

BDO's Stella Cabalatangan on the Technicalities and Tribulations of Wealth Management in the Philippines

Stella Cabalatangan is the Executive Vice President and Head of the Wealth Management Group at the prominent wealth management leader BDO Private Bank in the Philippines. She sat as one of our expert panellists for a discussion on wealth, estate and legacy planning during our March 31 live event that focused on the evolution of the Philippines' wealth management market. Stella's core advice is that clients need to take responsibility for their estate and legacy planning as early as possible, put the right planning and structures in place, and even take tax hits earlier on rather than leaving their heirs to pay even more and take on even more burdens in the future.

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STELLA CABALATUNGAN
BDO Private Bank

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The panel discussion featured a number of wealth management and professional services leaders, and the objective was to analyse the many interesting developments taking place in Wealth Planning, Structuring and Family Succession in the Philippines, particularly amongst the wealthier private clients.

Are HNW and UHNW clients transferring wealth successfully to the next generations, and what do those NextGens expect of their wealth and other advisors? How are the founders, patriarchs, the matriarchs and other family members coping with the demands and expectations of robust legacy and estate planning and transmission? What roles do life insurance and investment migration play in this planning?

How is BDO Private Bank approaching all these wealth planning and structuring issues?

“In the private bank, I think we have already come to this point where we have already developed a very mature market and customer base, and it has gone beyond just selling investment products. We are offering a total wealth management service at BDO Private Bank. We talk to clients about trusts, for example, where we help create certain legal structures for our customers, depending on what their needs are. And we work very, very closely with a lot of service providers, including also on overseas residence and citizenship planning, which is increasingly popular for alternatives amongst wealthy clients here.”

“We strive to understand what the customer needs, and when you’re talking about legacy preservation, it goes beyond just preserving the material wealth of the customer. It’s talking about the safety and the development of the future generations, better education for them, the right ways to achieve stability and the longevity of wealth. So, we facilitate a broad view of these issues and help clients with advice through our array of expert service providers on legal and tax advice, of course on investments, life insurance, investment migration, and the whole range of issues that can add up to the overall structure that really services the needs of our customers beyond just money matters.”

Is there strong interest in conversations around these wealth and legacy planning matters, or does BDO Private Bank need to encourage this dialogue?

“The problem here in the Philippines is that the market is still very young. Most of the generations who think about generational wealth transfer do it very late in their older years, but our job here is to educate the younger generations to start planning early, so we are teaching them about how to structure and how to handle their wealth and their legacy. We see that learning from the past, we should offer them ideas on how to preserve their wealth, and involve valuable elements such as governance and the family constitution.

You develop a family constitution so that you will all agree on how you will run the business. Perhaps the next generation will not be interested

in running those businesses in the future, so how do you preserve and ensure continuity? How can the families come together to agree the right ways forward? Are outsiders to be welcomed as professional managers and how does the family properly oversee if that takes place? Advice on all these matters is certainly an increasingly important element of what we do.”

Life insurance is an increasingly important too for succession and tax planning, so is this an area in which you see BDO Private Bank playing a growing role?

“Yes, insurance plays a key role. Because when you transfer wealth, there are different ways and on the tax front, in the Philippines there is a tax of 6% and estate tax of 6%. When you look at the percentage; it seems the same, but it’s not. Do you want to donate it today at the current value or in the future when someone dies and perhaps at a higher value? It is a donation or part of the estate tax?

And who will pay for that? Will you pay the 6% as the donor, or will you pass on the 6% charge to the heirs / beneficiaries when they pay the estate tax? To clarify and simplify these matters, life insurance comes in very handy, because if you are not sure that your beneficiaries can

pay for it, you buy insurance, and that insurance will pay the tax obligations of your heirs/ beneficiaries. It is all about planning and foresight.

We cannot avoid these taxes, but we can minimise through proper planning. So for us it is about helping clients by learning more about them, then planning with them on the ways by which they can transfer the wealth, and the most tax and cost efficient means.”

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In essence, if you already are willing to donate part of your wealth to your heirs, then do it as early as you can, and as much as you can, rather than waiting to pass away and then passing these problems to your heirs. But it is an upfront cost, and the reality is many people think they do not want to do this because it is an upfront cost. But it will be much higher in the future and more trouble for the future generations if they do not face this matter earlier on.

Do issues of sustainability and ESG come into the conversations nowadays?

“This is a new arena for clients, who mostly think about yield, yield, and yield. That’s all they care about historically, but we are educating them and the next generations to become more aware of ESG related issues in all areas including of course their choice of investments.

As a private banker and as an advisor, it is my duty and my role also to talk about the counterparties, the issuers, what they do, the effect on the environment and social matter from their decisions and actions. However, we then let the customer choose, while trying to guide the customer. We do indeed see ourselves having a bigger role and responsibility than simply finding the best investments.” ■

