In need of unique solutions to avert 'threats to wealth'

Wealthy families need structures and planning tailored to their specific needs, even if this means advisers having a number of conversations over a length of time, says Michael Olesnicky of KPMG.

Wealth planners and advisers face a daunting task when working with wealthy families given the need to tackle common threats to smooth succession yet with solutions that need to be unique in every case.

"There is no cookie-cutter approach, since each family has its own dynamics," says Michael Olesnicky, special adviser at KPMG in Hong Kong.

Further, he adds, a key part of the role of the adviser goes beyond focusing on the needs of the father and mother, to deal with the kids also. This therefore presents a big challenge just trying to work out the dynamics, to assess what will work and what won't. "[It needs to be] one solution, one family," says Olesnicky.

ILLUMINATING THE THREATS

Getting to the heart of the matter in the first place, however, to then be able to determine what solution is most suitable, is no quick task.

Although families want their wealth to survive across generations, advisers must be cognisant of a host of threats to this wealth – some of which only materialise over time and multiple discussions with clients. They must then know how to address them.

Succession issues can come in many forms that lead to squandering and waste in terms of wealth. For example, siblings might feel 'short-changed", they might fight, or the next generation is unaware of what the plans are so they later challenge the structure put in place by the patriarch.

Indeed, a common 'threat to wealth' in Asian families comes from non-transparency. Business issues might often not be shared with the next generation – sometimes even when the children are in their 40s.

MICHAEL OLESNICKY
KPMG

As a result, structures set up by the patriarch can come as a surprise or create rivalry among the children, and then be contested once the patriarch is no longer alive.

"Transparency is the most important thing, which is a philosophical issue for any family," says Olesnicky. "What do you tell your kids? Most parents don't tell their kids much."

DEVIL IN THE DETAILS

He explains that a good family wealth solution takes care of multiple complex issues, covering areas such as pre-nuptial agreements for married members.

A common example of an Asian family business provides evidence of the issues that typically arise.

Decisions must be also reached on what will be done when the patriarch dies – for example, if the business will be split between family members or kept intact. Further, among the siblings, who will get paid and how? Should it be according to their contribution to the business?

Also, determining how a family will manage – and divide – not just its property and businesses, but also its private jets, yachts or art collection, for instance, must also be factored in.

Other matters such as what to do in cases of extra-marital relationships – and subsequent claims on family assets – can often crop up. Plus, relationships

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arising from marriage such as new family members, or in-laws, can fall within the domain of a sound family wealth structure.

For example, cash generated from this business needs to be invested. Someone therefore needs to be appointed to look after the administrative side. Someone must also be responsible for looking after family meetings. When it comes to decided how the kids will be educated, and later, what businesses they can join, this must be in place.

And if the children want to get into start-ups, then solutions need to be worked out to help them pursue this. These can also include provisions to prevent the next generation from being spoilt or from squandering money.

FACING UP TO REALITY

Perhaps the toughest task of all, says Olesnicky, is the first step that needs to happen – to convince patriarchs – even when they are into their 80s – of the need to make a specific succession plan.

At the other end of the spectrum, the younger entrepreneurs, especially in countries such as China, may think it is too early to get advice on succession.

"Only 1% of people who die in China have a will," says Olesnicky.

This resistance means advisers need to go revisit the conversation repeatedly, to convince wealthy families to plug all possible scenarios.

The story is also different depending on which generation an adviser is talking to. A typical response from a patriarch to questions like 'how are you going to divide out responsibilities among your kids?', or 'what if one of your kids isn't interested in the business' and 'do you think they will fight?' are: 'They will work it out'. Or 'No, they are'. And 'No, my kids all love each other, they will never fight'.

The conversation with the next generation, by contrast, might reveal that they are not in fact interested in taking over the family business.

At this point, a discussion about an exit strategy would make sense. But this could involve a sell-out upon death, or the need to bring in independent managers to run the business after death, or conversations to try and persuade the kids to get involved and start preparing for it?

This leads to what Olesnicky calls the 'what-if test'. Such questions might be along the lines of: 'are you going to give the business to your son? What if he dies in the same plane accident that you are in? If it then goes to your grandchild, what happens if he is 5 years old? At 18 years old, will he get everything given to him? What will he do?

It is typically at this point that the patriarchs they start thinking seriously enough about structuring to avoid of all these issues, explains Olesnicky. ■