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Technology: Why Family Offices Can Outpace Banking Giants

Operations & Technology

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The small and nimble family office structure can quickly adopt new technologies to drive efficiencies, compared to older, larger banking giants that often rely on outdated infrastructure. As the global economy gets more complex and the cycle of disruption quickens, the lightweight, tech-driven family office structure may ultimately win out.

That's according to Stephan Farber, CEO and founder of Sound Post Capital, a multi-family office based in Texas. Farber says his team's investments in the latest financial technology platforms puts it ahead of the larger institutions in the wealth management industry. "The speed with which advances are being made in fintech is putting larger organizations at a disadvantage because they're often saddled with legacy technology, often inherited in M&A [mergers & acquisitions], that is rapidly becoming obsolete."

From the fat-finger trade that cost J.P. Morgan $6.2 billion in 2012, to the botched systems upgrade at British bank TSB that created a 24-hour outage across the U.K.'s banking network in 2018, signs of this obsolescence are everywhere. In fact, Royal Bank of Canada's chief executive Dave McKay once told American Banker that legacy systems were a bigger threat to traditional banks than fintech startups entering their turf.

Farber's team uses a network of cutting-edge technologies, from cloud-based investment management software Addepar for client reporting and managing risk mitigation, to BlackRock's Aladdin for additional portfolio analysis, to drive performance at the firm. Addepar is also used to consolidate client reports when the portfolio includes both traditional assets as well as unconventional assets like wine, fine art, and musical instruments.

"Reporting can be very high touch and labor intensive [in the alternative assets space]," says Farber. "Unfortunately, we can't just download the daily pricing of 17th century harpsichords." But the tech ecosystem its built has helped resolve the illiquidity and complexities of investing in niche tangible assets.

This combination of network coordination and data intelligence to drive performance and increase efficiency is part of an approach Ming Zeng, the chairman of the Academic Council of the Alibaba Group, likes to call “smart business.” In an article published in the Harvard Business Review last year, Zeng said this approach was the underlying reason why relatively new and smaller companies like Facebook, Tencent, Alibaba and Amazon found immense success over their larger legacy rivals.

It’s a model Zeng believes is the future of all business. “The winners will be companies that get smart faster than the competition,” he said in his article. For now, family offices seem to be getting smarter faster than the banking giants and institutional asset managers they hope to emulate.