The Other Risk

Why Family Offices Must Professionalise Before the Next Crisis Defines Them

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On the first weekend of March, while US and Israeli strikes on Iran triggered retaliatory missile attacks across the Gulf, I spent most of Saturday on the phone with three family office principals I advise. One, based in Dubai, had staff sheltering in place after drones hit civilian infrastructure across the UAE. His portfolio held significant real estate and logistics interests in the region. The Dubai and Abu Dhabi stock exchanges had been shut by regulators. Jebel Ali port, one of the world's busiest container terminals, had suspended operations. Flights were grounded. And his team of three investment professionals was trying to work out, in real time, what any of this meant for their holdings.

What troubled me was not the crisis itself. It was the response. None of the offices I spoke with that weekend had a standing protocol for what to do when a regional conflict disrupts operations across multiple jurisdictions simultaneously. No pre-agreed chain of authority for when the principal is unreachable. No documented decision matrix. No relationship with compliance counsel who could advise on fast-moving sanctions designations. The investment portfolios were sophisticated: private credit, infrastructure, co-investments across three continents. The organisations behind them were not.

This was not a new pattern. In the weeks before the Iran conflict erupted, I had watched a similar dynamic when the latest round of US tariffs sent European equities into a sharp sell-off. Family offices scrambled to assess their exposure. None had a standing protocol for that either. The investment decisions were sound enough. The organisational response was absent.

These episodes capture what I believe is the most underappreciated risk in the family office world today: the growing mismatch between the sophistication of what these organisations invest in and the sophistication of how they are run.

This memo is my attempt to examine that mismatch. I should be clear about what it is not. It is not another plea for "better governance." That phrase has become so ubiquitous at industry conferences that it has lost all practical meaning. Every consultant says it. Every white paper recommends it. And yet almost nothing has changed. I want to understand why, and to propose a different way of thinking about the problem.

What the Numbers Tell Us (and What They Do Not)

I want to start with some numbers, because I think they are striking.

J.P. Morgan's 2026 Global Family Office Report surveyed 333 single family offices across 30 countries, with an average net worth of $1.6 billion.[1] The headline finding: 86% lack a clear succession plan for key decision-makers. Let me repeat that. Eighty-six per cent. Not for the family wealth itself, mind you, but for the person or persons who actually run the office. The people who hold the banking relationships, manage the advisers, and make the calls when markets move.

Now, I have been around long enough to know that statistics can be misleading. Perhaps some of these families have informal understandings that work perfectly well. Perhaps some principals are young enough that succession feels premature. Fair enough. But consider this alongside the same survey's other findings: 64% cite geopolitics as their top macro risk, a third cite family conflict as a threat to their office's continuity, and another third identify the lack of a succession plan itself as a primary risk. They see the problem. They have not solved it.

I find this paradox difficult to explain away. These are sophisticated people. They understand risk. They hedge their portfolios with considerable skill. But they have not hedged themselves.

Vulnerability	%	Source
No succession plan for key decision-makers	86%	J.P. Morgan 2026
Gaps in private market analytics capability	75%	BlackRock 2025
Reliance on legacy systems hindering recovery	67%	Omega Systems 2025
Lack cybersecurity insurance	63%	Simple 2025
Gaps in deal-sourcing capability	63%	BlackRock 2025
Internal conflict as top risk (business-owning families)	41%	J.P. Morgan 2026
No cyber incident response plan	31%	Simple 2025

What strikes me about this table is not any single number. It is the pattern. Family offices have built investment capabilities appropriate for what is now a $5.5 trillion asset class[2], allocating to private equity, infrastructure, venture, private credit, co-investing alongside major institutions, structuring across jurisdictions. But the organisation doing all of this often runs on the equivalent of a spreadsheet and a telephone call.

Answering the Wrong Question

Geopolitical risk has become the defining preoccupation of the family office world. UBS's 2025 survey of 317 offices found that 70% identify a global trade war as the primary threat to their financial objectives, while 52% worry about major geopolitical conflict.[3] BlackRock's survey of 175 single family offices overseeing $320 billion confirmed the picture: 84% cite geopolitical uncertainty as the most important issue shaping capital allocation, 60% are pessimistic about the global outlook, and overall sentiment turned negative for the first time since the survey began.[4]

So how are they responding? Largely with portfolio adjustments. More private credit, more infrastructure, alternatives now comprising 42% of average portfolios. These are sensible moves. But I think they are answers to the wrong question.

> *The right question is not "can my portfolio withstand a geopolitical shock?" It is "can my organisation?"*

Consider what the current Iran conflict has actually demanded of a family office with Gulf exposure. Not merely a portfolio rebalancing, but navigating stock exchange closures in Dubai and Abu Dhabi, port shutdowns, grounded flights, and staff working from home under instructions from global banks. Real-time sanctions screening as new OFAC designations arrive weekly. Compliance reviews across jurisdictions where the rules are shifting faster than most three-person teams can track. A family office with no dedicated risk function and decision-making authority concentrated in one principal is simply not equipped for this. It does not matter how cleverly the portfolio is constructed.

Three Gaps That Matter

In my work with families across Europe, Asia, and the Middle East, I see three areas where the gap between what is needed and what exists is most acute.

The decision-making problem. The J.P. Morgan data tells us that 64% of family offices have investment committees. That sounds encouraging until you look closer: only 35% have formal investment policy statements, and only 32% have a board of directors for the family office itself.[1] Most offices have created a forum for talking about investments but have not built the architecture for making decisions under pressure, for escalating disagreements, documenting rationale, or acting with authority when the principal is unavailable.

This distinction matters enormously in practice. An investment committee that meets quarterly to review allocations is not the same thing as a decision-making framework that can respond to a sanctions order at 2am in the morning. What institutional investors have that family offices typically lack is not intelligence or resources. It is what I would call decision latency, the time between recognising a threat and executing a response. Institutions have rehearsed this through stress testing, war-gaming, and pre-authorised action frameworks. Most family offices have not.

The cybersecurity paradox. The numbers here are genuinely alarming, and I do not use that word lightly. According to a 2025 study by Simple, 43% of family offices experienced at least one cyber incident in the prior 24 months, rising to 57% in North America and 62% for offices managing over $1 billion.[5] Yet 31% have no incident response plan. 63% lack cybersecurity insurance. 68% have not adopted third-party risk management protocols. A separate survey by Omega Systems found that only 60% of family offices are confident their staff can identify AI-driven phishing threats, compared to almost 80% for registered investment advisers.[6]

Why the gap? I think the answer is cultural, not technical. Family offices have historically operated on a principle of discretion: small teams, high trust, minimal documentation. Cybersecurity demands the opposite. Zero-trust architecture, systematic verification, documented protocols, regular testing. Asking a family office to adopt these practices is not merely asking it to buy new software. It is asking it to change the organisational assumption on which it was built. That is considerably harder.

The talent illusion. UBS reports that 73% of family offices prioritise personality fit over education or qualifications when hiring, with 72% emphasising trustworthiness.[3] I understand the instinct. These are intimate organisations. Trust is everything. But what this also means is a systematic bias against the specialised, technically demanding talent that the current environment requires.

The cost implications are significant. Average annual operating costs for offices with over $1 billion in assets now exceed $6.6 million, with over a quarter allocated to outsourcing.[1] Meanwhile, BlackRock found that 75% of offices identify gaps in private market analytics, 63% in deal-sourcing, and 57% in reporting.[4] These are not marginal deficiencies. They are core competency gaps in the very areas where family offices are concentrating their capital. You cannot run a serious alternatives programme on a shoestring. The offices that try are not being prudent. They are being vulnerable.

What Would Actually Help

The standard advice (hire a CIO, draft a family constitution, form an investment committee) is not wrong. But it confuses the artefact with the capability. A constitution is a document. A committee is a meeting. What family offices actually need is institutional capacity: the ability to absorb shocks, process complex information under time pressure, maintain continuity through transitions, and operate across jurisdictions without single points of failure.

Let me describe how I think about this in practice:

Area	What Most Offices Do	What Would Actually Help
Decision readiness	Investment committee meets quarterly	Pre-authorised crisis protocols with defined escalation paths and 72-hour decision mandates
Operational control	Outsource what you cannot do	Retain strategic control of critical functions; build redundancy in knowledge, not just systems
Talent	Hire trusted generalists	Core specialists augmented by a pre-vetted network of on-demand experts
Succession	Draft a plan	Stress-test succession through simulated transitions; separate wealth succession from operational succession

The last row deserves particular attention, because it touches on one of the most consequential confusions in the family office world.

The Confusion Between Two Kinds of Succession

Wealth succession concerns who inherits the assets, how they are divided, and under what conditions access is granted. This is fundamentally a legal, tax, and governance exercise. Operational succession is a different thing entirely. It concerns who makes investment decisions, who holds the banking relationships, who manages the external advisers, and who has the authority to act when the principal cannot.

Most families I know treat these as one problem. They are not. And the failure to separate them is, I believe, the single largest source of governance failure in family offices today.

The J.P. Morgan data supports this view. Business-owning families, those with experience running complex organisations, are nearly twice as likely to cite internal conflict as a top risk (41% versus 23% for non-business-owning families). They are also far more likely to have formal constitutions: 66% versus 50%.[1] This is not coincidence. It is the result of hard experience. Families that have run operating businesses know, often painfully, that governance without operational clarity creates conflict.

My suggestion is a simple one: every family office should conduct an annual exercise I would call an "operational continuity audit." It asks a single question:

> *If the principal were unable to participate in any decision for 90 days, would the family office be able to function at full capacity?*

In my experience, the honest answer is almost always no. And the gaps revealed by that admission constitute the real professionalisation agenda, not the one that looks good in a governance document, but the one that would actually keep the office running.

A Final Thought

Howard Marks once wrote that "the biggest investing errors come not from factors that are informational or analytical, but from those that are psychological." I think the same principle applies to organisational risk in family offices.

The biggest vulnerabilities I see do not stem from a lack of information about best practices. Every family office principal I have met knows they should have better governance. They know they need a succession plan. They know their cybersecurity is inadequate. The barriers are psychological: a fear that formalising processes will bureaucratise a private enterprise; a worry that bringing in outside expertise will dilute family control; a reluctance to acknowledge vulnerability because it feels like weakness.

The geopolitical environment we now inhabit does not care about these fears. Sanctions regimes do not pause while a family debates its governance structure. Cyber-attacks do not wait for the succession plan to be finalised. Markets dislocate whether the decision-making framework is implicit or explicit.

The family offices that will thrive in this era are not necessarily those with the largest portfolios or the cleverest investment strategies. They will be those that have built the organisational capacity to be wrong about the specific risks they anticipated, while remaining resilient enough to navigate the ones they did not.

That is the other risk. And the time to act on it is before the next crisis demonstrates its absence.

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About the Author

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