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Mapping out the Potential Future of Asia's Regulatory and Family Office Landscape with Spencer West's Zac Lucas

In 2023, significant transformations unfolded within the compliance and regulatory framework of Asia's private wealth management industry. As we approach 2024, a myriad of forthcoming changes await further negotiation. Hubbis seized the opportunity to engage in a discussion with Zac Lucas, Partner – International Private Wealth at Spencer West, to gain insights into the pivotal shifts expected in the coming year. The conversation not only delves into redefining client relationships but also explores the nuanced terrain of regulatory updates and the strategic trajectories for family offices in Asia. This comprehensive dialogue encapsulates the industry's focal points, providing valuable perspectives for participants gearing up to navigate the impending waves of change in the upcoming year.

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Opening the discussion,

Zac shared his thoughts on the challenges on staying relevant to increasingly sophisticated and demanding high net worth clients. He reported that the industry needs to shift its perspective from treating clients merely as customers to cultivating long-term, comprehensive relationships that span at least 15 to 20 years. "Once the 'short term-ism' starts to fall away, you begin to see these clients as people with families and issues, trying to navigate what is quite complex international regulations," he says.

Engaging Effectively with High Net Worth Clients

Turning to the advisory piece, Zac reports that achieving a true understanding of international private clients entails possessing ample knowledge, a genuine interest in the industry, and relevant experience. Professionals should be equipped to engage meaningfully with high-net-worth families, addressing issues like immigration, succession planning, business succession, and collective money management. This approach goes beyond the narrow focus on investment returns and delves into broader narratives involving the challenges families face concerning privacy and security, he says.

Navigating Evolving Regulatory Dynamics

Zac then shared his perspective on regulatory updates and challenges that should be on the radar of the private wealth management community. "The key focus here is on transparency," he reports. "FATF has recently updated its guidance regarding transparency for companies and trusts. The practical implementation of these guidelines in major markets, such as Singapore and Hong Kong, is crucial." These changes are likely to result in increased scrutiny of clients' operational structures, noted Zac, assessing whether they are fully autonomous, semi-autonomous, or linked to some regulatory framework throughout the entire structure. This examination extends beyond specific entities, like trustees in the case of a trust, to include underlying entities subject to regulatory control.

Another significant area of attention will be investment migration, with a heightened emphasis on the "fit and proper person" criteria for individuals involved in investment migration, reports Zac. The question arises of whether they will fall under the FATF umbrella, thus becoming subject to regulatory controls. This represents a substantial development.

In terms of Singapore, a key aspect to watch is the Monetary Authority of Singapore's (MAS) response to a significant recent money laundering case which may eventually involve or relate to a single family office, especially in the context of the Chinese market. The potential slowdown in China-related work could have far-reaching implications, given that it constitutes at the very least 60% of activities in Singapore's financial industry.

Charting the Course for the Family Office Landscape in Asia

Zac then honed in on Singapore, commenting on the outlook for the family office climate in the city-state. "The primary challenge is to expand the market beyond North Asia and present a compelling narrative to business families in Southeast Asia about the crucial role of a family office in their long-term risk management and capital growth strategies," he reports. "A considerable number of business families in this region are unaware of the potential benefits a family office can offer. Our task is to effectively communicate the concept of diversification and underscore its significance, drawing parallels with more mature markets like Europe and the US."

He notes that until this message is successfully conveyed, there's a continued reliance on entities resembling little more than investment or migration offices from China. This dependence poses significant risks, as any restrictions or constraints on that particular market would swiftly impact the entire Singapore industry.

Looking to 2024

Finally, the discussion looked to the future, with Zac offering his outlook for 2024. He first pointed to jurisdictions such as Thailand, noting that there is an observable shift taking place away from a more lenient approach to private client taxation, with the dial shifting towards increased scrutiny; in the case of Thailand, there are indications that changes to the inheritance tax rate and a broader reform of the inheritance tax system are on the horizon. This is part of a larger post-COVID agenda, reports Zac, where many jurisdictions in the region faced fiscal challenges. In response, the quick solution was to raise Goods and Services Tax (GST) rates for immediate revenue. However, a more enduring and politically nuanced approach involves addressing the high net worth community, which is exactly what many local markets on the back of COVID are beginning to do. Indonesia, the Philippines, Thailand, and Malaysia, for instance, are all expected to follow the trend of focusing on HNWI-geared policymaking in the pursuit of improving the regional treasuries' balance sheet. The plan is to gradually refine tax systems, making them less lenient and more aligned with the socio-economic landscape, especially considering significant wealth disparities. While the anticipation for such changes has existed for a while, the fiscal impact of COVID has prompted regional treasuries to reevaluate revenue generation strategies while maintaining political favour. "They're looking at how to raise revenue and at the same time to posture well, in terms of voters," Zac surmises. Expectations include not only international initiatives like Pillar 2 and OECD efforts against Base Erosion and Profit Shifting (BEPS) but also a general tightening of tax codes in the region.

These codes, previously very favourable to high net worth individuals, are now being adjusted over time as revenue authorities seek alternative income sources. Inheritance taxes are likely to feature prominently, alongside the expansion of measures such as capital gains tax, as seen in Malaysia's planned implementation for privately held shares. The most significant changes are anticipated in Indonesia, where post-election considerations may lead to the introduction of a wealth tax, windfall tax, or some form of inheritance tax, Zac noted, bringing the conversation to a close. ■

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