

# Protecting the Family Office: Key Considerations and Best Practices in Risk Management

## EXPERTS

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*The job of private wealth managers has expanded greatly in the last few years. In addition to playing the role of regulated investment adviser, they are often expected to handle difficult questions and sensitive matters on everything from physical safety and cybersecurity to mental health, addiction and medical issues. As a result, managers sometimes need to tactfully expand their duties into the private lives of their clients in order to adequately protect their wealth.*

*RANE recently spoke to a number of experts to gain insight into how family offices should be thinking about and guarding against these myriad risks, all without crossing professional lines or losing their clients' valuable trust.*

## Providing Sufficient – But Not Overbearing – Physical Security

### How much should you get involved with personal protection?

- There is no consistent, ideal level of involvement a wealth office manager should have in the family's security. "If you give me thirty managers, they'd give you thirty answers," says **Don Aviv**. "I've worked with some family managers who confide that they're babysitters, and I've spoken to other managers who only touch business matters."
- "The goal for family office security is to be trusted, and to be discrete," he adds. Families often prefer to deal with one person they can get to know and trust rather than a rotating security team.
- "Security staff for a family office is usually small, and has to be able to do more with less," notes **Aviv**. "There's less task delineation than there is in security companies – people have to be able to do both physical and cybersecurity."
- Security needs vary between families. "A sleepy family office that conservatively doles out investments may not need much security," explains **Aviv**, "whereas an office that manages affairs for someone who's 45 years old, one of the richest men in America,

and always on the move may need a full in-house staff.” If a full in-house security staff is unrealistic, firms such as Aviv’s and others can offer embedded security staff.

### *What level of security is appropriate?*

- The wealth manager must reconcile what level of security is needed for the family with what level the family wants. “In the end it comes down to politics and how much power the manager has,” **Aviv** states, “but if the safety and security of family members affects the security of the business, then that’s what it takes.”
- “At minimum, you should be doing physical security assessments and threat assessments,” **Aviv** advises. These assessments should involve taking a close look at household staff, drivers, and other personnel. The family’s security needs can be determined based on those assessments.
- If the families faces more severe risks or threats, **Aviv** suggests that security measures could also include travel support and monitoring, GPS beacons, and executive protection, either full time or during high-risk times such as traveling abroad or attending shareholder meetings. Particularly high-risk families may even need full teams operating around the clock.
- Though every family office is different, **Aviv** notes that one common mistake is failing to plan in the long term. “They think, OK, this guy is flying to Riyadh next week, so let’s get a driver and some security. But if you’re only doing that a week in advance, you don’t have time to do a good security assessment.” In addition, “what matters today in terms of security may not matter next year, so you need to be able to reassess needs.”
- **Aviv** also emphasizes the importance of cybersecurity. “In the past year, spear-phishing, spoofing, and CEO frauds have been pretty universal,” he points out. Secure communications, secure networks, standalone devices, and bug sweeping should be an essential part of any security program.

## Setting the Cyber Alarm System

### *How do you make the case for cyber defense to a reluctant family?*

- “The problem with private wealth offices is they’re charged with doing so many things, but their employers are also very concerned about not spending a lot of money,” says **Mark Johnson**. “And they’re not always taking the time to educate themselves about what’s going on.” These limitations take many of the effective but expensive cyber solutions off the table.
- Many families don’t understand or acknowledge the need for extensive cyber protection and as a result have been reluctant to spend much on it. “They’re just looking to check off a box, and they haven’t necessarily spent the time to understand the real threat of things they cannot see,” **Johnson** explains. A price tag of a million dollars on a system that can effectively protect multiple billions of dollars worth of assets may be a good investment, but not if the client can’t understand that all those assets are truly at risk.
- **Johnson** recommends wealth office managers begin by working to educate their clients about that high level of cyber risk. “Can you imagine anyone with millions not having the most elaborate cyber program around protecting that wealth?” he says. “It’s as ludicrous as not buying life insurance. If you value your assets, why wouldn’t you do something to protect them?”

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## How do you protect a private family and its assets from cyber attackers?

- “This is the age of whaling,” asserts **Johnson**, referring to the increasingly common practice of targeting high-wealth or otherwise prominent individuals with spear-phishing attacks. “In our own experience, there has not been a client we’ve engaged that does not have some level of vulnerability.”
- Though cyber attacks against high-wealth individuals are common, they are typically not common knowledge. “You don’t hear about them because it’s a very private matter,” he states. “Information about an attack starts the rumor mill and lets people know how much money there is, where it is, and what the family is planning to do with it. A family wealth office manager hurts his relationship with the family by letting that sort of information out.” Wealth managers also have no obligation to the public, and are not compelled by the SEC to report cyber attacks.
- Spear-phishing attacks are difficult to stop, but web-monitoring tools can let a client know that their industry is a target so that they can take steps to mitigate their vulnerability. “If we can educate clients over time about whether patterns are getting better or getting worse, then they can do something about it,” **Johnson** says.
- For a family, personal affairs are intertwined with business affairs and an identity protection system can help to improve cybersecurity for the family wealth office. “You need systems that can monitor things and receive alerts of activity, and it needs to be on steroids, monitoring not just credit bureaus but on dark web sites that nobody is thinking about other than the bad guys,” he advises.
- “A monitoring system is essentially an alarm system,” **Johnson** explains. “You have security guards, law firms and wealth management offices watching your money, but if you don’t have an alarm system on your cyber apparatuses to make sure nobody is talking about the family, taking credit cards, and so on, then you’re missing the whole point of having security in the first place.”

## Interconnected Devices Produce Interconnected Risk

- **Terry Gudaitis** refers to a three-legged stool of physical security, network security, and Internet security. “If one of the legs of that three-legged stool is off-kilter, you can’t sit solidly on the stool and have a secure foundation.”
  - Internet security concerns what the family does “out in the wild” on the Internet, **Gudaitis** explains. The extent of this risk is sometimes unknown because the family office might not be aware of all the ways in which the family interfaces with the Internet, including children using social media or other members activating devices that log tracking data.
  - Network security will increasingly be an issue as “internet of things” prevalence increases. It requires the protection of the family office’s network, as well as the family’s own network and all in-home devices connected to that network.
  - Physical security is closely related to cybersecurity, particularly when systems are interdependent. In a highly connected system, an attacker could compromise a networked device in a car, gain access to the family network, disable alarms and security cameras at the family home, and gain physical access to the house.

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- The family office must be able to audit everything that connects to the Internet, from gating systems and alarms to Wi-Fi connected home theaters. “We often find that vendors who set up these wonderful home theater systems and talking refrigerators are doing it to fulfill the goal of making it easy to use and that it actually works, instead of focusing on security,” **Gudaitis** remarks.
- A family office manager can have difficulty confronting the client about cyber risk because the manager is ultimately an employee of the family and may also have limited access to the family's personal life. However, the family's cyber hygiene can constitute a major financial risk, and is therefore within the manager's purview. More and more money managers are successfully making that case, and guiding their clientele when a cybersecurity concern does arise, according to **Gudaitis**.

## Long Term Health Is A Financial Risk

### *In what way is medical care part of a family office's job?*

- In the last two or three years, **Daniel Carlin** says, the family office mission has broadened considerably to a comprehensive risk management role. “Good personal health is the family's principal asset, and its security should be put in place ahead of money and houses.”
- **Carlin** stresses that the American healthcare system has shifted toward acute care rather than preventative medicine and its ability to improve long-term health has degraded. “You have an entire healthcare system built around crisis care. That's good for the medical system, but not for those being cared for.”

### *How can family wealth office managers help?*

- **Carlin** suggests that family wealth managers think in two dimensions. First, they should think about what they are doing to put together a rock-solid best practices program to prevent disease. Second, they should be prepared to react quickly and effectively when health problems occur. In that case, if the family turns to the family office for help, as they often do, the manager won't have to scramble for information and a plan on the fly.
- “We're really only a couple of years away from massive breakthroughs in treating disease before it has a chance to injure us,” **Carlin** notes. “There are amazing innovations out there that are not mainstream yet.” He recommends integrating a 3-fold platform to ensure the family's long-term health:
  - Be aware of the latest and greatest cutting edge therapies and treatments, even if only in general terms.
  - Identify the means to pay for cutting edge therapies that insurance will not be willing to cover for years.
  - Hire a quarterback that's a physician or a physician group that can bring healthcare in under one umbrella. “That's typically well beyond the ability of the wealth management officer.”
- High-wealth families could afford to employ full-time medical departments, but most family offices choose instead to have a medical support team at the ready. Such support teams will have contracts with other organizations, but should still be available 24/7. However, families with elderly or otherwise high-need members may need to

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consider hiring full-time medical staff.

### *How do you make the case for healthcare as a part of the family office portfolio?*

- “Any time a family officer wants to bring in extra resources, they have to explain why they’re doing this,” notes **Carlin**. “They say, ‘I’m doing it because my job is to maximize your fortune, and the longer you live, the longer your fortune is maximized.’ That goes for every member of the family.”
- When bringing in a health contractor, wealth managers must make it clear that they do not want to know the health information exchanged between the family and the medical providers. “Privacy around health is paramount,” **Carlin** explains, “and it ties directly into the family’s business. So telling them that it is one hundred percent private and you won’t share information ever unless told otherwise, that gets rid of a lot of objections.” He also recommends inquiring into healthcare contractors’ cybersecurity practices.
- Wealth office managers should emphasize that healthcare is changing rapidly, and that the wealth office needs somebody on the payroll who is totally dedicated to extending the family’s lifespan. “Just like you have someone on your team dealing with currency fluctuations and someone doing background checks, you need someone dedicated to the family’s primary care,” **Carlin** maintains.

## **Raising Psychological and Substance Abuse Issues Within The Family**

### *Why and when should you bring it up?*

- “How to bring up the issue of substance abuse or psychological issues is a tough question for a family wealth office manager,” **Arden O’Connor** says. However, even if the problem isn’t connected to the family business, the family office manager often does have a responsibility to the holistic wellbeing of the family. Ultimately, she believes that advisors who can bring medical and psychological issues to the table are in a better position for stability long-term.
- **O’Connor** recommends knowing what evidence of a problem you really have before approaching a family member. “Was it one family member complaining about someone’s drinking problem, or did you see someone drink five drinks in an hour?” She suggests informing family members about resources available rather than offering direct solutions in the absence of concrete evidence of an issue.
- Some otherwise negligible issues can become critical long-term. “If the head of the family is finally thinking about succession of business, sometimes that’s the time to talk about who is and who isn’t appropriate for involvement,” she notes. “A lot of this is about finding the right window and the right platform to make a comment about it.

### *How should you bring it up?*

- Voicing concerns about substance abuse or psychological instability within the family can be a difficult and delicate task for a wealth office manager. **O’Connor** notes that many families will not appreciate candor about such an issue, and the chances that the person himself will admit to having a problem are slim. Instead, the manager should present evidence that somebody has fallen behind in work or exhibited other problematic financial behavior. “It’s really about fiduciary duty.”

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- “Start by talking to one family member, and say that you’re concerned about some atypical behavior you’ve noticed,” **O’Connor** advises. “Ideally, it’s up to a family member who has noticed such behavior too.”

#### *What should you say?*

- Depending on the type of problem, the office manager may choose to prioritize treatment for the individual or protection of the business first. “If it’s somebody who has been an alcoholic for two decades, the chances of fixing that problem immediately are slim and the business should be protected first,” **O’Connor** says. “If it’s opioids, though, there’s a chance of an overdose every day, and I’d prioritize getting help.”
- “When it comes to offering medical or psychological advice, it’s important to know whom to refer the question to before the situation arises,” she counsels. “The worst case scenario is listening to the concerns of a family member and feeling pressured to give advice immediately despite not being a medical expert.” Ineffective advice on such a personal, high-stakes matter can negatively impact the manager’s personal relationship with the family.
- If removing the individual from the family business is not possible or not acceptable to the family, **O’Connor** recommends that the office manager work with the family to put up guardrails that can protect sensitive aspects of the business from the problematic individual.

#### **The Regulatory Framework for Family Offices**

- **Serina Vash** advises that family offices providing investment advisory services are generally considered to be investment advisors under the Investment Advisers Act of 1940 and therefore may be required to register with the SEC.
- “Historically, most family offices weren’t required to register with the SEC under the Advisers Act because of an exemption provided to firms that advise fewer than 15 clients,” **Vash** explains. “However, in 2011, Dodd-Frank did away with that exemption and in its place the Family Office Rule was enacted.”
- Under the Family Office Rule, to qualify for exclusion and avoid the registration requirements of the Advisers Act, the family office must:
  - Provide investment advice only to the family clients;
  - Be wholly-owned by the family clients and exclusively controlled by family members/entities;
  - Not hold itself out to the public as an investment adviser.
- **Vash** notes that, over the last several years, a number of hedge fund managers have dissolved their funds, excluded third parties from participation, and converted their structures to family offices in order to avoid the requirements of the Advisers Act.

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## ABOUT THE EXPERTS

### **Don Aviv, President, INTERFOR International**

*Don Aviv is the President of Interfor International, a 36-year-old corporate intelligence and security consulting firm based in New York. Through its worldwide footprint, Interfor routinely handles complex investigations and security projects for Fortune 500 companies. Aviv oversees day-to-day operations of the company and heads Interfor's Global Investigations and Security Consulting divisions.*

### **Daniel Carlin, MD, CEO at WorldClinic**

*Daniel Carlin, MD, pioneered WorldClinic's innovative concierge telemedicine model after a decade of experience in demanding health care environments, first as a U.S. Navy Chief Medical Officer and then as a refugee camp physician. Trained in surgery and emergency medicine, Dr. Carlin is board certified in Emergency Medicine and holds a consultant-staff appointment at Lahey Hospital and Medical Center in suburban Boston.*

### **Mark Johnson, CEO, Sovereign Intelligence, LLC**

*Mark Johnson is the founder and CEO of Sovereign Intelligence, a global risk consultancy providing strategic guidance and counsel to sophisticated clients. Sovereign blends state-of-the-art proprietary cyber intelligence technology with organic human-derived information to provide clients the intelligence and security necessary to safely navigate the global economy.*

### **Terry Gudaitis**

*Dr. Terry Gudaitis founded Mindstar Security & Profiling in 2013. Prior to forming her own firm, Gudaitis was the Vice President and Cyber Intelligence Director at Cyveillance, responsible for operations and management of the security/intelligence delivery organization. Before joining Cyveillance, Gudaitis also held senior positions at SAIC, Psynapse Technologies LLC and Global Integrity Corporation. Before focusing on the commercial sector, Gudaitis was an operations officer and behavioral profiler at the Central Intelligence Agency (Counter Terrorist Center).*

### **Arden O'Connor, Founder and CEO, O'Connor Professional Group**

*Arden O'Connor founded O'Connor Professional Group (OPG), which offers an array of services to address the needs of families and individuals suffering from addiction. She has personal experience with substance abuse and addiction through her two older brothers. O'Connor helped create Rediscovery House, a residence for teenage males newly released from youth correction or behavioral treatment centers.*

### **Serina Vash, Executive Director, GRC and General Counsel, RANE**

*Serina Vash serves as the Executive Director for Governance, Risk, and Compliance as well as General Counsel for RANE. A seasoned former federal prosecutor and litigator, Vash brings with her two decades of practical experience and a passion for tackling the issue of deterring crime. Prior to joining RANE, she was the Executive Director of the Program on Corporate Compliance and Enforcement at NYU Law School. Before that, Vash served for twelve years in the United States Attorney's Office for the District of New Jersey.*

## ABOUT RANE

*RANE (Risk Assistance Network + Exchange) is an information and advisory services company that connects business leaders to critical risk insights and expertise, enabling risk and security professionals to more efficiently address their most pressing challenges and drive better risk management outcomes. RANE clients receive access to a global network of credentialed risk experts, curated network intelligence, risk news monitoring, in-house analysts and subject matter experts, and collaborative knowledge-sharing events.*