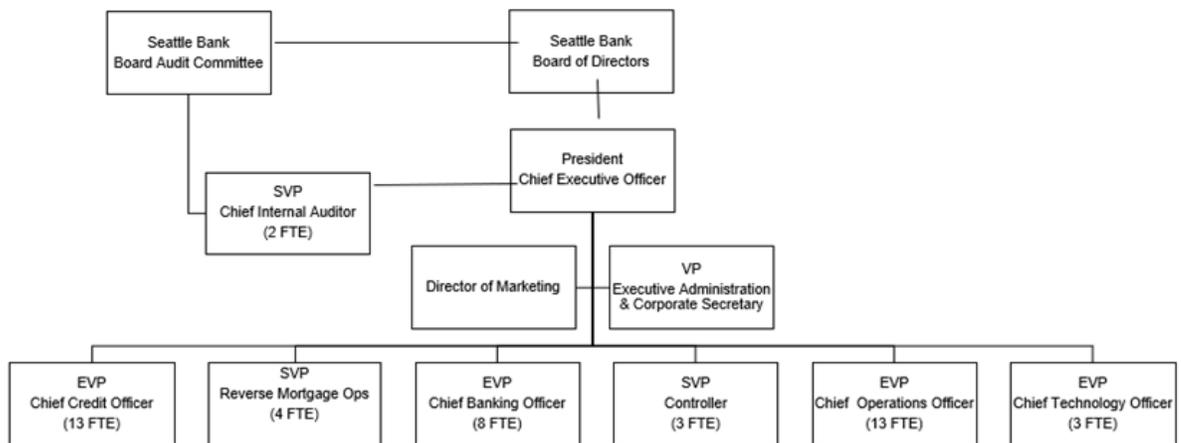
## Competitive Dynamic

Seattle Bank has a well-connected group of shareholders and directors that are known in the area for very successful investments and other endeavors. It also has a unique approach to working with independent investment advisors. Seattle Bank is the only local private bank that does not compete with independent advisors for investment management services. These advisors make up the second largest source of new relationships, following referrals from existing clients. These clients place a high value on the Bank's approach to service, willingness to collaborate with their advisors, competitive rates and access to credit. Delivering specialized results, quickly, with a high-touch approach, has created enough word of mouth business that deposits and loans have grown 20-30% annually with little to no marketing.



Seattle Bank’s model has also been one that keeps employee expense at a minimum. As of June 30, 2018, the Bank was in the top 1.8% for assets per FTE, and top .8% for loans per FTE, nationwide. There is a high degree of focus placed on hiring exceptional employees and ensuring efficient operations to maintain strong numbers. The Bank’s organizational structure has allowed high growth numbers, in a controlled environment. This staffing model has been well-suited for adding greater volumes of similar product and services, without a large need for additional employee cost.

## ORGANIZATIONAL STRUCTURE



Regarding competitors, nationally Seattle Bank would look to First Republic Bank as the best example of a bank covering this private banking and commercial niche. Silicon Valley Bank would also be on the list due to its focus on banking early-stage companies and CEOs. However, First Republic has no Seattle presence, and Silicon Valley Bank's presence is limited and focused on certain venture capital backed companies.

Locally, there are many banks that have had some success. However, none have made this niche or approach to partnership with independent advisors its focus, leaving a unique opportunity for Seattle Bank. Washington Trust Bank is most likely the strongest competitor, but competes for wealth management business, and has reportedly grown less responsive as it has grown its Seattle office. Commerce Bank is focused on commercial banking, but has struggled with maintaining its bankers, and reportedly has not delivered many technological upgrades to clients.

Seattle Bank has been successful differentiating itself by focusing on a unique set of customers, and then delivering a very personalized level of service that other private banks in the area just haven't been able to compete with. Target customers for Seattle Bank include businesses and business owners, high net worth individuals and families, and ultra-high net worth individuals and families. Success in this niche has gained the Bank trust and respect with our clients and in the community in which we serve. This trust and respect has resulted in unique opportunities to provide additional products and services to current and prospective clients.

## **New Offering**

As the Bank gains momentum, it continues to look for ways in which it can help drive client value. Offering high-end family office services could really differentiate the Bank from other private banks in the area. Family office services would include such things as bill payment and payroll,

budgeting and cashflow analysis, financial reporting and accounting, tax support, data management and recordkeeping, basic IT support, and an annual financial well-being review. These services would be a nice complement to what is already being offered through client wealth advisors, solidify new and current relationships, and would be offered with the same high-touch personal service the Bank is known for and has been very successful with.

Services such as these position the Bank to offer even more value to clients and advisors. These services do not threaten assets managed by our advisor partners, and further leverage the trust already established by clients and advisors. The Seattle Bank team has already proved they can effectively sell complex services and manage collaborative relationships. The Bank is a regulated institution, has a high sensitivity to security, privacy and operational excellence, all qualities that contribute to a client being willing to hand off sensitive services. This additional offering fits well with the current high and ultra-high net worth clients the Bank serves, as well as the hands-on, high-touch customer service approach the Bank is known for.

## Strategy and Implementation

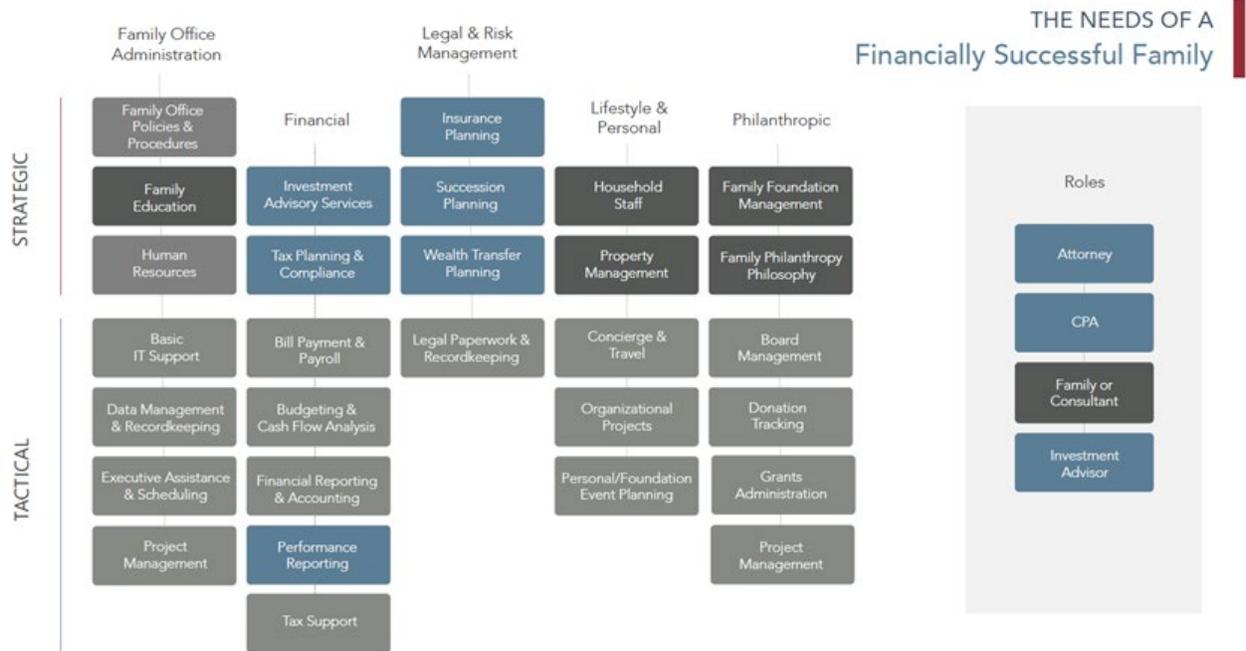
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### **What are Family Office Services?**

Family offices provide educational, professional and lifestyle services. A typical family office gives structure to the management of family wealth, helping establish increased controls and oversight of a family's asset strategies. They can consolidate tax, accounting and wealth management reporting all in one place, as well as provide a governance framework for things such as investment decision-making, family legacy and succession functions including philanthropic foundations and initiatives.

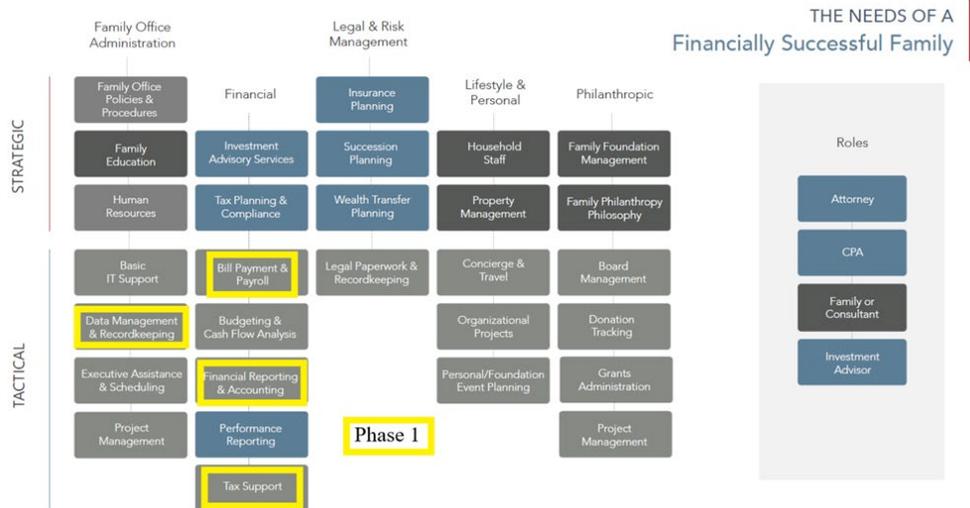
The chart below depicts a variety of both tactical and strategic needs of a financially successful family. Typically, assistance with these needs come from a variety of service providers, such as CPA's,

investment advisors and attorneys, as well as from the family itself. A family office can unburden the family from many of these duties and become the central “hub” and go-to location for both the family and providers.



*(Seattle Bank internal document)*

Seattle Bank’s family office service offering would include many areas (noted in grey) that are currently being completed by family employees, consultants, or the family themselves. Seattle Bank could phase in these services to allow for a well-controlled and delivered product. The first phase of the new service would include Bill Payment, Financial Reporting & Accounting, Tax Support and Data Management & Recordkeeping.



(Seattle Bank internal document)

Bill Payment:

- Vendor oversight and tracking
- Invoice management
- Bill payment
- Bank and credit card reconciliation
- Monthly reporting
- Tracking of expenditures

Financial Reporting & Accounting:

- Standard report package preparation
- Maintaining QuickBooks

Tax Support:

- Track tax docs and upload to CPA
- Send QuickBooks file to CPA
- Reconcile QuickBooks to tax documents

Data Management & Recordkeeping:

- Receive docs for proc, dist. and filing
- Route documents as needed
- Track due dates
- Maintain database of recurring docs

As the Bank finds success in these offerings, the services could grow to include additional things such as Basic IT Support, Budgeting & Cash Flow Analysis, and Donation Tracking.

### **Family Office Services at Seattle Bank**

Seattle Bank's boutique strategy differentiates itself relative to other banks to attract high value banking relationships, including private, mortgage and commercial banking. Differentiation on service and technology is essential to achieve deposit growth, where the Bank must overcome significant friction clients currently face in switching banks. To achieve differentiation, the Bank must offer a mix of "high tech" and "high touch" approaches to serving our clients.

Offering family office services will highly differentiate the Bank and should enable growth of new private banking households, their deposits, and related business that will come because of these new or increased relationships. Due to the relatively high cost of this service, family office clients will most likely always represent a minority of bank clients, and potentially by itself, may be only a break-even endeavor. However, the Bank should expect to gain new private banking clients who learn about the Bank because of marketing investments made to generate awareness of the family office services offering. Additionally, the credibility awarded by offering these services will help the Bank get noticed, considered, and selected by more clients.

Based on the profile of the Bank's existing private banking clients, it should be expected that family office household acquisitions could run at a rate of approximately 20 clients per year. Over three years' time, these 60 new family office clients (focused on the initial phase of Bill Payment, Financial Reporting & Accounting, Tax Support, and Data Management & Recordkeeping) would drive approximately \$30MM in new deposits and \$17MM in new loans. This would represent a mix

of private, mortgage and commercial banking business, and is based on conservative assumptions in terms of cross-sell penetration of additional private and commercial banking and mortgage business.

### **Where will the Business Come From?**

There are several different entry points, in terms of new clients for this service:

- Referrals from investment advisors - there are several advisors who have shown a high degree of interest in having a viable, high-end solution;
- Working directly with individuals and families looking to outsource bill payment and all of the associated reporting and record keeping.
- Working directly with new or existing small family offices that want to leverage outside services for these basic functions so that they can focus on more high-profile functions such as investment management, property management and other family services.

### **Why is this Achievable?**

Family office services will be a unique set of offerings that will meet needs not being met in the current market and will provide more value to clients.

- Market size – it is estimated that there are over 15,000 households in King County, WA, with AUM of \$3MM and net worth of >\$5MM. (Atlas, n.d.) The target market for family office services is expected to be smaller, likely 1,500 to 3,000 households. However, this group is growing due to positive economic factors in the Seattle area, as well as the current trend of increased outsourced solutions for time management.
- Distribution – the bank has unique access to prospective family office clients through our existing clients, advisors, shareholder and other referral sources.

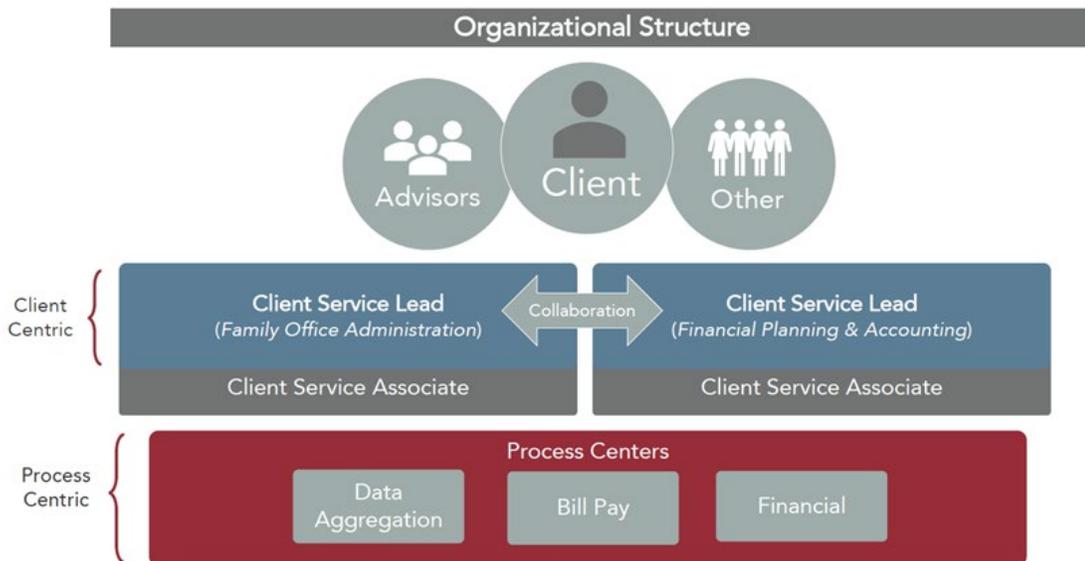
- Advisor Partners – the Bank estimates that advisors currently partnered with collectively support over 2,000 households.
  - Of the twenty advisors the Bank is actively engaged with, six firms that do not offer FOS have expressed an interest in referring clients to the Bank for that purpose.
    - One example has over 75 clients, several of which are using third-party bill pay vendors. Based on concerns about quality, this firm has already agreed to pilot a solution with the Bank, and if successful said they would introduce all their clients.
  - Of the four advisor firms that do offer some form of family office services, three have expressed an interest in us offering a back-office function (i.e., bill payment, financial reporting, etc.)
- Sales Team – the Seattle Bank team is already in the market and is seen as a credible resource for high net worth clients and their advisors. The Bank is currently investing in additional business development staff and marketing support. This same team could readily market family office services alongside the Bank’s other products as it is a complimentary service with similar complexities.
- Marketing Potential – This unique offering will open-up new marketing avenues for the Bank. There will be a distinct value proposition to market which will lend itself to effective use of traditional and digital media.

### **Biggest Challenge**

While the clients may not be hard to find, the additional staffing needed, that will be completely dedicated to this service, should not be underestimated. Seattle Bank runs very lean. With a current staff of around 50 employees, the Bank does not have functions, outside of sales and marketing efforts, that could also take on these specialized duties. The staffing structure for this area

will have to ensure the same high touch service the Bank is known for, timely and accurate processing, and a very high level of accounting, reporting and communications with clients as well as their CPAs, attorneys, etc. Due to the fee required to cover the cost of delivering this high quality of service, the outputs must be better and easier than what a client could hire on their own.

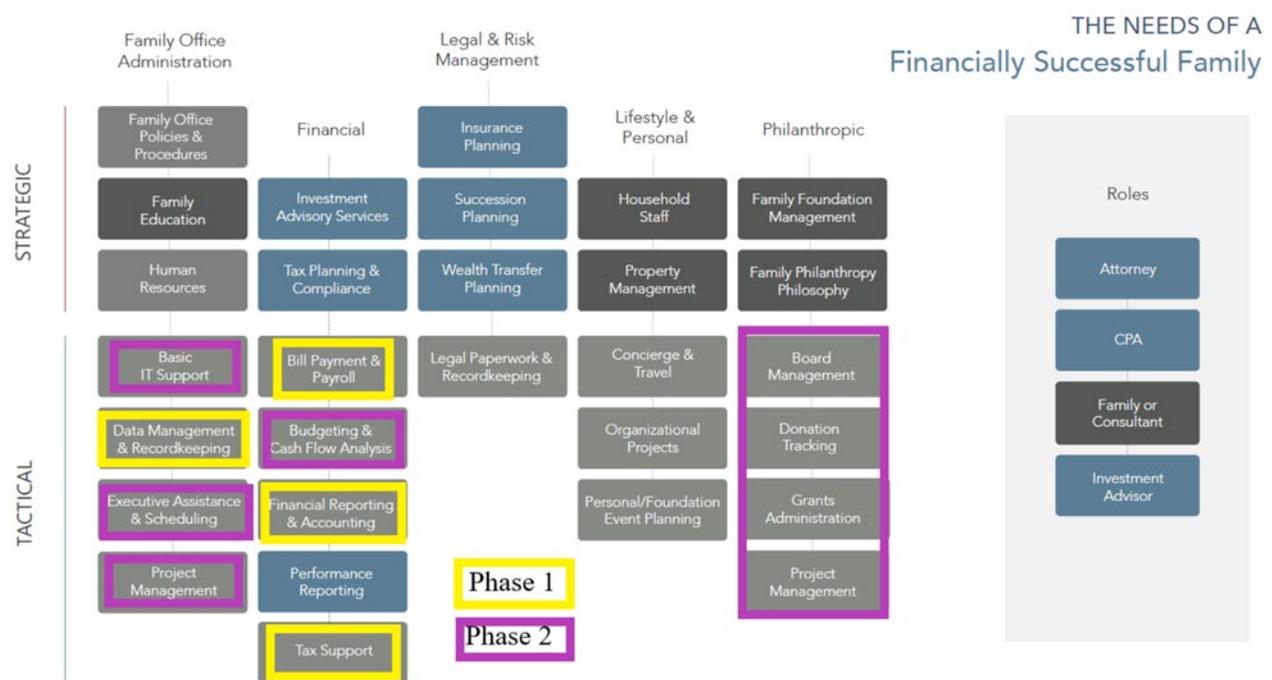
To ensure consistency of communications, as well as efficient and low-cost processing, a structure that separates client-centered contact from the processing centered functions will be used. In this structure a lower level employee can be used to process routine transactions, while a more skilled employee will be the face to the client, as well as a segregation and control point for the actual processing of payments and documentation. Depending on the services being delivered and the number of clients, the lead role could be further broken down into financially skilled employees, versus strong administrative employees, again lowering the cost structure as financially skilled employees will be the highest cost driver.



*(Seattle Bank internal document)*

## Future Opportunities

Once the first phase of family office services is stable and successful, there are many more services that can be offered. As noted by the pink identified items in the box below, the Bank could pick up additional offerings such as Basic IT Support, Budgeting & Cash Flow Analysis, Data Management, and other administrative duties. These additional services, coupled with all services offered in Phase 1, would essentially provide the client with all tactical duties for administration, financial and philanthropic activities. The Bank would become the “go-to” place for not only the family’s asset management needs, but also for their attorneys, CPAs, advisors and others. The staff support for this second phase of services would be the same as for phase 1, with the addition of time from current Bank IT staff.



## Implementation Schedule

The first phase of family office service offerings is focused on bill payment and reporting. Due to the requirement for segregation of duties and other controls, security, the complexity of high net worth client payment activities, and the high degree of hands-on activity required to onboard and transfer these duties, a pilot is required. The pilot will be conducted with the software and systems identified, live bill payments and accounts, but with internal customers only. This will allow time/patience to work out any bugs with process and systems, as well as an opportunity to determine best practices and data required to streamline the onboarding process.

As noted in the timeline below, a three-month window has been set for the research, pilot and preparation. Onboarding of new clients will require quite a bit of coordination. Access must be gained to bank and brokerage accounts, credit cards, statements, renewals, insurance, online and offline vendors, CPAs, etc. A general ledger must be developed, historical activity reviewed, communications scheduled, systems set-up and trained on. It is imperative that this process be as streamlined and painless to the client as possible, which is why the large amount of time noted below is dedicated to piloting and working out the bugs of this process.

### Family Office Services

#### Initial Research, Pilot and Phase 1

<b>Deadline:</b>	<b>Tasks:</b>	<b>Who:</b>
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3/31/2019	<b>RESEARCH AND PILOT</b>	
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	Pilot internal sample client/software	
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		Robin, Lorraine, IT Dept, CBO
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	Staffing model/plan	
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		Robin
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	Systems/software solidified	Robin, Lorraine, IT Dept, CBO
	Security addressed	IT
4/30/2019	Go/No Go Decision	CEO, CBO, Board
5/30/2019	<b>PREP FOR GO LIVE</b>	
	Policies and procedures developed	New staff, Robin, Lorraine, IT
	Client agreements developed	Outside Legal Counsel
	Client onboarding materials	New Staff, Robin, Lorraine
	Marketing collateral	Marketing
	First clients identified	CBO/Sales Team
4/30/2019	<b>PHASE 1 LIVE</b>	
	Onboarding begins	New staff
6/30/2019	Full marketing effort underway	Marketing, Sales Team

### **Author's Role**

The author's role in this project is to lead exploration, initial documentation and pilot activities. Once the pilot is complete, it is assumed that staff with adequate expertise, without the requirement to be independent, will take over the implementation and ongoing operations. Ultimate responsibility and reporting lines will roll up through the Bank's Chief Banking Officer.

The author is a CPA, with a background in accounting and internal controls, including experience with high net worth individuals and their associated businesses. Seattle Bank is a small institution with approximately 50 employees. While carrying out the duties of Chief Internal Auditor, there are also other roles performed. One role is ensuring all new products and services considered for possible implementation are vetted through a very structured, risk based, due diligence process. While this is not a typical role for an auditor, it has been a good compliment to the role and skill set.

For this project, the author will be taking on additional duties in performing some of the work previously only tracked, consulted, and reported on. This includes conducting research, looking at the various systems, structure and support needed, ensuring adequate due diligence over new processes and third-party providers, as well as assisting with the requirements needed around strong internal controls and procedures. While the author will be leading the project, there will be input and support from the Bank's CEO, CBO, IT Dept., outside legal counsel, Director of Marketing, and Corporate Secretary.

## Financial Impact

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### **Size and Type of Investment**

For a Bank of only fifty employees, an estimate of approximately two initial additional staff and a large new set of offerings would be significant in both focus and spend. For Seattle Bank to offer this new suite of family office services, it would need to invest in the research and development, technology and systems, legal expertise, marketing, office space and other FF&E costs, as well as staffing to implement and then carry it out on a day to day basis. The biggest investment, above the hard dollar spend, will be time and distraction away from other duties and projects the Bank is involved in.

In the pilot phase of the project, while the hard dollar spend is low, the time spend will be quite high. As noted prior, a pilot will be conducted to identify the various software and systems required, learn bill payment methods, test live bill payments and reporting, and start developing a very secure, well controlled and documented process. The pilot will use the live bills and accounts of two bank employees. This will allow time to work out any bugs, as well as an opportunity to determine best practices and data required to streamline the onboarding process.

The two employees identified to perform the pilot are the author, as well as the Bank's Corporate Secretary. Both have agreed to use their personal bills and accounts for this testing process. The time estimated for this phase is three months and is estimated to be approximately 25% of each employee's time during the pilot period. While both employees feel they can juggle this work with their current first quarter duties, it is still time that would have been spent on other projects at the Bank.

## **Revenue and Expense Estimates**

A proforma of estimated revenues and expenses from the bill payment pilot phase through year two is noted below. Estimates include only the bill payment service as this will be the first product tested to be offered. Software numbers are based on actual cost of the three systems noted (bill.com, QuickBooks, and Fathom). Minimum balance requirements were estimated at \$100k per client, at a 3% return, which is the Bank's approximate current rate of deposit return. In some revenue and expense categories, costs were ramped through the year assuming clients and staffing would be acquired through the year rather than all in place on day one. Other assumptions include:

- Pilot - assumes two current staff are utilized (author and Corporate Secretary), with other hard dollar expenses limited to software usage fees and legal expenses in developing and reviewing client agreements.

- First six months - the next six months assume six clients are obtained through word of mouth advertising. Based on current interest level in this product this is a reasonable assumption. Two CPA level staff (approx. 5 years of experience) are hired at current Seattle market rates, and a typical Seattle Bank benefits package is used (bonus, 401k, and other benefits). Revenue includes income from minimum balances maintained, as well as one-time set-up fees and monthly recurring fees. These fees are based on other fees seen in the marketplace obtained through various interviews during this project and are considered market rate and reasonable.
- Year two – assumes two additional CPA level staff to handle a total of 26 (20 additional) clients. Expenses and fees remain constant, but there is an additional \$50,000 spent for marketing. While the pilot and first six months of live production assume approximately four clients per FTE, year two assumes there is some scalability and efficiency earned in prior periods and increases the staff to client ratio to 6.5. It is assumed that by this time, with the additional staff in place, the department could move to more of the organization structure noted earlier with certain staff taking the lead with clients and performing review and oversight, while at least one, maybe two, focus on pure processing of bill payments. While this structure would most likely allow the hiring of less expensive staff, the model used the same higher rate of pay to be conservative.

## Estimated Revenue and Expenses – Pilot through Year 2

Phase/Time Period	Pilot - 3 mo.	1st 6 months	Year 2
# Clients	2	6	26
<b>INCOME</b>			
Min. Balance (\$100k/client @ 3%)	\$ -	\$ 9,000	\$ 39,000
Set-up Fees (\$3,000/client)	-	18,000	60,000
Monthly Recurring Fees (Ave \$3,000/client)	-	108,000	720,000
Total Income	-	135,000	819,000
<b>EXPENSES</b>			
Salaries/Benefits (@ \$110k/year)	-	110,000	440,000
Bonus (6%)	-	6,600	26,400
401k (3%)	-	3,300	13,200
Medical/Dental (\$700/month)	-	8,400	2,100
Parking (\$300/month)	-	3,600	10,800
Legal/Marketing	5,000	-	50,000
FF&E	-	1,500	4,000
Office Space	-	-	-
PO Box (\$100/month)	-	600	1,200
bill.com (console, entity, user, transactions)	1,590	4,740	17,340
QuickBooks (per client)	300	2,400	15,600
Fathom (\$50/per entity)	150	900	36,000
Total Expenses	7,040	142,040	616,640
Net Income	\$ (7,040)	\$ (7,040)	\$ 202,360

As noted, estimates include only the bill payment service from the family office services suite, as this will be the first product tested and offered. Once staffing and processes are established, future years can include some of the other family office services mentioned prior. Both the pilot and first six months of live production show a small loss. Year two ends positively with over a \$202,000 net income. With the goal to at least break-even, it appears once the operation is past the initial year, this will be the case.

## Key Risks

Key risks associated with this opportunity are as follows:

- Management distraction – High: It is imperative that a new family office service offering have strong alignment with the Bank’s goals and objectives. While it would be a valuable offering, it cannot distract from the underlying growth and client demands of the Bank. While there appears to be good alignment with current goals, keeping management distraction to an acceptable level will likely remain the highest area of attention. The use of the author (Internal Auditor), and the Bank’s Corporate Secretary, for the pilot – distraction through the pilot phase should be minimal.
- Hiring/Staffing risk – High: An employee that has the financial acumen to work with investment advisors, CPAs and attorneys, has the patience and care to work with potentially tough clients, all the while juggling the technical and accounting aspects of the job, could be tough and expensive to find. Hiring great employees that can carry out the high touch service that the Bank is known for will be key to the success of these services. If the product is successful, demand could outpace the ability to find proper staffing to accommodate it. Time spent by employee and project will need to be closely monitored to ensure staffing can keep pace with new client development but doesn’t get too far beyond needs as it will be the most expensive part of the service. This risk can be addressed by monitoring new client acquisition and making sure it doesn’t outpace ability to find staff.
- Business risk – Moderate: A key challenge is finding clients willing to pay a viable rate for these services. This will be monitored closely to ensure that management has incentives to pursue the right customers and effectively sell the value of the offering.

- Financial risk – Moderate: This is expected to be a relatively small dollar output with low barriers to exit (could just be dissolved and clients moved to another provider). It will most likely be a break-even business that adds leverage to the Bank’s other marketing activities. Based on interviews with others currently providing this service, onboarding and ongoing rates utilized in the projections here are reasonable and should arrive at least at a break-even operation.
- Reputation risk – Moderate: Strong, secure and controlled operations, paired with skilled staff, should result in a low likelihood of negative reputation impact, but if it occurs it could be difficult and time-consuming to fix. Imperative in the pilot phase of this endeavor will be utilizing the right staffing to develop a very controlled and secure operation, with checks and balances and an audit trail that can be easily verified by the client or any other party.

### **Worthwhile Investment?**

Developing family office services as an offering of Seattle Bank would further differentiate the Bank as a unique resource to ultra-high net worth and high net worth families and investment advisors and facilitate greater household and deposit acquisition. Specifically, family office services are a high-touch offering that would help differentiate Seattle Bank relative to larger financial institutions that can offer clients better tech-enabled banking solutions (i.e., BofA, Wells) or higher rates on deposits (i.e., Ally, CapitalOne).

The core and initial service offering, as discussed, is a comprehensive bill pay solution. This starts with identifying and collecting all bills, processing via established approval rules, paying, and providing detailed reporting to the families and tax-preparers. The idea is to offer institutional security, capability and reliability without clients having to find, hire and manage personal staff. Additional reporting and administrative services could later be offered on a recurring or project basis.

The additional offering is projected to acquire 60 new family office clients and private banking households over three years. All of this with very minimal investment. Based on the profile of the Bank's private banking households, one could expect this to generate more than \$40 million in new core deposits and roughly \$10 million in organic loan production over this three-year period. This new family office services endeavor would be viewed as a success if it is a break-even to moderately profitable business that generates new high-value banking households and strengthens the Bank's interactions with investment advisors. Family office services could strengthen Seattle Bank's value proposition to advisors and its standing as a uniquely capable private bank.

The revenue and expense estimates are just that, estimates. The model is scalable in the fact that the acquisition of new clients can be slowed if required, or new employees can be added faster if needed. In addition, expenses were built conservatively assuming a very high level of staff. As the department grew, there would be opportunities to add staff in less skilled (less cost) capacities, to process payments and work the back-office duties. The model shows that with an approximate five to one ratio of staff to clients, break-even occurs.

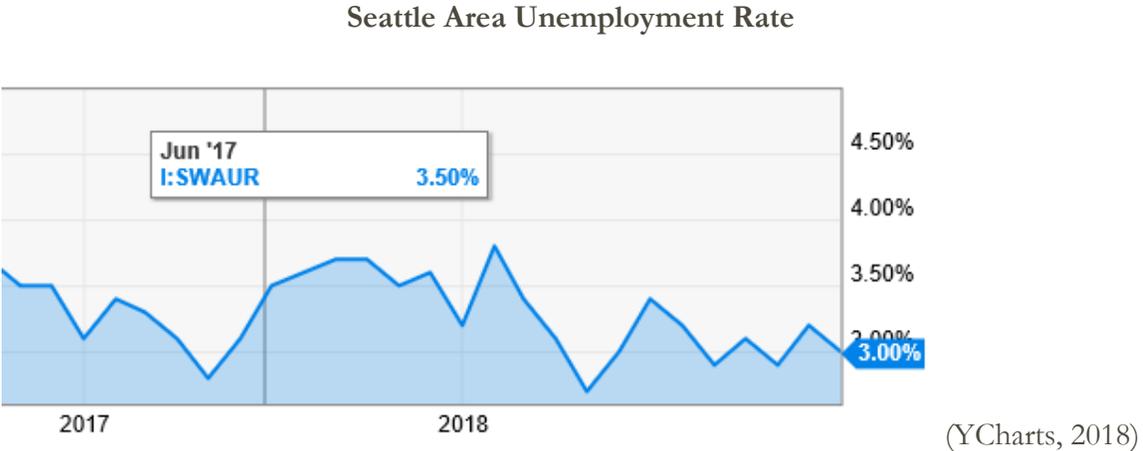
In the event that family office services do not work as planned, it can be wound down or spun off with minimal cost or risk. This business line could be sold, and/or current clients could be introduced to other service providers and be giving a period to transition. Based on the minimal investment required, ability to slowly test the waters, the ease of exit from the business if needed, and the high potential payback from acquiring new private banking households, it is the author's recommendation to move ahead with the investment to pilot family office services.

# Non-Financial Impact

## Measures to be Considered

The non-financial issues to be considered by Seattle Bank in offering Family Office Services are varied and need to also be evaluated prior to going forward with a formal launch of the new services. While these issues start as non-financial, they are important to be understood, and can be detrimental to the success or failure of a new service, ultimately greatly impacting financial results. These issues include availability of resources, information and data security, and culture, and are discussed below.

- Availability of resources: Hiring the right individuals to perform Family Office Services is not only the highest risk of this project, but the biggest non-financial issue to consider. While there is a cost to staffing, this is not the portion of the issue discussed here. As noted prior, an employee that has the financial acumen to work with investment advisors, CPAs and attorneys, has the patience and care to work with potentially tough clients, all the while juggling the detailed technical and accounting aspects of the job, can be tough to find. The Seattle labor market is strong, and unemployment is very low hitting 3% at December 31, 2018 versus a national rate of 3.9%.



Hiring great employees that can carry out the high touch service that the Bank is known for will be key to the success of these family office services. If the service is successful, demand could outpace the ability to find proper staffing to accommodate it.

- Information Security/Confidentiality: Client information security is imperative in the banking world, and absolutely in the family office world as well. Banks continue to be targets in cyber events, and private banks, such as Seattle Bank, rise to the top of the list for potential threats. Clients typically have material amounts held with the institution, and many times have others assisting with their finances making it easier for fraudulent behavior to potentially go unnoticed.

According to Forbes, cyberattacks cost financial services firms more to address than firms in any other industry at \$18 million per firm (vs. \$12 million for firms across industries). Financial services firms also fall victim to cybersecurity attacks 300 times more frequently than businesses in other industries. In other words, while the typical American business is attacked 4 million times per year, the typical American financial services firm is attacked a staggering 1 billion times per year. The rate of breaches, or theft of sensitive data, in the financial services industry has tripled over the past five years. (Mirchandani, 2018)

Along with information security, information confidentiality is key to family office success. Staff that work with clients not only have access to financial information but become privy to these clients personal on goings. Clients who engage Seattle Bank to perform Family Office Services will expect and demand extreme confidentiality of their personal information.

- Culture: Seattle Bank is known for superior quality and personal service. The Bank has grown with little to no marketing due greatly to word of mouth of this high standard of service and

quality. The same expectations will exist and be required of any Family Office Services provided by the Bank. Family Office Services have the potential to be much more involved in the day to day on goings of clients. It will be imperative to ensure that client expectations are managed up front. While a timely and accurate product must be delivered, there are some things that must be made clear to the client to ensure reasonable service expectations.

### **Plan to Overcome Hurdles and Their Impact**

These non-financial issues; availability of resources, security, and culture, now identified, will all need a plan to ensure they monitored and addressed as needed.

- Availability of resources: As noted, if the service is successful, demand could outpace the ability to find proper staffing to accommodate it. The time spent by employee and project will need to be closely monitored to ensure staffing can keep pace with new client development but doesn't get too far beyond needs as it will be the most expensive part of the service. This risk can be addressed by monitoring new client acquisition and making sure it doesn't outpace ability to find staff. It may be necessary to identify and train current employees as back-up staff in the case of high volumes, staff termination, or new client acquisition that outpaces hiring abilities.
- Information Security/Confidentiality: Information security is already one of Seattle Bank's highest identified and addressed risks. Family Office Services security oversight will come from the same technology team at the Bank. The team is well versed in security and cybercrime. As noted below, the latest external controls testing resulted in very positive results with an increase from the prior year, as well as well above average scores compared to other institutions of the same size.

Category	Seattle Bank		All CLA Financial Institution Clients				
	Current Score	Previous Score	Average 1st Year Score	Average Under \$100M	Average \$100M-\$250M	Average \$250M-\$500M	Average \$500M-\$1B
Security Assessment Scores	90%	87%	72%	72%	82%	82%	85%
Compliance Assessment Scores	95%	91%	78%	66%	85%	90%	85%

(Clifton Larson Allen, 2018)

While a current strong security review is good, the cyber world is constantly changing the banks must work hard to keep up to date. Seattle Bank continually conducts trainings as well as detailed audits and testing to ensure security is the best it can be. All Family Office Services will be put through the same rigorous testing and will be required to exhibit the same control environment, including thorough reviews of all third parties used.

Clients and staff of the Bank’s Family Office Services will need to agree to a detailed policy on information security. This will include such basic things as how to submit information to the Bank, and what not to put in emails, etc. Further Family Office Services could include home visits to ensure office and personal networks are secure.

Along with information security, information confidentiality is key to Family Office Services success. It will be imperative to continually train staff on confidentiality. This may require adjustments to the Code of Conduct to specifically address things such as what types of client information can be shared and discussed and with whom. The monitoring of client confidentiality will be done through conversations with clients and surrounding staff.

- Culture: It will be imperative to ensure that client expectations are managed up front. While a timely and accurate product must be delivered, there are some things that must be made clear to the client to ensure reasonable service expectations. Family Office Service staff can only be as good as the information provided to them.

For example, in speaking with investment advisors during the research for this area, one major client frustration had been inaccurate expense coding, leading to monthly spend and tax reports that were not useful to the client. Upon further research, most of these issues spurred from family office staff attempting to code expenses that were not items processed by the team, such as credit card statements. If the family office team did not process the expense, it can be very difficult to determine how to code various charges such as “Amazon”.

Another area of frustration noted from conversations with other family office service providers are ensuring all bills are paid. This is another area where the service can only be as good as the information provided. Clients that typically use bill payment services have very complex lives. This can include multiple homes, vehicles and projects. Annual or one-time payments such as car tabs, taxes and insurance, can easily be missed. To overcome this hurdle, it will be important to have a thorough onboarding process to get information on not only all current assets, but also potential projects and new ones to come. At least on a quarterly basis, family office staff should meet with clients to ensure this information is up to date.

Both the sales and onboarding process will need to ensure that the process and product are made very clear and do not over promise on what’s possible. Clients will need to be aware that their ongoing participation will be needed to ensure a timely and accurate product and service. Ensuring happy clients is paramount to having Family Office Services deliver the same superior quality and personal service Seattle Bank is known for. Monitoring of this item will be based on customer and staff feedback.

## Long Term Profitability

Careful monitoring and the ability to quickly address issues in these non-financial measures can help ensure long term profitability and success of the Family Office Services endeavor. Availability of resources, information and data security, and culture, do make a financial impact.

- Availability of resources: Hiring great employees that can carry out the high touch service that the Bank is known for will be key to the success of these family office services. While over hiring could be expensive, the bigger risk will be not having enough staff to ensure clients expectations are met. Ensuring that each interaction with a client (or their representative) is efficient and positive and addresses the item at hand, will help trust build over time.
- Information Security/Confidentiality: A breach in security, or a lack of confidentiality concerning personal matters of clients would each be a huge impact to Family Office Services. Not only would the client/advisor relationship be impacted, but the reputation of the service and the Bank overall. On the flip side, ensuring a highly secure and confidential service can also increase trust in the client and advisor relationship.
- Culture: Ensuring expectations are reasonable, and then delivering the superior quality and personal service expected in every client interaction is key to the success of Family Office Services.

All these non-financial measures, if continually monitored, addressed when needed, and improved, can lead to increased client and advisor trust. Clients of Family Office Services that are happy, will be more likely to recommend services to friends, as well as seek out Seattle Bank for other needs, such as deposit accounts or loans. As noted earlier, it is expected that over three years' time, there would be approximately 60 new family office clients that would drive approximately \$30MM in

new deposits and \$17MM in new loans. Taking care to ensure adequate resources, security and culture are imperative to hitting these growth numbers.

## Conclusion

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Developing Family Office Services as an offering of Seattle Bank would further differentiate the Bank as a unique resource to ultra-high net worth and high net worth families and facilitate greater household and deposit acquisition. While this deposit acquisition strategy would be a small component of the Bank's overall growth strategy, the financial commitment and downside risk of this new offering is commensurately small. Based on the financial analysis, ability to pilot the offering and start at a small scale, as well as feedback regarding current demand for the service, Family Office Services will be a great fit for Seattle Bank to continue to combine premier products with personal service, blending big-bank solutions with a boutique-bank touch.

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