



# Personal Perspectives

South Africa | 2020 edition

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# Introduction

## Welcome to our 2020 edition of the KPMG Private Enterprise publication, Personal Perspectives.

2020 is a year that will leave a lasting impression in the memories for many generations to come due to COVID-19. During this time in our history, the mettle and resilience of people and businesses are being tested. Our reality has moved from working in office spaces and factories to working-from-home, home-schooling and becoming reliant on online services like never, literally overnight. We have also seen entrepreneurs and businesses diversify and innovate in this time of “business unusual”.

In this edition, we discuss the concept of Family Offices (Family Office 101). What is a Family Office? Why would one establish a family office and what support and services do Family Offices typically provide? The one thing that is apparent is that no two family offices are the same since the families to whom services are rendered are unique.

More now than ever, the topics of wealth creation, wealth management and wealth preservation are imperative regardless of your current level of income or wealth. Pertinent questions relating to wealth are where to invest, how much to invest and how to invest?

From a South African exchange control perspective, South African exchange control residents may only remit ZAR 10 million per calendar year. During the February 2020 Budget Speech delivered by the Finance Minister, the future relaxation of exchange control was announced which we could see as early as 2021.

There is huge economic pressure on governments for COVID-19 business rescue and relief plans and social grants. This in turn leads to Revenue Authorities being under pressure to replenish depleted coffers during an economic downturn. Given this, there is a renewed focus on compliance with tax rules and regulations. Revenue Authorities test compliance by undertaking field and lifestyle audits.

One of the avenues being explored by governments is the introduction of a wealth tax. The debate around South African wealth taxes is very prevalent at the moment. We look at the concept of a “wealth tax” from a South African perspective, will it or won’t it be introduced and what is the short- and long-term impact for the affected taxpayers and Revenue? Are there other unexplored avenues for Revenue to collect taxes, duties and levies? Should South Africa follow the trend of other jurisdictions to incentivise investment into the economy, like Mauritius?

We include an article on from our team in Mauritius on the positive changes to the residency rules and enhanced incentives in Mauritius.

Our article on the role of digital technologies peers through the looking glass into the near future of wealth management. At the same time, the black hats of the digital world need to be protected against, and our article on Cyber Security clarifies the sheer importance of the necessity of the protection of digital information and assets.

We hope you enjoy this edition of Personal Perspectives.

If you have any comments, feedback or suggestions of what you would like us to cover in future issues, please do get in touch.



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# Family Office 101

In recent years, there has been an increase in the number of family offices formed to manage the affairs of wealthy families.

It is estimated that there are currently over 10,000 single family offices globally, a ten-fold increase since 2008.<sup>1</sup> If multi-family offices are included, the number is considerably higher.

The growth in the number of Family Offices has been attributed to the increase in worldwide wealth over the past two decades, resulting from phenomena such as the dot com boom and success of tech start ups, which has grown the tier of the billionaire population.

This article explores the frequently asked questions to demystify the concept of a Family Office.

## What is a Family Office?

Typically a “Family Office” refers to a specialised team that assists High Net Worth (HNW) and Ultra High Net Worth (UHNW) individuals and families, with wealth and investment management, as well as succession planning and general servicing of the families’ greater goals.

A Family Office can take many forms, such as: a family asset/investment holding structure like a trust, a trusted advisor (lawyer or accountant), a family member, or a stand-alone entity employing a team of investment professionals and other specialists.

A Family Office is customised to the family’s requirements depending on the complexities of their affairs.



## What are the different types of Family Offices?

Generally, a Family Office may take two forms i.e. Single Family Office or Multi-family Office:

### Single Family Office (SFO)

SFOs vary in complexity. Complex SFOs (investment assets of USD 500M plus) provide more services than less complicated SFOs which are suited for a wider range of wealth levels (investment assets of USD 100M plus). They are usually very specialized and costly to operate, as it supports just one family.

SFOs can be further broken down into three types i.e. Embedded, Virtual and Specialised Family Office.

### Embedded Family Office

An Embedded Family Office borrows corporate resources from the family's trading business to help with the family's wider needs. It relies on in-house and external advisors but the services are mainly limited to the speciality of the in-house advisors.

This is often the starting point of a separate SFO, however, there are considerable risks to be considered. Whilst an Embedded Family Office is low cost, the employees may not have the necessary expertise, specialisation, or capacity required for the family's needs. The lines between corporate and family precedence is also blurred, which can lead to conflict of interest. In addition, there may be tax and legal consequences for housing all personal and commercial activity under one trading business.

### Virtual Family Office

A Virtual Family Office is a group of independent professionals, working together as if they were a separate SFO. These individuals provide coordinated advice to the family but remain employed within their own firms i.e. they are not directly employed by the family. Therefore, a full range of services may be procured from as many external advisors as is needed.

A Virtual Family Office may be set-up as a SFO or Multi-family Office. In a South African context, we typically see it in the Multi-family Office space.

### Specialised Family Office

A Specialised Family Office usually only focusses on one aspect of the family's affairs e.g. philanthropy or succession, and is typically managed by in-house personnel.

### Multi-family Office (MFO)

A MFO is a commercially operated organisation that supports multiple families with wealth in the region of USD 25M or less.

An MFO is cheaper and provides a range of services, however, it may not be as customised as a SFO.

In South Africa, there is also a trend to have a hybrid of a Virtual Family Office (as mentioned earlier) within an MFO. However, whilst the costs of a Virtual Family Office are reasonable, the advice provided by different advisors from different institutions may lack a holistic and deeper

understanding of the family's needs, which could result in certain intricacies unique to the family being overlooked. Furthermore, given that its resources are mainly solicited on a needs only basis, a Virtual Family Office is primarily reactive in its approach and not proactive, leading to slower response times than a separate SFO.

## Why do people establish Family Offices?

Many families function well without a Family Office. However, where wealth increases and the family grows, it also leads to an increase in the complexity of the family's financial affairs.

Many factors determine whether a Family Office should be considered, but the most persuasive factor is the complexity that families encounter when they manage their affairs on their own, be it legal and tax matters, personal investments, charitable ventures, or even family differences. At some point, these tasks become a full-time job and the family needs more expertise to manage its wealth and governance, as well as act impartially in instances of family disagreements.

By establishing a Family Office, it provides the family with an opportunity to spend their time doing more of what they enjoy, with less time on administration. It also provides peace of mind to families who do not have the knowledge or inclination required to manage their wealth.



### What services does a Family Office render?

A Family Office can offer as wide or as narrow a range of services as required. The main categories of services can be broken down as follows:

**Lifestyle and Administration** i.e. private secretary, travel arrangements, household personnel management, document storage, local and cross jurisdictional compliance, insurance management, bookkeeping and payroll, information and reporting, regulatory compliance; and governance.

**Asset Management** i.e. managing personal residential properties, commercial investment properties, luxury assets such as yachts, planes, cars and artwork.

**Family Legacy** i.e. estate, succession and continuity planning, education of the next generation, and philanthropy.

**Financial Needs** i.e. managing investment portfolios in local and foreign markets, monitoring investment returns, overseeing external providers, source new investment opportunities, and undertake due diligence.

**Risk Management** i.e. manage and protect the family's privacy and reputation, monitor risks affecting the family, and cyber threats.

### When should a Family Office be considered?

A separate SFO generally appeals to UHNW individuals, typically defined as persons with investable assets of USD 30 million or more. Generally speaking, only families with USD 1 billion or more will have the resources to justify a dedicated SFO. However families worth tens of millions may enlist a third-party MFO, where they share resources with other, unconnected families.

In an African context, persons with investable assets of ZAR 30 million may start exploring Family Office options such as the Virtual or Specialised models.

## Where should a Family Office be set-up?

Historically, one would choose a location in proximity to the family's principal residence. Today, as HNWI individuals and families are more mobile and can move across continents, and own cross jurisdictional assets and investments, they must weigh many factors when deciding where to locate their Family Office, and not just their primary location.

With sophisticated technology such as video conferencing and secure electronic networks, a Family Office may provide a combination of different functions which are capable of being located across a number of physical places. Rather than families balancing the requirements of all their different needs in one location and making inevitable compromises, hosting different functions in different locations can increase ease and effectiveness.

### The factors that need to be considered in choosing a location are as follows:

**Lifestyle** – Where does the family reside, work, study and travel, so that functions can be readily accessed by family members? The family's religious and cultural preferences may also influence the location.

**Administration** – What structures, staff and processes will enable the Family Office to operate most effectively, match the family's goals, and satisfy good governance and tax efficiency?

**Finances** – What types of financial assets does the family hold and where? Does the family's financial holdings and investments dictate certain locations or access to professional talent to manage the assets?

**Tax and Legal** – Are there any jurisdictions that are less cumbersome in terms of tax and legal restrictions?

**Whilst there are no set locations for Family Offices, there are some places that are more popular than others. These locations are:**

**London/New York** - a desirable residence with high calibre investment, legal, tax and wealth management expertise.

**Switzerland** - provides ease of business, a tax-neutral location for holding structures, quality service providers, and a well-connected location.

**Singapore/Hong Kong** - established financial centres with a wide range of service providers acting as a gateway to the Asian market for American and European investors.

**Jersey/Guernsey** - established financial centres with a wide range of service providers acting as a gateway to the European market for African and Middle Eastern investors.

## How is a Family Office established?

Most Family Offices come about organically. However, purposefully creating one sets the tone for good governance and is the first step in mitigating risk down the line.

The stages involved in setting-up a Family Office are:

**Plan** – define the objectives of the Family Office, with input and agreement from the family.

**Design** – decide on the type of Family Office that would best suit the family as well as the resources required to facilitate this. The tax and legal implications are also important to consider.

**Structure** – consider the form of the Family Office i.e. the type of vehicle to be used for example, a company, trust, or partnership.

**Implement** – this step must only be enforced once the previous steps are firmly entrenched.

**Review** – once the Family Office is established, it must be assessed periodically to verify its efficacy. Changes in lifestyle and family dynamics and/or changes in legislation and the investment environment may affect the effectiveness of the Family Office structure

## Is setting-up a separate Family Office always necessary?

We acknowledge that there are benefits in retaining the status quo and continuing with an Embedded Family Office, for example, the reduced cost and simplicity of operating one connected operation.

Therefore, we do not recommend a conversion of every Embedded Family Office. Many still remain an effective way of meeting the family's needs. However, as they are often created without much thought or deliberation, they do often benefit from a third party health-check.

## How can KPMG help?

At KPMG, the term "Family Office" is a flexible concept - there is no single definition and no standard approach.

This is because we recognise that each family is unique; which is why rather than having a set list of Family Office products, we focus on having a team of specialists who draw on the wider experience from all areas of our global practice to suit each client and their challenges.

We provide bespoke advice to establish and operate your Family Office, and grow and preserve your legacy by offering a range of services including financial modelling, health-checks of existing structures and tax reviews. We are also able to attend to once-off projects, such as an acquisition or disposal, or sourcing a new opportunity in an unfamiliar sector.

We know the right questions to ask and can draw on specialists, in every major jurisdiction, and can offer a strategy for your unique set of needs.

Whether the conclusion is a full-service Family Office or just one person to help project-manage an external team of advisers, the result is a Family Office that is tailored to your family.

Please contact us if you are considering establishing a Family Office, have started one, or are experiencing difficulties with an existing Family Office. Our team would be happy to assist.



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<sup>1</sup> Francois Botha 'The Rise Of The Family Office: Where Do They Go Beyond 2019?' (2018) available at <https://www.forbes.com/sites/francoisbotha/2018/12/17/the-rise-of-the-family-office-where-do-they-go-beyond-2019/#51910a8e5795>, accessed on 6 July 2020.

# Is a wealth tax really the answer to South Africa's current and post-COVID-19 economic woes?

**There is no denying that South Africa has a political history which enhances the wealth inequality statistics, with 90% of South Africa's wealth is held by less than 10% of the South African population.<sup>1</sup>**

This inequality is further highlighted by the plight of South Africans given the impact of the Novel Corona Pandemic, given that 10% of the R500bn stimulus package is to support social grants.

The key question, which has been much debated, is where the funds will come from to support the stimulus package. The current sources we are aware of is that approximately 20% may be funded by re-prioritising Government's budget, but that still leaves 80% to be sourced. Currently it seems a significant portion will come from interest bearing debt provided by International Financial Institutions (IFIs) such as the IMF.

The economic question regarding the debt funding, is whether our current below investment grade debt to GDP position, approaching 70%, is the most efficient source of funding.

Aligned with the global 'chatter' regarding funding the stimulus packages, it is evident that many are reviving the much debated topic of a wealth tax and in certain jurisdictions have implemented. On face value, and with reference to the wealth inequality stats, it is understandable why the discussion in South Africa has been revived. However, in my view, there are a few additional statistics that first need to be considered.

One should always start with what are the current contributions made to the annual tax revenue collection, as this provides context. Despite a period of uncertainty, I believe that South Africa has an effective progressive income tax system for individuals (personal income tax - PIT). National Treasury and SARS are fully aware that 30% of the registered individual taxpayers (approximately 12% of the population) are paying 80% of the tax revenues collected, which amounts to just over R500bn per annum (38% of total tax revenue collection)<sup>2</sup>.

The second consideration is whether there may in fact be some form of wealth tax already built into the South African tax system. In terms of a wealth tax, one needs to understand what 'wealth' is. It is generally understood to be an accumulation of assets, generally significant in value. Applying this understanding to four taxes on 'property' levied in South Africa, being donations tax, estate duty, Securities Transfer Tax and Transfer duty, all of which are taxes on the value of assets owned, it is safe to conclude that South Africa does already

have wealth taxes. Although not significant in comparison, these four property taxes collect ZAR15bn per annum<sup>3</sup>, which equates to 1.3% of total tax revenue collection.

The wealthy also support the economy through — the successful businesses they started and operate, which grow the economy in terms of activity and contribute to the corporate tax collections;

— these successful businesses employ a significant number of South Africans, and have remained resilient in retaining such employees during the pandemic, with each of these employees paying tax on their salaries; and

— the wealthy contribute significantly to the VAT collections through the basket of luxury goods they spend on.

The statistics in this regard are not readily available, but there is a global understanding that family businesses contribute more than 70% to the global GDP, it is evident that the contribution to the corporate tax collections will be significant, and this also does not consider the dividends tax that may well be collected on distributions to the owners/family.

Further to the direct and indirect tax collections, it is evident that in addition to the significant contributions the wealthy regularly make to their communities through the multitude of philanthropic activities they undertake, the recent significant contributions to the Solidarity Fund reconfirms this, in that more than 50% of the R3 billion pledged, has been pledged by less than a handful of wealthy individuals/families or their foundations/companies.

Having set the scene in terms of the direct/indirect current taxes and collections, as well as the economic growth, the wealth tax discussion should reference the two groups of tax specialists, academics and well respected judges that were entrusted by the South African Government to assess whether a wealth tax is viable for South Africa.

The **Katz Commission** was tasked to assess the viability of a wealth tax in 1994<sup>4</sup>. The conclusion was that it was not feasible, at that stage, as an annual net wealth tax would be too costly (administrative) for the additional potential revenue. The Commission also noted that, remembering the 1.3% the four property taxes already contribute, should a wealth tax be implemented it should make up between 1% to 1.5% of the total revenue collection<sup>5</sup>.

The **Davis Tax Committee (DTC)**, was tasked since 2013 to consider many aspects of South Africa's tax system with reference to global trends, the last of which being the feasibility of a wealth tax for South Africa<sup>6</sup>. The DTC confirmed that South Africa already has wealth taxes, in the form of the property taxes noted above. The DTC also indicated whether an additional wealth tax is required, or whether it should replace the existing wealth taxes. It concluded that South Africa is not ready for it, but did note that focussing on the current tax mechanisms and enhancing the effectiveness of such and ensuring compliance by taxpayers will assist in increasing the tax collections required. Although not recently formed, the South African Revenue Service does have a dedicated unit which is tasked to ensure tax compliance of the wealthy in South Africa, and it is these structures the DTC is recommending be used and enhanced.

Based on the research undertaken by not only the DTC, but also the Organization for Economic Cooperation and Development<sup>7</sup>, the pre-Pandemic trend was that many countries that had implemented wealth taxes had in fact revoked the tax. The common reason was that it was too costly and complex to administer, with very little benefit in the form of additional tax collection. The three underlying principles to a wealth tax that have been focussed on by the majority of the reports, are efficiency, simplicity and equity<sup>8</sup>. It is these principles that must be considered by the Government institutions considering a wealth tax.

It is evident that many Governments and their Revenue Authorities need to source funding to support the stimulus packages, but also need to factor in the poor global economic status. If wealth taxes have been revoked due to minimal additional collection, considering the economic impact the Pandemic has had and generally the value of assets have declined, implementing a wealth tax now would likely bring in even less, but still incur the administrative costs to create a wealth tax mechanism.

The corresponding risk is also that the wealthy, who are already making significant contributions to the economy, can legitimately transfer their wealth to another economy due to them being mobile.

In terms of which economy it would be, in our view, it would be one that incentivises the contributions made by the wealthy, to ensure a longer term mutual relationship between the wealthy and the economy they are contributing to and growing.

For more information, reach out to me.

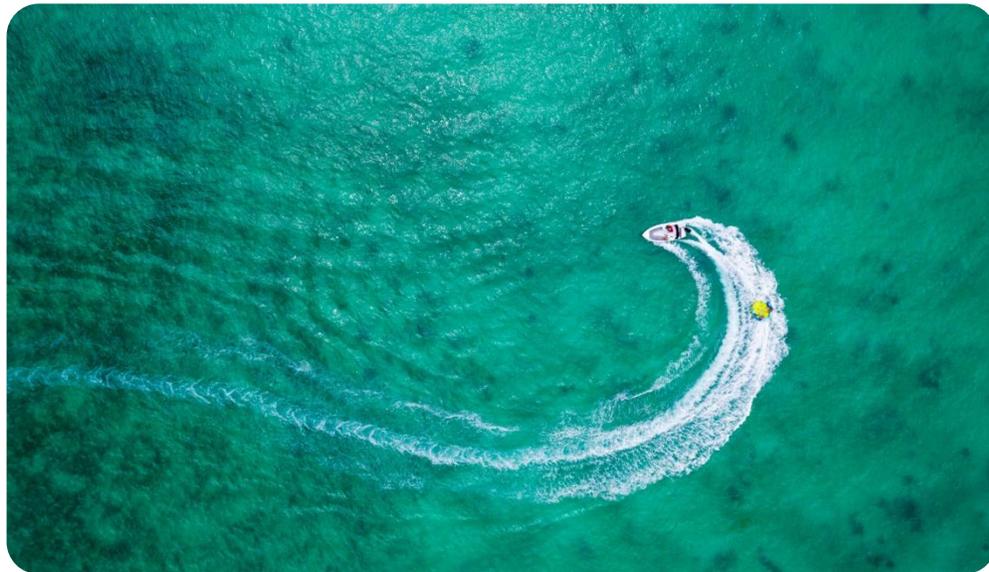


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- 1 Davis Tax Committee: Wealth Tax Report: March 2018, page 4
- 2 <https://www.sars.gov.za/about/sataxsystem/pages/tax-statistics.aspx>, last accessed on 24 May 2020
- 3 [/bid](#)
- 4 <http://www.treasury.gov.za/publications/other/katz/3.pdf>, last accessed on 13 May 2020
- 5 Davis Tax Committee, *The Tax System and Inclusive Growth in South Africa: A Discussion document* (January 2015), at page 30
- 6 Davis Tax Committee: Wealth Tax Report: March 2018
- 7 OECH (2018), *The Role and Design of Net Wealth Taxes in the OECD*, OECD Tax Policy Studies, No. 26, OECD Publishing, Paris, <https://doi.org/10.1787/9789264290303-en>
- 8 Evolved from the four 'canons of taxation' laid down by Adam Smith in his publication *An Enquiry into the Nature and Causes of the Wealth of Nations* (1776)

# How is Mauritius looking to attract foreign talent and investments?

The Minister of Finance, Economic Planning and Development, the Honourable Dr. Renganaden Padayachy presented his first budget for Mauritius in relation to 2020-2021 in June this year.



The budget measures have been enacted without major amendments, through the Finance Act.

As with many other governments, the Mauritian Government was under severe pressure during this Covid-19 pandemic period to bring major changes to its tax regime by increasing its taxes to finance its budget deficit and wage assistance provided to businesses during the confinement period. It was however pleasing to note that a balanced budget was announced with no major changes to the corporate tax regime in Mauritius as a result of the special grant from the Bank of Mauritius.

In an effort to attract foreign talent and investors, the Mauritian Government has reviewed and brought changes to its Immigration Act. The tax holidays and incentives are also worth noting for businesses looking to set up and invest in Mauritius. The measures are aimed at encouraging non-citizens to work and live in Mauritius to grow the economy and at the same time help to attract foreign investment into Mauritius.

## Changes to the Immigration Act and residency and occupation permits

The changes to its Immigration Act, which regulates the entry and stay of non-citizens in Mauritius, are mainly targeted at the Occupation and Residence Permits.

**These measures are effective as from 2 September 2020 and are as follows:**

- The minimum investment to obtain a Resident Permit (RP) or Permanent Residence (PR) permit has been reduced from USD 500,000 to USD 375,000, subject to meeting certain conditions.
- The validity of the PR permit has been extended from 10 years to 20 years.
- For investors or self-employed individuals, the validity of the Occupation Permit (OP) has been extended from 3 to 10 years.
- Occupation permit for an investor or self-employed non-citizen valid on 1 September 2020 will be extended for a period of 10 years as from the date of issue of the occupation permit.

**From an investment opportunity perspective for non-citizens:**

- The holder of an OP as professional or the holder of a RP as a retired non-citizen may invest in any business provided that:
  - they are not employed in the business;
  - they do not manage the business; and
  - they do not derive any salary or employment benefits from the business.

However, the holder of an OP as professional may hold shares in a business in which he/she is employed, provided he/she is not a majority shareholder in the business.

— Holders of RP, OP or PR permits will be allowed to acquire one plot of serviced land for residential purposes within smart cities subject to certain conditions.

They may also bring their parents and spouse into Mauritius as dependents without having to obtain work permits for them, subject to certain conditions. Moreover, the spouse will not need a permit to invest or work in Mauritius.

### Tax holidays and tax incentives in Mauritius

The Mauritian Government has introduced an eight-year tax holiday for companies commencing with operations on or after 4 June 2020 which are engaged in business activities such as inland aquaculture, nutraceutical products and certain tertiary institutions setting up a branch in Mauritius.

These add to the existing tax holidays available for innovation-driven activities for intellectual property assets which are developed in Mauritius, the manufacture of pharmaceutical products and medical devices, the bunkering of low sulphur heavy fuel oil, and many others. There are also tax holidays of between five and eight years available to entities engaged in Global headquarter administration, Global treasury or Global legal advisory services.

In addition to the tax holidays, the Mauritian Government has also provided certain tax incentives to companies as assistance during the COVID-19 pandemic period. Effective as from 1 July 2021, such incentives include full deduction on capital expenditure on electronic, high precision or automated machinery or equipment, resulting in a double tax deduction for companies engaged in medical R&D, acquisition of patents and franchises. A tax credit of 15% has also been introduced for qualifying manufacturing companies.

### Premium travel visa for long stays

Mauritius has also introduced the issuance of Premium Travel Visas (PTVs) on 23 October 2020. Persons eligible for PTVs include repeat tourists who had planned to retire and migrate to Mauritius before the COVID-19 pandemic; investors/professionals willing to come with their family and carry out business or work remotely from Mauritius; visitors with children studying in Mauritius and non-citizens from certain specified countries as per Mauritius's passport regulations.

It should, however, be noted that persons coming to Mauritius to enter the labour market or to conduct business and derive income/profits in or from Mauritius would not be eligible.

As part of the application for a PTV, appropriate supporting documentary evidence is required, such as confirmation of the purpose of visit, accommodation etc. Upon approval, the

individuals will be eligible to stay in Mauritius for a period of one year as opposed to the 180 days granted for a tourist visa.

### Into the future

The changes to the residence and occupation permits should further open the Mauritian economy. With the extension of the validity period, lowering of the investment amount and simplifying the procedures to obtain these permits, not only will investors be encouraged to invest and conduct business in or from Mauritius but also attract foreign professionals and retirees to emigrate to Mauritius. It is expected that these measures will boost the arrival and issue of permits to investors and professionals from the top three nationality of permits holders in Mauritius, namely French, Indians and South Africans. The new and existing tax holidays and incentives should also provide substantial benefits for investors and professionals to establish themselves in Mauritius.

Despite the difficult times brought about by this unprecedented health crisis, the fiscal regime remains largely unaltered. The corporate tax rate in Mauritius remains at 15%, with effective tax rates for a number of companies being 3% due to the partial exemption on certain income. The effective tax rates for individuals ranging from 10% to 25% remain attractive by world standards. An important feature of our personal tax regime is that resident individuals are only subject to tax on income remitted to Mauritius.

Moreover, Mauritius remains an attractive destination for a number of other reasons. The World Travel and Tourism Council has recognised Mauritius as a safe destination with regard to Covid-19. The efforts by the authorities of Mauritius in successfully implementing a series of compulsory health measures did not go unnoticed on the international front.

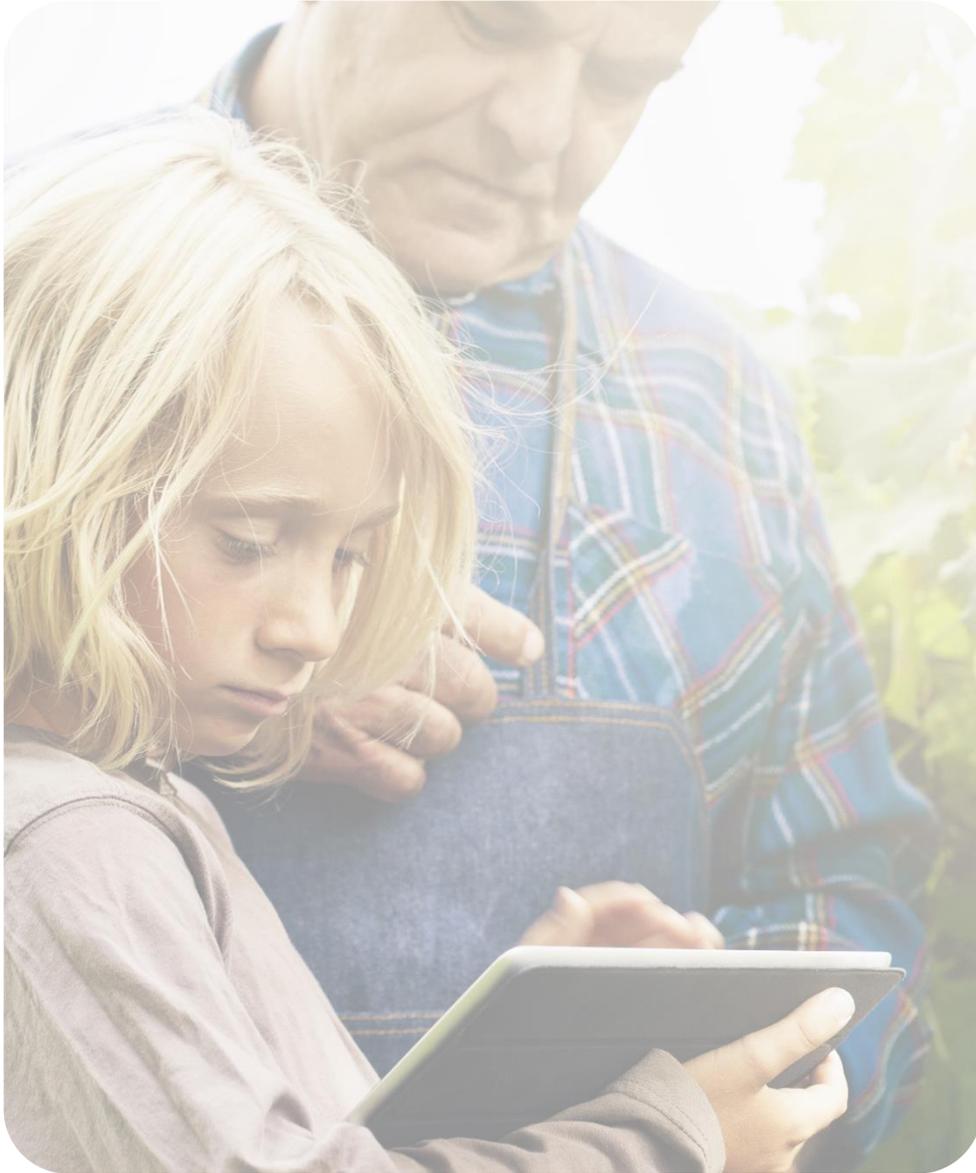
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# The growing role of digital technology in wealth management

**The popular perception is that high net worth (HNW) individuals and families prefer personal relationships with their trusted financial advisor.**

This is somewhat contradicted by the World Wealth Report 2019: nearly 85% of high-net-worth individuals (HNWIs) prefer increased digital interaction and this covers the entire value chain of client interactions from accessing portfolio information (88%) to executing transactions (87%). Even the supposed holy grail of client service, i.e. obtaining advice/service from wealth managers is preferred by 84% of respondents to be digitally delivered.

So, the perception of a relationship manager that regularly meets you to discuss financial goals is transitioning from being an outdated concept to one that is more digital in nature. HNW individuals and families are transitioning to more digitally savvy clients than previously and areas like efficiency, communication and service and client experience is becoming as important, i.e. a change from a product to a

service-oriented mindset. This is a trend particularly for the next generation moving into the role of looking after the family wealth, and is a key consideration as part of the succession process. More recently, the impact of the CoVID-19 crisis has brought about the need for digital interactions across all generations. Family Offices are also aligning with the digital age, if not already ahead of the curve.

The key opportunity for wealth managers is to use digital technology to strengthen the client relationship by personalising offerings. Indeed, many new technologies in the field of wealth management does not seek to replace the advisor but rather to augment their services in a manner that enhances the client experience.

***“No man is better than a machine, and no machine is better than a man with a machine.”***

## Technologies that enhance the client relationship

The strength of the trusted advisor/client relationship should not be underestimated. However, there are several points of friction that are a source of frustration for clients and the advisors alike – these range from the simple (like collecting identity documents) to the complex (rebalancing a share portfolio). All these tasks require multiple points of interaction and hence friction.

### Several technologies exist that aim to ease the frustration, such as:

- Tasks such as the signing of documents are now possible to do digitally while maintaining the requisite security.
- Document vaults solve the problem of continuously providing documentation for amendments or opening new accounts.
- Know-Your-Client (KYC) procedures can now be done remotely using biometrics and multi factor authentication.
- Interactions with trusted advisors can be done online through secure chat rooms, in real time while signing the appropriate documents and being continuously authenticated by video technology

These solutions serve to remove the transactional nature of wealth management while maintaining enough personal interaction to retain the trusted advisor status.

As much as there has been an explosion in self service offerings in the field of investment management (e.g. roboadvisors), they are typically aimed at individuals of a different demographics (i.e. the retail client base) rather than the affluent

and HNW who have different priorities and financial goals.

Roboadvisors<sup>1</sup> are excellent at using large data sets to assume some uniformity of financial goals but do not offer structured solutions that can be tailored to HNW.

## Emerging Technologies in wealth management

Emerging technologies such as artificial intelligence (AI), Machine Learning (ML) and robotic process automation (RPA) are being leveraged to offer service across the value chain in wealth management.

Many of these activities are invisible to the client, but improve the speed, accuracy and efficiency of information and communication. The most obvious example of this has been the wealth aggregation apps that give HNW individuals and families a full view of their wealth across all asset classes and across multiple providers.

It is now possible for clients to understand exactly what their portfolio looks like beyond their share portfolio but include debt instruments, physical property, alternative assets – and then to make a much more informed decision on whether it matches their priorities.

A potentially disrupting force in wealth management is the emergence of smaller companies that are providing digital services to HNW individuals/families and their family offices in certain areas – these have the potential to disrupt the traditional one to one relationships clients have with their family offices or personal financial advisors.

Wealth management companies and clients alike should be cognisant on the different range of service offerings that are now accessible across the value chain of services:



On a basic level, some of these technologies lend themselves to outsourcing by HNW individuals/families and their family enterprises, i.e. document management, KYC document collection, contract signing etc. However, the more pervasive trend is that the democratisation of information has also led to the erosion of influence of wealth managers – the transparency of stock related information arguably heralded the start of this trend.

Typically, specialised wealth advisors would have access to proprietary information or deal flows in assets that were not easily available to the general public (like art or private equity transactions) – these were brokered by wealth advisors via their network. However, this source of value to clients is being increasingly commoditised, e.g. a private equity network can now source >15 000 deals a year to its HNW investor base, globally. This digital platform could replace an entire network of wealth advisers and brokers.

### The challenge for wealth managers

The shroud that covers wealth management especially for ultra HNW individuals/families and their family enterprises, including the Family Offices, has contributed to it being perceived as a deeply private service – this mystique is an obvious barrier to transitioning to a digital world. Privacy has often been a watchword for such clients and the industry has often been confined to non-descript locations and private clubs. The increasing diversity of this client base and the emergence of the next generation and younger HNW individuals has

contributed to transforming the industry to a much more modern and visible business, for which digital will play an increasing role. Wealth managers who resist this transition face being alienated over time.

Another challenge in digital services is that there is seldom a differentiating factor in offering a high-end service, i.e. a frictionless experience of digitally opening an account is the same across all demographic segments. The concept of a luxury brand or experience is largely absent in wealth management – and therefore an opportunity for wealth managers to capture this space.

As much as HNW individuals/families prefer digital interactions, it is more likely that this is demanded from purely transactional services (like banking, trading, reporting) but that personal and trusted advice is still a prized service. Wealth managers must be enabled by technology to provide information to be able to make informed and near real time decision to advise clients. In an increasingly commoditised world of financial services for HNW individuals/families (like tax or alternative assets), the mode of delivery, levels of service and an enhanced client experience will be a differentiator rather than purely digital offerings.

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<sup>1</sup> Roboadvisers are a class of financial adviser that provide financial advice or investment management online with moderate to minimal human intervention. They provide digital financial advice based on mathematical rules or algorithms.

# Being cyber secure during and post a crisis

**Businesses are going through a significant disruption during the current pandemic. Global supply chains are impacted, and many businesses are facing reduced demand. The world as we know it, will never be the same.**

During this unprecedented crisis, technology has saved the day for many enterprises by enabling them to remain operational when employees were unable to come to work in physical offices. At the same time, it has exposed an enterprise's important assets to external attacks. In a pre-Covid environment, working from home was an option for only very few employees who connected from remote locations while the majority accessed their local network in their office which has better security controls.

Within a family enterprise, it is not only the business assets, but also the family assets and most importantly the family reputation at risk.

When lock-down measures were announced in South Africa in late March 2020, most businesses were not ready to meet the challenge of large parts of their workforce working remotely, e.g. accommodating large volumes of network traffic outside of the office network. Many organisations were agile enough to

adopt relevant communication and collaboration technologies, some have gone for "stop-gap" arrangements, but many adopted quick solutions without assessing the associated risks. As a result, many enterprises have seen a significant increase in cyber security attacks. This threat remains as long as teams work outside the security of the office network – there is no indication that this situation will change soon.

The "black hat" community (malicious hackers) is exploiting this opportunity to generate income and prove themselves. Social engineering is at its peak considering the high emotional value of Covid related matters. Witness the latest breach of personal data at credit bureau Experian which was not "hacked" in the traditional sense but posed as a legitimate customer and was given access to 24 million client records.

Thousands of emails are being sent out across the globe with the pretext of COVID advisory, embedded with malware or asking for donation in fraudulent accounts. By the time you complete reading this article, there will be hundreds of additional victims falling prey to the online frauds.

When employees work online through the internet they leave digital footprints online which are used by cyber criminals to launch targeted attacks. Modern day attackers use advanced analytics and artificial intelligence (AI) to monitor our online behaviour to identify weaker targets. Cyber attacks in the

pre-Covid environment tended to be more sophisticated targeting data theft, while present day attacks target disruption of services in which users are unable to access services, leading to loss of productivity, revenue and, often, increased risk. Sometimes it is accompanied by "ransomware" where users are asked to pay a ransom to continue accessing services.

While there are multiple solutions to enhance cyber resilience, most of them are capital intensive. Especially for Private Enterprises, when revenue numbers are impacted and budgets are constrained, business leaders are increasingly concerned about protection of their digital assets.

Working with clients across the globe, we have identified that most of the attacks are not cutting-edge and rely on common mistakes made by the user, and in the current environment no business can afford to commit these mistakes. Over 90% of the breaches are attributed to common mistakes committed by users and the good news is that they should be avoidable.

Based on this experience, we have identified key measures that can be implemented by leveraging on current resources and minimal investments but significantly enhance cyber resilience. We have also highlighted the areas in which an enterprise should consider committing to investing in the medium to long term.

## Protect your critical assets

The first requirement to protect your assets is to identify them. Each enterprise needs to assess its business operations and identify the most important data sets that need to be protected. Especially since the Protection of Person Information (POPI) Act is fully enacted in South Africa, the enterprises have legal obligations to protect the personal information of its employees, customers and suppliers. This assessment must be done across all functional areas and it is not the responsibility of just the IT department to identify these datasets.

The datasets include intellectual property (IP) documents, trade secrets, customer data, regulatory information, client details, financial data, employee details, even family details in a family enterprise. Each dataset must be classified carefully according to the level of protection required. This will help in justifying the need to protect and avoid incorrect identification. A balance is required: too strict controls may lead to wasteful expenditure, inconvenience to the user and delays in processing but not enough controls may lead to data breaches.

The lifecycle of data should be tracked to identify the source of data, the applications through which it is processed and stored, and who has/needs access to the data. Any unnecessary storage should be immediately deleted and access to the data-sets should be granted on a strictly need-to-know basis.

With the above measures, management and owners

should have clear visibility of the critical datasets, storage locations, user access, and they should be in better position to monitor such access.

Alternatively, an enterprise can opt to build a network in which only specific access is granted to the ones who needs it ("zero trust architecture").

## Create awareness amongst users

Users are often considered to be the weakest link in securing digital assets, but more informed and responsible users can also serve as strongest defence.

While securing the systems and information, it is critical for the users to make responsible use of organisation's data. Employees are expected to use discretion while accessing, processing and sharing an organisation's data.

Training is an effective tool to make employees aware of their responsibilities but should be conducted in a way that reinforces its importance to the enterprise, rather than a tick box exercise. It is crucial to use the right methodology to cascade the message to all users. Reusable trainings, digital campaigns through screensavers, push messages etc ensure constant awareness is created.

An enterprise should also consider conducting cyber drills, to assess the preparedness of management, the board and executives.

While training does serve as important mechanism for

mass-awareness, an enterprise also needs to identify users that may need additional monitoring. While we work from home, there is a vast amount of data being collected. Many organisations have started leveraging this data to identify user behaviour and identify employees that need further reinforcement of message or need to be monitored more.

## Assess your digital identities

In today's digital world, all organisations have a digital identity, e.g. LinkedIn profiles, YouTube channels, Facebook pages, Twitter handles. In the current environment, many businesses are becoming digital and enterprises are leveraging on the power of social media to reach out to their customers.

While social media is a powerful tool for conducting business, it is difficult to segregate the genuine audience from the malicious actors (like "hackers"), which leverage the public information on social media to profile targets. They use this information for creating fake profiles and deceive the customers of the enterprise, ultimately tarnishing the brand. There have been numerous instances of fake websites providing cyber security safety tips, such as fake requests from the World Health Organisation (WHO) asking recipients to download plugins or documents, which in fact have embedded malware designed to steal banking credentials or important passwords.

Private enterprises need to continuously scan the social media to identify any such activities. Management and the board need a proactive approach

in identifying such threats before they impact the brand. Fortunately, there are multiple open source tools and services available to assess the social media reputation of an enterprise. Enterprises may also need to create a channel for the public to report such brand abuse.

### Leverage the power of data

While working from home, employees use several digital systems to connect and collaborate with teams and in the process, generate large amounts of quality data. This unprecedented high-volume data provides an opportunity to analyse behaviour of employees and identify anomalies in transactions.

Most enterprises have made investments in security solutions but most of these solutions work in isolation and are not integrated with each other, missing the opportunity of identifying anomalies and patterns. While technologies exist to correlate the logs and events, they are costly and require significant effort and customisation to integrate and implement. Given the move to remote working, enterprises need to evaluate whether these technologies are working as designed and perhaps this may be a time to consider integrating these systems.

For those who have not made such an investment, current analytic and visualisation tools can be leveraged to create dashboards that provide real time visibility of all threats and risks and generate meaningful insights such as blocking some user or specific ports or investigate specific transaction before it becomes a security event.

### Prepare to respond

While the above measures can improve the cyber resilience of an enterprise, cyber-attacks are inevitable, and a private enterprise needs to be prepared to respond in the event of such attacks. This is not the responsibility of the cyber security team (contrary to popular misconception) but a collective response from the organisation, especially when it involves breach of customer data, regulatory interferences, and financial frauds.

Many executives and head of states have been penalised for not being able to respond to cyber incidents effectively.

It is important for the entire organisation, especially the top executives to be aware of their roles and responsibilities in the event of such breach. While a cyber response team can attempt to contain the damage, the investigation must be carried out by the wider team and the actions are cross-department. Preparing for a cyber-attack involves defining playbooks with clear roles, simulation of events and procedures to be invoked.

### Conclusion

While there have been significant increases in cyber security related threats, the security and technology leaders are finding it difficult to prepare or respond to such attacks considering that there are now multiple points of vulnerability and budgets are constrained. At the same time, it is observed that most of the attacks are targeted towards weak controls and happen due to avoidable mistakes.

We have highlighted key areas that can be addressed with current resources or with minimal investments to enhance cyber resilience. While these measures can significantly increase the cyber resilience of an enterprise, they may not be comprehensive.

The areas highlighted in this paper are not meant for building a watertight security, but they can be used as a ready reference to enhance the security posture and be better prepared in the event of a cyber crisis.

[For more information or any further details related to cyber security, please contact me.](#)



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