

Evolving the wealth management proposition in the Philippines

Panellists came together to put forward their views on the best ways to handle regulatory reform to help high net worth families. Educating clients and encouraging full disclosure and a squeaky-clean balance sheet are key in preventing liability.

These were the topics discussed:

- *Is there a move towards ‘advice’ in the Philippines? What does this mean?*
- *Delivering advice - who needs it and who will pay for it?*
- *What’s the potential impact of CRS / Automatic Exchange of Information on you and your clients?*
- *When will the amnesty programme be implemented?*
- *How can local private banks become more competitive in the global private banking universe e.g. laws / regulations, booking vehicles, platforms, access etc.?*
- *How are you preparing for the next generation?*
- *Estate and succession planning - how can you make the most of this opportunity?*
- *What are some of the global and regional trends in wealth structuring and wealth planning?*
- *What’s the role of insurance?*

A WEALTHY FAMILY FACES UNIQUE CHALLENGES, which increase alongside net worth. One of these challenges is regulatory regime change. Increased transparency built into transactions and efficient reporting is driving high net worth (HNW) families to consult on many issues apart from investment with their wealth managers who must be prepared to advise them.

PANEL SPEAKERS

- **Angel Marie L. Pacis**, Founder and President, KnowledgeLinks Wealth Solutions
- **Irene Lee**, Business Development Director, Intermediary and Partnership, Hawksford
- **David Varley**, Chief High Net Worth Officer, Sun Life Hong Kong, Sun Life Financial
- **Sebastien Hayoz**, Managing Director, Asiatic Trust
- **Gez Owen**, Managing Director & General Counsel, Hubbis

“INSURANCE IS LIKE A HEDGE, PROTECTING AGAINST THE UNEXPECTED.”



Does insurance have a place at the table?

Firstly, panellists debated the importance of insurance to the HNW family. “Insurance is like a hedge, protecting against the unexpected,” elucidated a guest, “and then there is the more obvious protection they get from a life insurance product, preventing liability for their families,” elucidated a guest. With the HNW set, a needs-based assessment is needed. Would a medical emergency wipe out their funds? Unlikely, but perhaps a protracted legal battle would. “Our HNW clients must be advised according to their needs,” explained an expert, “so that they can structure their wealth in the right way to meet their goals for the future.”

Some might say that insurance can be wrongfully used as a way to wiggle out of paying tax, but panellists argued that it is now a ‘golden age’ where such things can no longer happen. “Governments worldwide now see insurance as a robust, legal way to structure, plan and protect wealth,” explained a guest.

Indeed, governments offer tax advantages on life insurance as the assets are held in the insurance company’s name. Insurance policies then pay out to the beneficiary in a tax efficient way, avoiding probate.



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Transparency is scaring our clients, what can be done?

The group then moved on to discuss how the new regulations such as tax transparency, the Common Reporting Standard (CRS) and the Automatic Exchange of Information (AEOI) are being implemented, and how these impact upon their HNW clients.

The Criminal Finances Act 2017, recently introduced by the UK, makes corporate tax evasion a criminal offence that brings an unlimited fine and is fully jurisdictional across the world. “This will impact upon wealth management on a global scale,” elucidated a panellist. “If you fail to prevent tax evasion, you are liable.”

Under this new legislation, ‘Unexplained Wealth Orders’ (UWOs) will allow compliance officers to ask where all money has come from. “If it cannot be explained, we as trustees, fiduciaries or nominees will be held in contempt of court,” explained a panellist. “Wealth managers must make sure they know where the wealth comes from.”

Giving a practical example, a panellist described a client who was advised to buy a house in the UK, because of the drop in value of the Pound. “Because of the UWO, all privacy barriers are broken down,” warned the expert. “Not only does the investor have



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DO YOU ACTIVELY HAVE CONVERSATIONS WITH YOUR CLIENTS ABOUT LIFE INSURANCE?

Yes



No



Source: Hubbis Philippines Wealth Management Forum 2018

to report that the money comes from a bank in the Philippines; they now have to explain how that money was made or the property will be confiscated.”

Transparency has also had a positive impact, according to an attendee. “It is all to do with appearances,” they explained, “as in the past if an investor used an offshore strategy, they were seen as a possible criminal.” With transparency regulation, even if investors are using offshore strategies, it can no longer be for the purpose of withholding tax, thus increasing credibility for everyone involved.

Helping HNW families evolve

“So,” queried a panellist, “how can we use the information available to us to evolve the proposition for wealthy families in the Philippines?”

“We as wealth managers must explain that a lot of the old ways must be set aside,” answered a guest. “They must now for example disclose the Ultimate Beneficial Owner.”

Rather than scaring clients however, we should advise them to prepare before legislation comes in and volunteer information before it is dragged out, as there is much talk of amnesty.

“Is amnesty really a possibility here, as it was in Indonesia?” asked a guest. “Will it be a structured process by the Philippines government encouraging people to disclose what they have?”



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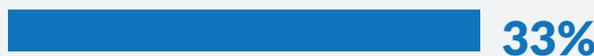
“Actually yes,” responded an expert, “we have a group of savvy economic managers encouraging people to report now rather than spending a lifetime and a fortune trying to trace those assets.”

Tax haven, or evasion?

“We used to call international financial centres ‘tax havens’,” joked a panellist. “How do people feel about international financial centres today?”

BEING HONEST - DO YOU REALLY UNDERSTAND HOW CRS AND AEOI WILL EFFECT YOUR CLIENTS?

Yes



No



Source: Hubbis Philippines Wealth Management Forum 2018

“People have begun to look for credibility,” elucidated a guest, “if you have set up an offshore company in, for example, the British Virgin Islands and can explain the reasoning, it is fine. However, if you cannot explain why, it will now lead to trouble with the regulators and tax authorities.”

Every financial product and company has been created because there has been a need for it at some point. One of those needs has historically been for tax evasion, but that has now gone, so the way forward is to advise HNW families on products that will bring them value without relying upon tax evasion.

Moving forward to new, transparent horizons

“Do our clients really understand that they can no longer avoid paying tax?” a panellist asked, to wrap up the discussion. “While there is still the phenomenon of the ultra HNW nomad - moving jurisdiction every 90 days to avoid triggering tax domicile law,” answered a guest, “most clients these days don’t want the risk of falling outside the law.”

“Clients tend to think that the moment CRS is triggered, all their information is out there,” elucidated a panellist. “It is up to us to reassure them it doesn’t really happen like that.”

“Some HNW families have actually employed providers from other jurisdictions who claim that they



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are not a signatory of CRS or AEOI but this is a terrible idea,” warned an expert.

Indeed, it is predicted by the panel that financial advisers who proudly fly the flag for privacy and do not sign up to CRS and AEOI will quickly become pariahs, that clients are then going to avoid due to fears of losing everything in legal battles. In summary, panellists feel that it is important to educate clients on the reasoning behind transparency, to help them to accept the new legislation as an inevitable part of their future, and to stay on the right side of the law. ■

DO YOU FEEL CAPABLE AND CONFIDENT WHEN YOU'RE HAVING WEALTH PLANNING CONVERSATIONS WITH YOUR CLIENT?

Yes



No



Source: Hubbis Philippines Wealth Management Forum 2018