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How clients choose professional advisers for succession

Family wealth practitioners in Hong Kong and Singapore see a mix of ever-complex regulatory and trust-related factors impacting which professionals HNW and UHNW clients will turn to for succession planning advice.

The universe of private clients in the wealth management business cannot be defined in easy terms.

It's therefore equally difficult to work out why and how certain clients choose their professional advisers.

The obvious criterion of choice is trust. Yet it's difficult to determine whether that is trust in a person, an organisation or, perhaps, a specific structure.

But for a client, they need to make the significant decision when selecting a private banker, trust company (potentially as a subsidiary or an affiliate of a big bank), a local or international law firm, possibly an accountancy arrangement (which may include legal as well as tax advice), or the family office route.

Ultimately, from a client's perspective, trust, confidentiality and fees loom large in their minds and, in turn, drive decision-making.

These were some of the views of leading wealth solutions practitioners working within wealth management and professional services firms at Hubbis get-togethers in Hong Kong and Singapore.

COST CONSIDERATIONS

The biggest cost factor when delivering any wealth management service are obviously people. But the overall costs well beyond salaries.

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Industry practitioners cite training as increasingly important in delivering the right advice in what is a complex and ever-changing field. And this is required not only for relationship managers (RMs) and client advisers, but also to everyone involved in banking both the current and next generations. Then there are the compliance costs, which, agree industry leaders, create a significant burden.

The level of professionalism, however, will often be the determinant factor for many clients. While execution is clearly a critical factor for them, they also seek confidentiality.

NAVIGATING THE REGULATORY MINEFIELD

Yet this doesn't mean evading tax, given the far-reaching demands of global requirements such as the Common Reporting Standard (CRS).

Instead, it means a simple desire among the wealthy to ensure that their personal business remains known only to those people they want it to.

This is a growing issue for HNW and UHNW individuals though.

Clients across the region increasingly want to diversify to mitigate geographical and political risks, or just as a part of their succession planning strategy. But the position of investment in OECD countries is by no means clear.

For example, the new Republican administration in the US might repeal FATCA – such a move would certainly be a part of the 'America first' philosophy of president Trump.

In the UK, meanwhile, there has been a bewildering lack of philosophy in tax policy as the proposals and promises of the former Chancellor of the Exchequer, George Osborne, have been overtaken by those of his successor, Philip Hammond – whose own (very detailed) finance bill has effectively been shelved until after the British election.

Investing in the UK and non-domiciled ownership of property are far from 'cut-and-dry' issues at the moment.

Such uncertainties in these and other jurisdictions around the world bring further problems to clients looking for advisers to guide them in their succession planning.

The traditional Asian model of having faith in the family mechanism and using simple trust structures has had to evolve.

While the faith still exists, the global footprint of extended family means that the solutions have to encompass not only the family members and assets themselves today, but also how they might develop in years to come.

Second and third generations, sibling rivalry, divorces and accidents are examples of considerations which can make a huge difference in who the beneficiaries will be.

DELIVERING THE RIGHT ADVICE FOR CLIENTS

Again this backdrop, industry practitioners say that finding the right advisers becomes an ever-vital component of managing family wealth effectively going forward.

There is also the problem of 'incorrect information', which some market practitioners might describe brutally as 'bad advice'.

This might simply be misleading advice, misinterpretation or plain wishful-thinking.

The nature of tax residency and domicile is increasingly complicated, so although an expensive solution might look good on the surface, it could be completely unnecessary.

Even comprehensible and correct advice can fall into what some practitioners call a "cookie-cutter approach".

Yet simple templates will no longer fully reflect the real needs of clients. ■

Growing pressure from external forces

Many factors are impacting the wealth management industry in Asia. The two most obvious are economic growth and demographic change. The former has slowed slightly but remains, in general, well ahead of other regions. The latter relates not so much in terms of population growth but rather longevity and family succession.

However, such forces could have a more dramatic effect on the industry. The most important of these relate to local regulations, extra-territorial legislation and international frameworks.

Local regulations can be fairly simple but are often framed in terms of the other two. The extraterritorial legislation is the US Foreign Account Tax Compliance Act (FATCA) and the international framework is CRS or, formally, the Standard for Automatic Exchange of Financial Account Information). FATCA is US legal extra-territoriality but it is a fact of life today, and requires local compliance structures. CRS is more of a voluntary expression to comply with standards which are still in the process of being set. The timetable for each signatory country is long and its reach large.

The practical result of all this is little more than confusion. Few practitioners have a clear idea of how to deal with the complexity and things will not get better.

As some practitioners gave found, especially in Hong Kong, even setting up a bank account nowadays can be tricky.