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Asian families on the cusp of the most significant intergenerational wealth transfer and the rise of the family office

With 85% of Asia's billionaires still the founders of their family businesses – in other words, first generation wealth creators – Asian families are on the cusp of the largest and most significant transition of wealth between first and second generations. In the process of this wealth transfer, certain vehicles have emerged as increasingly critical to managing this transition – whether it's the set-up of a single family office 'SFO' or being part of a multi-family office 'MFO', when combined with other governance and succession tools such as private trust companies and funds, this allows Asian families (and in particular the next generation) to be more involved and a participant in the future stewardship of the family wealth. In this article, Peter Golovsky takes a look at the increasing importance of a family office function, and how it can support Asian families on this crucial journey.

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According to the UBS/PwC Billionaires Insights 2019 report, the global billionaire population increased by a whopping 38.9% in the five years leading up to the end of 2018, with 589 individuals becoming billionaires for the first time. Among these, private sector entrepreneurs from China have quickly risen to become the world's second largest billionaire group, overtaking Russia and second only to the United States. Consistent with this growth in China, we see importance of the private sector, where family businesses contribute over 70% of national GDP and employ around 75% of the nation's workforce. Given this fast-growing wealth in Asia and in China in particular, and the impending intergenerational wealth transfer, it is not surprising that Asian families are starting to plan ahead and institutionalise the management of their family wealth.

Passing the baton: Succession planning in Asian families

Certain challenges remain in the way of ensuring that the next generation can take over smoothly, however. The 2019 Global Family Office Report by UBS and Campden Research reveals that only 54% of families and family offices have a succession plan in place and just 32% of these plans are formally written. In Asia, the percentage of families with succession plans is even lower, at less than half (49%).

This issue gains even more significance in a Covid-19 context. Now, families have more time than ever to reflect on existing structures and room for improvement. The associated market disruption has also triggered a greater appreciation of the need for risk management governance, particularly around investment performance and monitoring.

The Global Family Office Report further notes that succession is a particularly challenging topic in several parts of Asia, where open conversations about the next generation taking over can still be considered taboo. Interestingly, when family office executives in Asia-Pacific were asked during the UBS and Campden survey whether families should set age limits whereby patriarchs or matriarchs must relinquish control to the next generation, nearly 48% agreed that they should. A director of a single-family office in Asia commented: "There should be age limits to succession – otherwise, you risk alienating a generation, and it growing stale, and never having had the chance."

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The family office function

Also, despite the proliferation of family offices in Asia, Asian families' understanding of the family office function appears to be more along the lines of a private investment arm. Indeed, investment management tends to be the catalyst for introducing family offices in new wealth regions, until such time that the market matures, as it has in Europe and the US. Hence, many Asian family offices focus on investments, which, coupled with opportunities in the region, has been earning them higher portfolio investment returns than their counterparts in Europe or North America – the Global Family Office Report revealed that Asian family offices earned 6.2% in returns over a 12-month period, compared with the global average of 5.4%.

However, overall, this approach compares unfavourably with family offices in the West, which are set up professionally as one-stop shops for needs ranging from wealth management and investments, philanthropic giving and tax planning, through to trust and estate planning. Such family offices also utilise the governance, education, social and administrative functions of the structure. By comparison, most Asian family offices are still in their infancy.

Hierarchy rules: Asian families face unique challenges

From the above, it follows that the majority of Asian family businesses are more focused on helping the family grow its financial assets and may not be thinking or working broadly enough to develop other critical functions and operations to strengthen the family legacy, such as governance, setting the long-term goals and vision of the family, and succession planning.

In the specific context of the Asian family patriarch's mindset, obstacles to effective succession planning – all of which can be overcome through family office professionalisation – include:

- **Trust issues:** The issue of intergenerational trust is heightened in hierarchical families in Asia, with some patriarchs choosing to keep control of their wealth until the very end. The sustainability of the family business becomes a matter of concern as the patriarch becomes old, particularly when there is a lack of trust among siblings or cousins. Regardless of whether the trust issue is cultural or specific to the family's journey, it takes a deliberate and concerted effort to work through, and this is where external, unbiased expertise can be especially helpful to put a suitable structure in place.

The key is engaging an external expert with considerable presence and experience in the region as well as a global view of family offices and private wealth solutions, enabling them to share best practices from across the world. A provider that is focused on understanding and working closely with the patriarchs and matriarchs of these businesses, tuning in to the various factors affecting their particular family office ecosystem in order to be able to improve its set-up and navigate the family effectively through major milestones like the transition of wealth between first and second generations.

- **Lack of separation between business and family:** A single family office (SFO) should be an extension of the family, and not the business. Indeed, since it is set up solely for the family, the SFO has the singular purpose of looking after the family's interests. Unfortunately, the reverse is implied when Asian family offices pursue investment returns as their core objective to the exclusion of other more family-oriented goals, such as reinforcing family values and undertaking philanthropic pursuits.

- **Unwillingness to embrace disruption and adapt to change:** Many Asian family offices find themselves facing some challenges in the new digital economy , while wealthy family groups in the West are increasingly pursuing disruptive innovation as a key opportunity. As the emergence of the so-called Fourth Industrial Revolution precipitates the need for next generation involvement in growing family wealth, Asian family offices need support from experts to make this crucial intergenerational transition. When combined with other governance and succession tools such as private trust companies 'PTC's' and private funds (such as the recent Hong Kong LPF or Singapore VCC), professionalisation allows Asian families, and in particular the next generation – to be more involved in this transition and future investment decision-making processes.

- **Reluctance to involve external professionals:** There is a tendency for Asian families to avoid centralising sensitive information and engaging an outsider to manage family matters, again reflecting trust issues. This can result in a lack of formal governance structures (e.g. board of directors, advisory board, council, committees, meetings, constitution). Moreover, as the Global Family Office Report highlights, one of the major challenges facing Asian family offices is that the next generation is frequently either not qualified to manage the family wealth or simply not prepared for future succession. The report goes on to stress the importance of training and mentoring in facilitating knowledge transfer – for which professional support can be most beneficial.

Finding the *right* support

This all being said, even when the family is willing to seek external help, professional guidance that truly meets the family's individual needs is rare. What is required is an expert blend of local and global knowledge paired with the ability to tailor solutions in line with specific goals and circumstances. Unavailability of suitable professional support and resources to implement formal governance structures and launch a wider set of family office functions can keep Asian family businesses from achieving their potential.

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The way forward for Asian family offices

Given the various succession- and governance-related challenges facing wealthy families and the great potential for expanded family office capabilities, as evidenced by those in Europe and the US, it is clear that Asian family offices would greatly benefit from enlisting external support from experts that have local presence and experience as well as a well-rounded view of family offices globally.

What will prove essential in handling the disruption is a more systematic or institutionalised means of transferring wealth. We are witnessing the first stage, where families tend to multi-bank for a lack of integrated services. But the inefficiency in the cumbersome administrative burden and the management of multiple banking relationships will eventually push families to set up a more formalised family office, which brings together solutions for different segments, including governance and succession under one roof. The big trend therefore is moving from an all too unstructured approach to the management of family wealth and estate planning, towards a far more structured and planned methodology, where the set- up of a family office is ideally placed to bring all these needs together

Even as Asian family offices struggle with succession planning issues, it is heartening to note that, according to the Global Family Office Report, 40% of family offices in Asia-Pacific are engaged in sustainable investing, compared with 34% globally. As socially and environmentally conscious millennials increasingly take the helm of family businesses, with the right professional support, Asian family offices are well poised to continue the trend of sustainable investing with even more gusto. And in the context of the Covid-19 outbreak, which is drawing greater global attention to social responsibility than ever before, family offices in Asia might just find themselves ahead of the curve. ■