Most wealth creators have similar dreams for the future: A lasting legacy. Heirs who embrace their values and honor their life’s work. Enduring wealth consistently employed for the good of the family. Above all, they fervently seek to avoid the “shirtsleeves to shirtsleeves” paradigm.

What does it take to achieve such dreams? Consider these amazing examples from the animal kingdom: Male deer regenerate their antlers each year to compete with other males for mates and find food in the snow. Crayfish regenerate their claws, and when they are young, the claws grow back faster and stronger. Sharks continually replace lost teeth and may have over 20,000 in a lifetime. A family’s multi-generational survival depends on its own ability to re-grow its “antlers, claws and teeth.” What if you could give your heirs the skills to put them on a path to regrowing family wealth rather than depleting it?

Typically, wealth creators worry whether everyone will have enough money to be well cared for. The more critical questions are:

- “Have I shared my knowledge about growing wealth?”
- “Am I confident that my heirs can replicate the success I’ve had?”

In a perfect world, we would transfer our wealth, and our heirs would make the same decisions we did to create that wealth, leaving the next generation in an even better position. In reality, our heirs are living a different life at a different time, with different choices before them. However, an innovative approach called a “Family Bank” can provide a framework to pass on a wealth creator’s knowledge and values, while strengthening family bonds and facilitating the growth of wealth across multiple generations. Quite simply, a Family Bank can turn heirs into “makers” instead of “takers.”

Those who know me have probably heard me loosely refer to agreements as “wrappers.” I do so because a wrapper can contain a collection of your intentions in one document without bogging you down in legal associations that can be difficult for non-experts to interpret. For example, if you are establishing a legal entity to benefit your children and grandchildren as they pursue educational and career goals, the wrapper is commonly known as a Trust. When you open the wrapper, you find all your intentions spelled out, along with specific people you want to benefit from these intentions. A Family Bank is a kind of wrapper that may involve a number of different legal structures, depending on a family’s situation and goals. Our focus in this article is not the legalities, but the potential benefits to the family and the family dynamics that make a Family Bank successful.

A Family Bank is not a formal bank in the way we normally think of one. Rather, it’s a collection of family members brought together to carry out investments, entrepreneurship, and/or philanthropy. A Family Bank is a vehicle that family members own jointly and where decisions are made collectively, with accountability to the broader group. It gives all family members a seat at the table and a voice in the discussion. Most importantly, it is not a structure for distributing wealth to family members. It’s meant for investing and growing wealth to serve a family for generations to come.
One Family’s Success

I have worked with a number of different families in establishing Family Banks and I have seen some achieve great success and others strive valiantly without quite pulling it together. The greatest success I’ve seen came from a seventh generation family who achieved excellent results over several decades. (Family members still enjoy holidays together!) From their experience, I have identified several critical “best practices” for any Family Bank.

A Family Bank can turn heirs into “makers” instead of “takers.”

- **A Clear Family Vision.** This family stated its mission and family “brand” before setting up its Family Bank. They knew how they wanted to be perceived by the community and extended family and were explicit in what they wished to accomplish.

- **A Well-Defined Participation Process.** Though all family members could be equity stakeholders, not all would actively manage the Family Bank. The selection process was quite diligent, like a well-run corporation. Family members who wanted to participate went through an application and interview process that required them to meet minimum age standards and demonstrate applicable education and/or skills.

- **Evolving Leadership.** The family set term limits that rotated members in and out of family council positions. This ensured accountability, minimized risk of tunnel vision from entrenched leadership, encouraged fresh thinking, and allowed younger family members to become involved, thus extending the success into future generations.

- **Formal Communications.** Passive family members were never in the dark.

The family's reporting structure was much like sharing corporate board minutes. Those managing the Family Bank met periodically as needed, but did not work in a vacuum. All activities were transparent to all family members, who could then provide feedback to more active participants.

- **A Fluid Structure.** Their Family Bank was flexible enough to evolve over time as family council members identified needs and investigated opportunities.

In short, the family I came to admire did an exceptional job of organizing its Family Bank and family council by being inclusive, open-minded, and thorough. For those who may be unfamiliar with the concept, a family council is composed of individual family members elected by the full family to meet regularly and provide governance and guidance for the family. Many families benefit from a family council even if they have not gotten to the point of establishing a Family Bank.

Ideally, a Family Bank and family council are established while the wealth creator is still alive so families can benefit from real life experience and knowledge. The family in this example established its Family Bank and family council in the early generations after the wealth creator’s death, but still achieved great success. Younger family members were excited to participate so they could learn to make sound decisions that affected the entire family, and their input was valued. In this particular family, decisions ranged from program- and mission-related investment initiatives to traditional investment approaches.

Barbara Hauser, an industry expert in family governance (www.brhauser.com), agrees that broad participation and accountability are keys to success. This family achieved both. The result: The family effectively altered the natural inclination of heirs from being “takers” to being wealth creators, something that should ensure this family’s well-being long into the future.

Could My Family Benefit from a Family Bank?

Ask yourself the following questions. If you find yourself answering “yes,” it may be time to find out more about a Family Bank.

- Are there important life lessons I would like to share with family members?
- Do I hope to extend our family legacy through multiple generations?
- Am I concerned that my heirs are not yet prepared to handle the wealth we have accumulated?
- Have we built a net worth sizable enough to capitalize on opportunities and benefit from wealth replenishment? (Experts recommend at least $50 million.)
- Are there enough individual family members so that together we could benefit from a broader exchange of ideas and a more formal decision-making process?
- Am I open to new ideas from my family members and accepting that their wealth creation strategies may differ from my own?
- Do my heirs have entrepreneurial interests outside our core family business that should be encouraged and supported?

Learning from Missteps

Several families I have worked with did not fare so well, but their efforts also provide valuable insight. A few critical missteps stand out among these families.

1. **The wealth creator holds the reins too tight.** You won’t have true buy-in if family members see the Family Bank as a guise for wealth creators to push their own agendas and keep the next generation in line.

2. **Failure to include multiple generations.** Younger family members will ultimately
be responsible for the family legacy and should be brought in sooner rather than later.

3. **Dismissal of some viewpoints and an unwillingness to consider unorthodox thinking**. Diverse viewpoints and a breadth of ideas will only strengthen a Family Bank.

Avoiding these missteps will better ensure the ultimate success of your Family Bank.

**Testing the Waters**

While you may not be ready to establish a Family Bank, there are ways to test the waters and even reap some of the benefits of a Family Bank. Start by getting the next generation involved in some aspect of your family’s legacy. Consider setting aside a slice of the family wealth and bring the younger generation into a discussion about how to manage it. For one family I recently worked with, we took a segment of the family’s net worth and opened a family discussion about how it should be invested. In this particular case, the family considered a mix of charitable causes because the wealth creator wanted to remove self-interest from the adolescents’ mindset. The family began by creating a mission statement and describing expected outcomes. Through this process, younger family members were able to see what various opportunities looked like and how to evaluate them. They saw wealth creation through a unique lens!

**Establishing a Family Bank**

Once you decide to establish an actual Family Bank, the process becomes a bit more formal. You will clearly need expert advice to establish the legal structures once you get to that stage. However, you may benefit from outside guidance even earlier in the process. For example, early steps in creating a Family Bank include:
• Writing the family’s mission statement
• Setting up a family council if one does not already exist
• Articulating desired outcomes
• Establishing governance procedures

A facilitator from outside the family can be an objective voice through each step, helping all family members to be heard and preventing the wealth creator from overwhelming the discussion. An outside facilitator can also function as a liaison between the family’s wishes and the legal structure. This person should have knowledge of family governance, but doesn’t necessarily have to be an expert on the underlying legal structures. Your choice could be someone who previously sat on family boards or someone who has a broad background working with families of wealth, such as through a family office.

Ensuring the Legacy

The ultimate goal of a Family Bank is to ensure the family’s continued prosperity by putting together a family team that learns to exercise good judgment and make decisions that express the family’s shared values. A Family Bank aims to inspire all family members to add to the family’s success by contributing their input, their abilities, and their knowledge. Not every family member may want to be directly involved in a family’s core operating business. That doesn’t mean they can’t be part of the family’s legacy. A Family Bank gives all family members the opportunity to be “makers,” rather than simply benefiting from the hard work of those who came before them.

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About Pitcairn

Pitcairn is one of the world’s leading family offices. We are dedicated to helping families sustain and grow their substantial, often complex financial assets and supporting the unique heritage of our clients across multiple generations. Pitcairn works with families and single family offices filling one need or providing comprehensive solutions. Since our founding as a family office in 1923, we have successfully transitioned wealth across generations of families through a combination of effective planning, strong investment results, thoughtful governance, and a commitment to education. Headquartered in Philadelphia, Pitcairn also has offices in New York and Washington, DC as well as a network of resources around the world. You can learn more about our family office services as well as find additional articles, news, and events on our website at www.pitcairn.com.