India's wealthy more willing with succession planning

Business families across the country are slowly moving from a relatively sceptical view of using structures as part of long-term wealth planning, towards adopting a more formal approach to succession planning, says Abhijit Joshi of Veritas Legal.

A combination of several factors over the past couple of years has created various new opportunities for wealth managers in India.

These include impressive economic growth spurred by a bull-run in the country's financial markets, regulatory initiatives to encourage greater transparency and compliance, and a general heightened level of sophistication among wealthy individuals and families.

This has all highlighted the broader range of services and products which are now required – and more readily being sought – to meet the new needs of clients.

"When an emerging market is evolving, a lot of it is work in progress. Financial markets and instruments will deepen, and transparency will bring more accountability," says Abhijit Joshi, founder of Mumbai-based Veritas Legal. "This creates legal complexities, which I see as an opportunity as the market evolves." More specifically, he points to recent developments like the reworked double taxation agreements (DTAs) with Mauritius, Singapore and Cyprus, plus demonetization. As a result, HNI and UHNI clients are wary of what might come next and in turn, are incentiv-

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ABHIJIT JOSHI
Veritas Legal

ised to ensure their assets are adequately protected and their structures robust enough.

"People are baffled by the recent developments and the systemic changes that are happening," adds Abhijit. "They now want to put their 'houses' in order. The need for wealth management is getting more and more important."

FORGING CHANGE

The developments in India are clearly leading to a shift in the mindset of clients.

It was previously a struggle to get these individuals to understand the need for succession planning and the importance of transparency. Today, Abhijit says it is much easier to initiate conversations about the right structures and how to set up.

This is also having an impact on the regulatory environment. For example, the securities regulations previously didn't factor in the use of trusts as a succession planning tool. But now that clients have started making formal applications to the regulator to create trusts, a more robust system is emerging.

As a result, along with greater client education is also an important evolution of the regulatory mind-set.

NEW THINKING NEEDED

Despite these positive changes, the private client segment must also overcome various hurdles to fully understand and embrace long-term wealth planning.

One of the biggest challenges for advisers at the moment stems from what Abhijit calls "thought bankruptcy" when it comes to promoters discussing succession planning in any detail.

"Most [of these clients] want to plan for their succession because others are doing so, but the thought process has not matured enough," he laments. Further, there is sometimes a disconnect between what clients say they need and how they act and behave.

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The HNI and UHNI segments are still predominantly governed by the ideologies of the patriarch who first started the business.

And these promoters only tend to want to get external professionals involved when they see other business families doing so.

What this leads to for advisers, explains Abhijit, is a conversation with a client about sensitive and important issues to which the client hasn't yet given much thought.

TREADING CAREFULLY

Discussions around succession planning inevitably cover topics which many people are not used to talking about at all, let alone with a 'stranger'. These include: complexity of the business; appetite of the next generation to take it over; longevity of the business; a potential sale; competitive forces; and regulatory threats.

Based on the outcome of such discussions, advisers should then be able to ascertain what types of structures need to be put in place – and what needs to be restructured.

A complicating factor is the fact that Indian clients have become increasingly insecure about their wealth and inheritance. This makes the advisory component a more complex process than ever before, adds Abhijit.

In particular, he says the founder as the first generation is typically most insecure about sustaining the wealth. In turn, this fosters a certain amount of uncertainty within the inheriting generation. For example, promoters might be insecure that he will not be respected as much if he puts money into a structure that is far from where he cannot control it directly. He might also be unsure if his family will take care of him in his old age.

At the same time, the next generation is fearful that they have never been given the right (from the promoter) to make decisions.

"A lot of the time, conversations with families are about nothing but addressing these insecurities," explains Abhijit. "Different generations have different insecurities. A competent adviser knows how to tackle them well." ■