

Noah Holdings' Kevin Foo on those Considerations Pertinent to China's Modern High-Net-Worth Individuals

Amid a shifting global state of affairs, today's Chinese high-net-worth individuals are faced an array of concerns and considerations which should be at the forefront of their minds. Kevin Foo, Head of Private Wealth Planning & Insurance for leading China-based wealth management service provider Noah Holdings, shares his learned insights into what these considerations should be, the trends being witnessed in the context of Chinese wealthy individuals, and the litany of options available to clients who fall under this umbrella.

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WHAT ARE THE HNW IN CHINA CONCERN ABOUT?

We are experiencing increase in enquiries on setting up setting up family office & outsourcing their offshore wealth management to Singapore, with the recent talk of “common prosperity”, known as “共同富裕” (Gòngtóng fùyù).

Chinese HNWIs are concerned on how it can impact them and their family and there is a important part is not covered much on “Common Prosperity” there is also drive for the Chinese to contribute positively to the society through philanthropy.

And it leads to the next question on how to fund for such charitable cause, while taking care of their beneficiaries? One of the best tools to fund such cause is through the use of life insurance.

Another wealth planning consideration that came up even stronger recently is that 1st generation done their part of wealth creation for the last few decades, it is also a time for them to start planning and protecting their wealth to pass on in a controlled manner.

The wealthy are just not simply looking for offshore products to buy but an entire solution to hold, grow and pass on their assets in the most tax efficient manner.

SINGAPORE’S APPEAL TO CHINESE HNWIS?

For HNWIs, their options are plenty. Singapore being a financial hub, become a natural place of preference for them to manage their wealth. Singapore offers them an independent rule of land, comprehensive eco-system of family offices, attractive tax incentive through our 13R/13X scheme which is to help position Singapore as a Wealth Management Hub.

For those who feels that their offshore entity does not meet their planning objective, they can take advantage of Singapore’s Variable Capital Company (VCC) structure to redomicile their investment into Singapore and gain access to our friendly tax regime for fund management.

For non-investment related considerations, Singapore is a voted as one of the most liveable cities. In term of language and culture, Singapore is bilingual, and it is



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easy to assimilate into our local community and we do have a cosmopolitan culture which many of the family’s younger members prefer.

We offer world class education for those who have young children and I have observed that those with young adult family members are choosing to stay and work here.

WHAT ARE THE TRENDS YOU SEE WHEN IN THE CHINESE HNW WEALTH PLANNING?

Many of them have interest and are educated on the types of offshore financial products available. Offshore Insurance form a core demand of financial products, due to competitive cost of insurance rates and higher underwriting limits.

In a typical case, there will be request of setting up Private Investment Company (PIC) entity in an offshore jurisdiction as there is a misconception of “zero” tax equals to being tax efficient.

With the implementation of Common Reporting Standard (CRS), for any entity to be recognised as local tax residency of that jurisdiction, they will need to fulfil the definition of economic substance. And many of such entities will not be able to meet those criteria.

Re-domiciliation of funds into a place of where they can have economic substance become crucial, because they can do proper tax planning and take full advantage of the recognised tax residency of the redomiciled place of jurisdiction.

ANY TRENDS THAT YOU WILL SEE THAT IT MAY BE CHANGING?

Talk to any Chinese who had purchased any offshore insurance, it is almost certain that they had bought a whole of life embedded with long tail saving element from Hong Kong. From my perspective, there is an uptrend of offshore Index Universal Life (IUL) and mainland onshore of Unit-linked policies, as they want to meet the need for a more cost efficient jumbo cover and for the offshore IUL option is to accumulate offshore assets.

For those Chinese who already own significant offshore assets, these are merely products that only meet part of their wealth planning needs and they needed a bespoke solution that will help them to plug their main pain points of liquidity, tax and legacy planning.

PRIVATE PLACEMENT LIFE INSURANCE (PPLI)

Appeal of Private Placement Life Insurance (PPLI) solution is it's ability to provide bespoke solution to meet multiple wealth planning needs, such as, providing a common platform to manage their global assets, legacy planning, liquidity planning and taking advantage of its structure for tax planning. The trend for PPLI as a preferred solution is poised to raise as Chinese HNWIs becoming more global and investing more into alternative asset class.

COMMON SCENARIOS FOR CHINESE HNWIS

A Chinese national client to be staying in Mainland China while his family resides or working in US. In such scenario, the immediate structure will be a Foreigner Grantor Trust (FGT) if such client wishes to have his

asset passed to his US beneficiaries. With FGT arrangement, issue to be considered is the death of China National settlor triggering adverse tax consequences, which can be as high as 40% of total estate value.

A simpler alternative can be considered.

Using of Private Placement Life Insurance (PPLI) to accumulate US situs asset in a tax deferral manner and pass on accumulated asset to his US beneficiary tax efficiently.

In a separate example.

Chinese businessman owning a sizable amount of PE investment in Hong Kong is considering on premium financing of Universal Life (UL) for jumbo cover as part of his intent in creating legacy.

There is another option.

He can make full use of his current PE investment portfolio to be structured into Private Placement Life insurance with life cover. With this arrangement, he can free up the intended cash he wanted to use for premium for his jumbo cover, allowing him to invest for potential higher growth. The life cover paid up in cash upon death can help fund Trust structure he may have, and those non-liquid assets can be passed on easily according through his PPLI life insurance nomination.

In this current climate, we are witnessing high mobility of the 2nd and even 3rd generation, working and living beyond Asia. Even within Noah Singapore team, we have Chinese of 2nd generations working here with their parents back in Mainland China and their siblings working outside of Asia.

Although Trust structure is commonly used by the wealthy, it is only applicable to common law jurisdictions. PPLI can help provide HNWIs with a structure to that is globally recognised and portable, as this becomes increasingly important than ever with the high mobility of their younger generations. ■



Why Noah Singapore?

Noah Holdings itself, has high brand recognition within the Mainland Chinese HNW & UHNW segment being the fact that our brand is born and bred within Mainland China. Our deep knowledge of the Chinese culture will be one of our key differentiators.

We are now in an era witnessing a diaspora of HNW Chinese globally and many of them are here in Singapore.

Noah Singapore offers a platform, who understands their need and helping them to maintain strong links back to Mainland China such as wealth planning in the area of philanthropy.

On investment front, Noah Group prides ourselves to be offer investment opportunities for offshore investors who wants to invest into China, and in the same breath, many are already aware that we offer unique PE Funds to meet the growing hunger of alternative asset class within HNW segment.

On wealth structuring, Noah Singapore has the option to partner with our sister company, ARK Trust (Singapore) Ltd, to provide a comprehensive structure to help them in structuring, plan and manage their wealth to ensure their wealth is pass on from generation to generation.

About the author:

Kevin Foo, is a Chartered Financial Consultant (ChFC®/S), Associate Wealth Planner (AWP™) and Chartered Life Underwriter (CLU®/S). He also qualified with Advance Trust Certificate from Singapore's Wealth Management Institute(WMI), Asia's Centre of Excellence for wealth and asset management education and research.

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