

# Family Office Technology

Information systems are critical tools of the family office and its staff. In order to use the tool most effectively, it is necessary to understand the key functions the office performs. This document identifies many of the key issues involving the selection, installation, and use of an information system in a family office. This material comes from the experience of various professionals who have managed family offices or provided consulting services to family offices for many years.

This document consists of two parts:

- Family Office Dynamics
- Family Office Technology (this document)

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## Technical Staff Training

There are three good alternatives to ensure that you adequately meet your staff's technical training needs.

### **FNI Training Classes**

Financial Navigator Int'l conducts comprehensive, hands-on training classes in major cities around the United States. Senior financial professionals who have years of experience using Financial Navigator and other computer-based accounting systems teach these classes.

For a person with the right background, these classes combined with a few weeks of actual use can result in an employee becoming fully proficient in the use of Financial Navigator. These classes are also helpful even for a person who has used Financial Navigator for several years.

There are three distinct advantages of this approach:

- It requires no time commitment from senior management.
- The person has a chance to meet other people whose offices use FN. It is often very educational to hear the experiences of these other participants.
- Many participants find the classroom setting used by FNI for training has definite advantages. They are away from the office and so can concentrate and not be distracted by work. Because the training can be several days long, they are submerged and can learn complex concepts better than in brief sessions.

The disadvantages are the cost of the course and travel (if necessary) and the employee's absence from the office for several days.

### **On-Site Consultants**

Another good alternative for training is to hire a professional to come to your office to accomplish several objectives including training of staff. Fortunately, the developers of Financial Navigator make this process easy through the Financial Navigator Service Provider™ program. This program selects and trains financial professionals to support family offices using Financial Navigator. Family offices can hire a Service Provider with the confidence that he or she will provide high quality professional services.

There are several good reasons to use this approach. You can combine consulting by an experienced professional with training of your staff. By retaining the consultant for several days, he or she can spend the first day or more learning your requirements and developing procedures for use of Financial Navigator. Then, the consultant can spend the balance of the time training staff on Financial Navigator and the use of the procedures.

Using this approach allows the instructor/consultant to answer specific questions for staff regarding the situation and data in the office. Because of the confidential nature of your financial information, staff should not ask these questions in a public training session.

This approach also has the advantage of only taking time for your staff to learn the procedures and capabilities of Financial Navigator that they will use, not all the features of the program.

### **Personal Training**

If the necessary management time is available, an office can develop and conduct its own in-house training for staff. For this training the best materials available should be used to ensure quality and to minimize preparation time by the instructor. Fortunately, the same training materials used by FNI in their training classes are available to you. Order those materials by calling Financial Navigator Int'l directly.

The advantage of this approach is low, out-of-pocket cost and the convenience of scheduling the training to fit staff needs and availability.

One major disadvantage is that old procedures and bad habits of the person teaching the class can be passed on to the new staff people. This may result in new personnel not using the powerful capabilities in the most recent version of Financial Navigator. Therefore, poor training can mean inefficient procedures and valuable information not being available when it can be.

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## **Efficiency of Operations**

Financial Navigator and its related products, CheckForm Navigator, Navigator Impressions, Navigator Access, and Navigator StockWeb increase the efficiency of a family office in performing the basic functions of:

- Daily accounting and reporting.
- Bill paying.
- Investment pricing and monitoring.

Once the commitment has been made to this automation, the staff of a family office should not be allowed to perform these functions outside the program. Working outside of the program causes problems as follows:

- It is usually less efficient than using Financial Navigator.
- Data is not as easily available to the other employees.
- Often the data is inconsistent with other information given to family members. This results in members asking questions and the waste of valuable time reconciling reports and explaining differences.

The most efficient method of accounting is working with one set of data files and using them for all the reporting whenever possible.

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## Data Integrity and Security

All office staff members need to develop sensitivity to whether financial data has been corrupted or compromised. Routines designed to identify problems should be taught to all employees who are responsible for Financial Navigator data entry or analysis. Knowledge of data backup and restoration procedures should be required of all staff members.

Proper instructions are critical for the effective implementation and maintenance of Financial Navigator because of the program's open architecture. Untrained family office employees can quickly undermine the integrity of, and even destroy a database.

### Computer Hardware and Software

An effective family office must have sufficient computer hardware and software to allow it to operate effectively. A qualified computer consultant can assist you to obtain the hardware and software you need.

Try to avoid the most common mistake family offices make. They fail to anticipate their future hardware needs. They order what they think they need, but fail to realize that just because it is faster and bigger than what they have, it may not be adequate after six months. It is cheaper to buy the computer once, as opposed to adding equipment later. The cost of the equipment is less, and it is far easier to continue to use the same machine without having to go to the expense and dislocation of upgrading the machine.

At the same time, it is important to build your systems around established and proven technologies. Using technologies that are not yet widespread or are still being developed can also be a mistake. Striking the right balance is critical.

For some offices the selection of a qualified computer consultant who is readily available to help solve computer problems (which **will** arise) is a good preventative measure. The establishment

of a retainer-based relationship with priority service may be cost effective. Adequate support is particularly important for a network. A network failure can disable the entire operation.

### Data Integrity

One important task for the family office manager is to maintain the proper control over data files. This task is a “balancing act” of conflicting goals. The data must be secure – but the data must be available to those who need it.

This means that the family office manager must:

- Ensure that data is not lost.
- Provide rapid access to data by staff people who need to maintain and use data in order to perform their jobs.
- Provide certain family members access to data if they request it and are capable of interpreting it.

### Backup of Data Files

As with any computer application, frequent and secure backup practices are necessary to ensure security of your data. In the event of a catastrophic loss of data, the cost of a backup system, such as a tape drive or other removable data storage device, is minimal compared to the cost of manually restoring the data. Additionally, most tape backup programs can be set to run automatically after office hours. This means there is minimal time required for employees to operate the system. When dealing with backup systems, it is a good idea to occasionally restore data files to make sure the backup is being made properly and to refresh staff members’ knowledge of how files are restored. Off-site storage should be used for occasional backups if at all feasible.

### Restricting Access

To maintain proper access to the office data files, you must have effective security measures in place. Restricting access is an important component of data security.

- **Passwords** — When a family office has few entities to maintain, it is reasonable to use the password ability built in to Financial Navigator to control access. As with all passwords, the passwords should be confidential and often changed.

***Note:** If an entity's password is lost or inadvertently changed, Financial Navigator Int'l can reconstruct it with a copy of the data files.*

- **Physical segregation** — As the number of entities increases, the administration of passwords at the entity level becomes more cumbersome. In this case, physical segregation or network control of access is a more efficient method of security.

### Access by Family Members

Some family members (as distinguished from the employees of a family office) are computer literate and enjoy running their own reports. Once such family members know the data is available on a network, they may want to have access to their Financial Navigator records. Although they want to access the files, they usually want the family office to be responsible for keeping the data up to date.

It is best to make only a backup copy of the data files available to the family member. This way the integrity and security of “live” data is protected.

Restricted access is especially important when a family office serves many family members and their related investment entities. Then, in addition to preserving data integrity, the family office must ensure that family members have access only to the data that they are authorized to see (usually their own or common investment entities).

### Remote Computing

Using remote access programs, such as pcANYWHERE, should be carefully controlled. This type of remote computing carries the risk of data theft or sabotage.

## Organized Reporting

Once Financial Navigator is installed, a client has the right to expect quick and accurate reporting. While reports can be quickly produced, they may or may not be accurate based on the data that was entered.

### Distinct Types of Reports

Ideally, you would review every report before releasing it. However, because of other demands on the manager’s time, it is not always possible to review every report and still meet the client’s expectations for timeliness. Therefore, it is important to have a clear understanding about the type of reports expected. For example, a two-level approach to reporting was developed at a client’s family office as follows:

- **On-demand reports** — These are reports that can be requested directly at any time from any family office employee. These reports are not reviewed and, while not always 100% reliable, are sufficiently accurate for most day-to-day needs. Any serious errors that are discovered can be immediately corrected. Sometimes this type of report can be as simple as a screen printout. For example, someone may ask, “How did we do with that investment in Amazon.com?” You can print the screen of **Asset and Liability Info** for the security and see the holding period and the gain or loss.
- **Formal reports** — Formal reports produced for a pre-determined deadline would be carefully reviewed, accompanied by at least a memorandum and usually a formal meeting with the individual or group involved. The meetings would be for personal financial planning or asset management.

It is up to the family office manager to ensure that the client understands the advantages and disadvantages of each type of report and knows which type he or she is viewing.

### Proactive Reporting

Family office managers and their clients benefit when the family office is perceived as a proactive tool for managing a family’s wealth. This is achieved when reporting is viewed as:

- Timely and accurate.
- A source of data for qualitative management.

Making Financial Navigator an integral part of all of the quantitative reporting for family offices best achieves this objective.

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## Mastering Tax Compliance

The capabilities of Financial Navigator are well suited for providing much of the information needed for preparing tax returns. The information it produces for itemized deductions (Schedule A), interest and dividends (Schedule B), and Capital Gains (Schedule D) can often be attached directly to the tax return. To prepare the tax return, it is necessary only to enter "See schedule attached" and the total dollar amount on the appropriate line in the tax return. This can save considerable personnel time or reduce charges for outside tax consultants.

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## Replacing Tax Compliance with Tax Planning

Financial Navigator's powerful tax and reporting capabilities should allow the family office efficient access to timely tax information.

This provides information necessary to:

- Prepare an entity's tax return.
- Calculate estimated payments.
- Develop effective strategies to minimize taxes.

Using Financial Navigator's capabilities, existing staff can be trained to carry out basic tax compliance and to calculate quarterly estimated tax payments.

### Increased Tax Deductions

The savings in outside tax compliance costs can be an excellent source of funding for the family office. A properly structured fee for accounting and tax work can be charged to the various tax entities. Those expenses can be deducted from taxable income.

### Software Tools

With the Navigator DataBridges you can transfer data files quickly to tax planning and compliance programs. One of the more popular programs for income tax planning is the BNA Income Tax Planner. This program is effective in projecting year-end income tax liability based on income already received or anticipated in the current year. If family members have taxable incomes that fluctuate widely from year to year, it is important for the family office to take every opportunity to minimize

taxes through effective tax planning. FN and the Navigator DataBridge for BNA provide the data and BNA provides the tool to do this well.

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