

# FAMILY OFFICES IN ASIA: IS IT TIME TO ENGAGE WITH INSURANCE SOLUTIONS?



# SUMMARY

- *As the Family Office (FO) segment of wealth management continues to grow apace, the challenge faced by the families and their professional wealth managers involved, is to build sufficient expertise in place to provide their clients with added value and differentiation from their competitors.*

*Whether a Single-Family Office (SFO), or a Multi-Family Office (MFO), the key unique value proposition is to provide the family with a holistic, solutions driven platform that engages with as many aspects of their clients affairs as possible, whether it be portfolio management, estate and succession planning, corporate and fiduciary services, private real estate management, business advisory services, philanthropy, concierge services and so on.*

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» **In order to** execute this, the SFO or MFO must recognise their own strengths and weaknesses and indeed limitations, based on cost management, economies of scale and their genesis. The SFO often originates from an operating business platform that evolves into managing liquid assets and real estate that spins off from profits or monetisation of business equity. The MFO often originates from a niche group of successful private banking relationship managers, who have sufficient loyalty in their customer base to spin off from the banks and apply a more client centric platform for their clients by becoming independent and transparent.

In both cases the originating skillset is limited. It is therefore vital that the family members and CEOs of these entities develop a set of strategic relationships to support them in delivering the holistic experience that their clients will demand.

A challenge with this process is the co-ordination of these relationships. As we have alluded to in previous articles, the business model of the wealth management industry is fragmented and unco-ordinated; there are experts in the various fields, but few capable of bringing this all together into a holistic solutions driven process. This is where the managers of the SFO and MFO need to rise to the challenge, they need to educate themselves beyond their original comfort zones and broaden their product and solutions-based knowledge more widely.

Within this challenging environment is the need for SFO's and MFO's to consider insurance solutions as part of their tool kit. To date many will engage in wealth planning

discussions, but generally speaking the go to external expert is a trust and structuring professional working in a silo and is not motivated to compare their solutions with other often complementary solutions which insurance can provide.

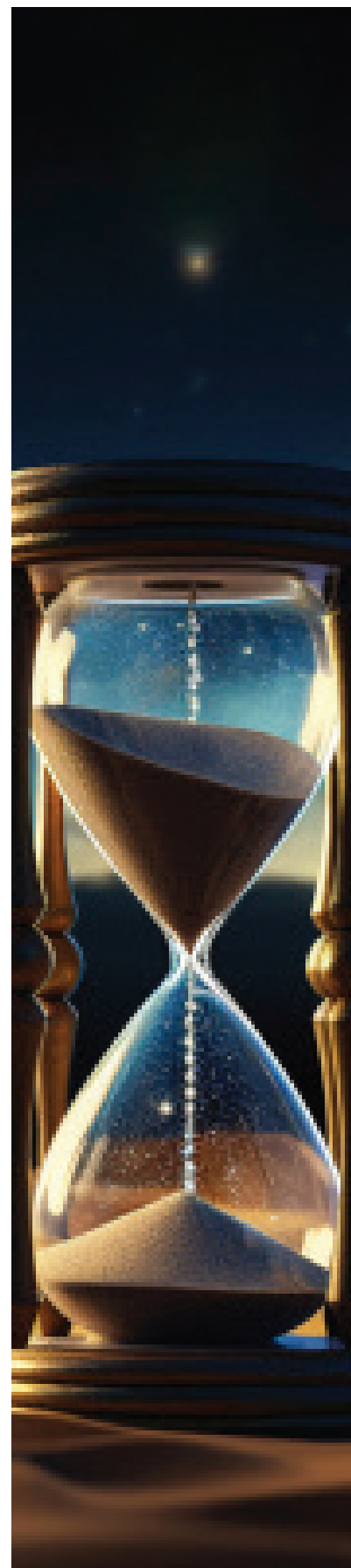
It is therefore important that the SFO and MFO make a specific and concerted effort to ensure that in the wealth planning process, an insurance expert is drawn into the discussion to assess and offer either complementary or alternative solutions to the clients' wealth structuring, risk management and estate planning needs.

### **The Insurance Opportunities**

When looking at the "Opportunities", one should really adjust the terminology to "Necessities". In managing a clients' affairs, there is almost always going to be a necessity that an insurance solution becomes part of their overall financial planning solution, in particular in a SFO or MFO relationship that often extends to multiple family members with varying generational needs.

In Asia in particular, there has been a concentrated focus on the selling of Universal Life and Whole of Life product, however this is scratching the surface of broader client needs and subsequently for the SFO and MFO that is seeking to provide a truly holistic platform for their clients, the need to engage more broadly with insurance is there.

***There are multiple necessities where insurance solutions are ideally placed to address these client needs. Broadly these solutions can be broken down into both Life and General Insurance***





*requirements. These would involve requirements based on:*

**1. Life Risk Management**

- typically shorter-term requirements such as covering loan liabilities, tax liabilities such as Gift Inter Vivos, key person liabilities, utilising pure liability cover without cash value build up.

**2. Life: Liquidity Planning**

- typically longer-term requirements to fund long term liabilities, often involving estate planning and covering aspects such as estate equalisation and funding of estate or inheritance tax liabilities, and as a result requiring cash value build up.

**3. Life: Tax Planning** - typically utilising whole of life policies with the minimum death benefit requirement achieved to enable the policy to qualify for tax benefits which minimise tax liabilities legally.

**4. Health:** Private Medical Cover and Critical Illness.

**5. General Insurance** - Personal Liabilities such as car and homes.

**6. General Insurance** - Corporate Liabilities.

**7. Specialist General Insurance** - Kidnap, Ransom and Extortion and risks such as jewellery, art and other collectibles.

This extensive array of necessities, mean that virtually all high-net-worth clients will need some elements of the above. Clearly, this presents an opportunity and a challenge to a SFO or MFO.

In the case of a SFO, the management and administration

of the family's insurance requirements across the board will almost certainly be a requirement of their function (or should be).

In the case of a MFO, the opportunity is to make arrangements to deliver this skillset, but in a manner that is supervised by the MFO. This ability will further enhance the MFOs holistic offering and engagement with the client and their family. Furthermore, where the MFO is acting in a pure, transparent fee-based manner, the opportunity in some cases to offset fees with reimbursed commissions derived from referral agreements with insurance intermediaries can provide further added value to the client and demonstrate the impartiality of the process.

The challenge is of course the execution.

**Executing an Insurance Strategy for a SFO or MFO**

*An SFO, and in the majority of cases an MFO will not be regulated to advise on insurance and will therefore have to engage with a regulated intermediary or directly with an insurer. In order to execute this, in most case they will need a combination of intermediaries to achieve this for the following reasons:*

**1.** The natural partner for insurance solutions for HNW and UHNW clients is an insurance broker who is not tied to one insurance company, and can access multiple solutions from multiple insurance companies, to ensure the optimum product and pricing is achieved. The problem with insurance brokers dealing in the HNW and UHNW space is that

many focus on a limited number of high margin products, whilst ignoring the less profitable products which are nevertheless a necessity to meet client's needs. This is hardly client centric and reflects the need to thoroughly evaluate a broker's capability across the product spectrum, and what they can deliver on.

**2.** Product requirements will range from non-cash value term insurance to universal life, whole of life, permanent health insurance, critical illness insurance, tax and succession planning focused private placement life insurance (PPLI) and through to general insurance requirements covering personal and corporate liabilities and kidnap ransom and extortion insurance for vulnerable families and key executives of their businesses. This requires a large brokerage business in place to ensure the back-office infrastructure

is sufficient to support such a platform and identify and support the best products in the different categories.

**3.** In addition to the open architecture nature of a brokerage, the broker needs to have the skillsets in place to advise in detail on the different product range. Much as a wealth management relationship manager is generally a "jack of all trades, and master of none", the same is the case for the relationship manager at an insurance brokerage. The advantage that they should have, is the ability to draw on product specialists from either within the brokerage or indeed from their insurance company partners. This is particularly important for example in the tailoring of PPLI and other complex products, and where the creation of a hybrid structure with for example trust, corporate or fund vehicles is anticipated.

**4.** The brokerage representative needs to be culturally aligned to the way the MFO or SFO may be thinking and positioning themselves and be credible with their clients. The temptation will remain to direct clients to a high margin product when this may not be the best solution. It is incumbent therefore on the team within the SFO and the MFO to have a clear understanding of the client's actual requirements, provide oversight to the process, and ensure guidance and recommendations are perfectly aligned with the requirements. Certainly, for the SFO and MFO which is purely fee based, these conflicts are removed, and an objective view can be taken.

The result is that the SFO and MFO may need more than one intermediary, given that technical specialism and product capability relevant to one scenario may not be available to the extent needed with one intermediary. ■

## Summary

The wealth management industry in Asia is going through a transition that many are not picking up on, particularly in Singapore, Hong Kong and the UAE. In the last 20 years the industry has evolved through an era of money being parked offshore with high levels of privacy, to an era of transparency, openness and continuing tax equalisation supported by globalised reporting systems such as FATCA and the Common Reporting Standards.

The result is that the historically simple process of taking assets and managing them is over, and with the transparency of the financial system and the fluidity of high-net-worth families, it is vital to offer more than pure asset management related services which are to all extents commoditised now.

The result is that the wealth management industry at large needs to increase the sophistication of its holistic offering. Amongst the many components of the holistic offering lies the opportunities in the insurance solutions space, and for the Family Offices operating in Asia, it is vital that they engage effectively in this complementary activity, identify and team up with the right partners, and educate themselves about the many client necessities where life (and indeed general) insurance products will provide the optimum solutions.

If you have not done so already, it is time to engage with insurance solutions.