A new wave of trust in India

There is a growing acceptance and appreciation among patriarchs in India of the value of using external professionals to guide the structuring of both their business and personal wealth, says Bijal Ajinkya of Khaitan & Co.

Traditionally, most promoters within Indian families have deliberately avoided doing anything which cedes control of their financial and other assets.

"We see a shift in the way that families have managed their businesses and assets from the past to present," explains Bijal Ajinkya, a partner at Khaitan & Co. "Today, everyone from the older to the younger generations want to be clear about their personal and business interests."

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They would even risk the chance that the heirs might fight it out and take matters to court, rather than put proper structures in place to ensure a seamless transfer of power. However, the changing economic times and regulatory and tax environment is bringing with it a new perspective.

TRUST IN CHANGE

Typically, Indian promoters have been wary of engaging external professionals for advice. But their view is changing. An important factor in driving this is a new way of thinking among their peers. There is a greater realisation that to

have effective asset and estate duty protection, they must hand over some of the so-called control.

They are more aware of the role that third-party advisers are playing in bringing to the table industry best practices, along with experiences of what other, possibly similar families are doing.

Another catalyst, especially for families which are smaller in size, is likely to be a lack of trust within the family unit – especially if they have had a bad experience previously.

"As an adviser, our job is to tell the family in question the pros and cons of structural planning, give examples of what other families have done on a no-name basis, and then empower the family to take action," explains Ajinkya.

CHANGING GLOBAL SCENARIOS

A further trend that is shaping the mind-set of business families in India is the sweeping reality of transparency of assets around the world.

The Common Reporting Standard (CRS) and automatic tax information exchange agreements are among the initiatives which are forcing India's wealthy to reassess the structures – if any – they have in place.

"Families have really moved away from opaque to transparent structures," explains Ajinkya. "They are seeking to put into place proper corporate governance practices. Clients know that there is no place to hide today."

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This is impacting any structures which patriarchs might have set up but which might not be entirely accounted for.

Yet it seems to be the younger generation which is now facing the battle with the government. "The newer generation is of the mind-set that we would rather earn less, but we want to disclose," explains Ajinkya. "We want to create simple but tax-optimal structures."

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GETTING TO WHAT MATTERS

The key to advising families, it seems, is to understand the business as well as the family objectives.

Ajinkya believes it is important to understand the personal drivers first and foremost because family unity usually precedes the economic sharing between family members.

Indeed, there are two different types of family units: one (usually UHNI clients) for whom the family is of utmost importance; and the other being a family unit which believes that those members who participate in the family business are the only ones to receive economic benefits.

This highlights the importance for advisers of understanding whether the underlying objective is wealth sharing, succession planning or control.

There is also a clear distinction in India between members of the family who are interested in being a part of the business enterprise, and those who want to do their own thing.

In these cases, private client advisers are able to assist families through a combination of succession planning, asset and creditor protection, and also estate duty structuring, explains Ajinkya. ■