The Growing Drive to Wealth, Estate & Legacy Planning amongst Mainland Chinese HNWIs and UHNWIs

Will inheritance tax emerge in China in the coming years? Will the government consider a tax amnesty, Indonesia-style, to help draw some of the vast offshore Chinese wealth back to the Mainland? What does the new concept of Common Prosperity mean for wealthy Chinese, and does it presage higher taxes and potential inheritance tax and other new regulations? Will the government introduce punitive tax rates and punishments for citizens holding wealth offshore? Will the Mainland China wealth management industry be able to work effectively to help private clients achieve the right solutions and outcomes to protect their wealth and to help transition it to the younger generations? Are life insurance solutions surging due to the fears stirred up in the pandemic, or are there other good reasons related to protection, liquidity planning and even succession planning? How will the onshore-offshore axis work and is there the right level of expertise available onshore, or how will they work with the offshore wealth and professional services experts, for example through nearby Hong Kong? These and many other questions were debated on November 11 in our Hubbis Digital Dialogue event that focused on the future of wealth, estate and legacy planning for China's increasingly deep ranks of HNW and UHNW individuals and their families.

SPEAKERS

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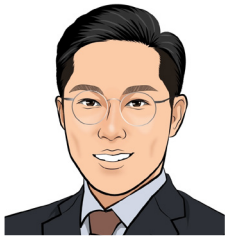

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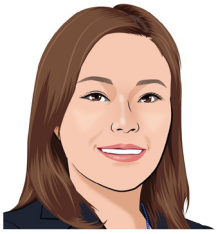

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Setting the Scene

There is no doubt that wealth, estate and succession planning solutions are key areas enjoying increasing emphasis in the wealth management market across the Asia region, where private wealth has been increasing so rapidly, even in many cases throughout the pandemic. The older generations holding so much of the 'older' wealth and traditional businesses are being supplanted and supplemented by the vast and rapidly growing suite of wealthy and often uber-rich entrepreneurs across the country.

And more and more of the younger generations are returning from overseas armed with their Western education and plans for the future, ready both to inherit some of China's vast private wealth and to build the enterprises to create tomorrow's economic dynamism.

For the wealth management industry to thrive in China and to cater to the proliferating demands of these increasingly discerning private clients of all ages, there is no doubt that the quality of advice on investments, wealth structuring, and on the vital topic of estate & succession planning must all evolve. There is accordingly growing emphasis on both greater professionalism amongst the RMs and advisors, on creating dedicated legacy & succession planning teams and expertise within the private banks and wealth firms, and on the related expansion of the relevant products and solutions that the industry can offer in order to keep their private clients properly organised and well set for the future.

The panel of experts at our Hubbis Digital Dialogue of November 11 discussed the evolution of carefully planned and well-executed estate and succession planning, set within the context of the evolution of the wealth management industry in Mainland China. They reviewed the current environment in China, the progress to date and the experts will opine on what steps must be made by the various parties – from the private sector incumbents to the regulators - to more fully set the wealth and legacy planning industry on the road to realise more of its full potential. And the panel analysed what the private clients must themselves do to expedite more optimal wealth planning, legacy and succession structuring and solutions.

Seismic shift taking place in Chinese families' approach to estate and legacy planning

A banker reported a seismic shift in Chinese families looking to really deepen their involvement in family governance, wealth and legacy planning. Driving factors include the pandemic, the lack of travel, which has made them closer to their families, they have been in touch with more of their emotions, including their fears, and they have been able to spend more time on such matters, and thereby address a host of personal and familial uncertainties set against the backdrop of the pandemic and economic even political volatility.

Singapore can play a major role for Chinese clients seeking stability, expertise and security

The same expert reported how Singapore has a remarkable array of attractions, such as the well-established family office offering using the Section 13R, 13X tax exemption schemes, backed by a very strong financial and professional services ecosystem and fine lifestyle and security. "Singapore is really well placed to serve the needs of many of these Greater China families that are looking for solutions today," he stated. "And it is very popular with them, and welcoming."

Watch out, tax changes are anticipated in China, as the leaders drive towards Common Prosperity

Another guest highlighted that China's leadership is closely watching the creation of wealth and the preservation of such wealth and trying to reconcile this with their new concept of common prosperity. "I had many calls from clients after the leadership announced this move, worrying about the impact. The reality is key changes may happen in the next few years, centred on tax, perhaps real estate tax or IHT, or others. Ten years ago, I would have no there is no chance of such taxes. Today, I will answer that the real estate tax will be introduced in the next two or three years, and IHT or perhaps estate tax will be introduced in the next 10 or 15 years."

The reason, he said, is that China is now focusing on more on the equity or the dispersion of the country's wealth, to reduce the gap from the rich and the poor. "And in China, many people got rich because of the government policies, so maybe it's a good time to give back to society, by philanthropy or by other good work. Tax is now a key driver when our clients are making their wealth planning."

Succession issues are also increasingly front and centre in China

"Chinese clients since the pandemic are of course very aware of the uncertainties that could potentially devastate their wealth and their businesses, so we are seeing a more proactive approach to estate and succession planning," another expert reported. "They see this is a multifaceted process, that a lot of considerations have to be factored in to this type of planning,

Expert Opinion

LEE WOON SHIU, Managing Director & Regional Head of Wealth Planning Family Office & Insurance Solutions, DBS Private Banking

"We continue to see a surge of Chinese families that are keen to set up family offices in Singapore, given the importance in evidencing management and control of assets outside of China from a tax perspective and the attractive governance and investment connectivity which will be enhanced under such structures.

FRED WONG, Head of HNW Solutions Hong Kong & NE Asia, Quilter International

"As to how life insurance solutions work alongside effective estate and legacy planning, and the solutions popular or increasing in prominence, we consider that HNW life insurance plays an integral role in achieving effective estate and legacy planning, complementing other solutions or structures – be it for growing, protecting or passing on clients' wealth tax-efficiently. PPLI and VUL are increasingly popular because they cater to the growing need for flexibility, international portability, jurisdictionally compliance and help future-proof wealth structures."

each solution must be tailored and unique, and sophisticated, to ensure smooth intergenerational transfer of wealth, and ensure risk segregation from their businesses."

Relocation is also a key consideration for these families

He added that relocation for tax optimisation is a prominent feature of discussions today, with Singapore a very attractive target for the wealthy due to its obvious regulatory, tax and other attractions.

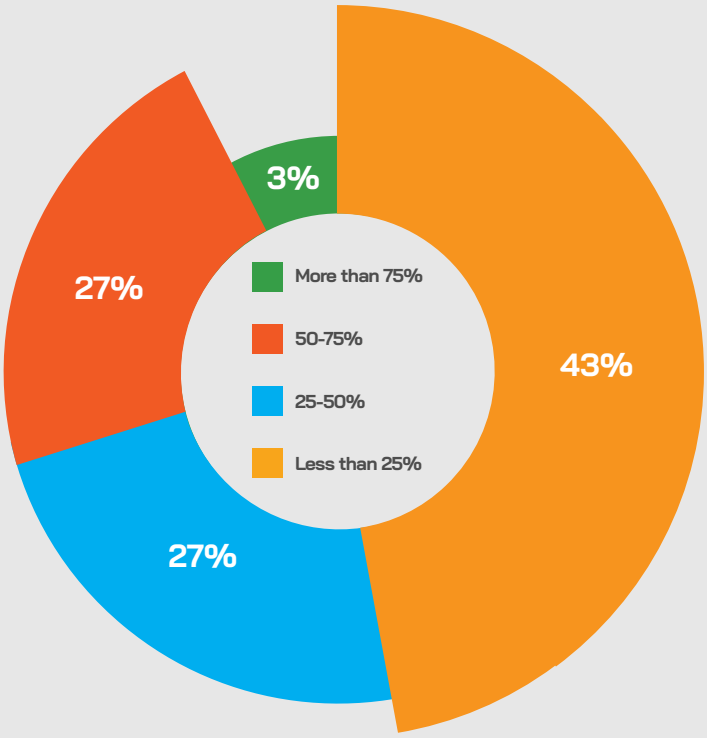
Insurance solutions offer significant value for protection, as well as for robust estate and succession planning

A guest pointed out that the whole journey about discussion about family estate and succession planning really started when the Chinese government highlighted global income tax in 2018. Today, with the pandemic have reinforced these issues, and also with the government having got a fair degree of control over the virus, wealthy clients are accelerating their take-up of insurance solutions and also willing to go to hospital and other centres for the requisite medical checks.

The experts noted that Chinese clients recognize it's now much harder to achieve the same magnitude of success and they are prioritizing wealth preservation over wealth creation as they want their children to enjoy the assets of their success and not the liabilities. "For clients in China, their instinct to protect and defend is much higher than what we have observed in the past," a guest reported. "The uncertainty around the pandemic, coupled with volatility of the global markets have affected their risk aversion. Wealthy clients are more likely to take up insurance products as it covers mortality risk and provides immediate liquidity to beneficiaries that is unrelated to the investment market, giving them better security and peace of mind. HNW life insurance has therefore come to be recognised in China as a viable and compliant financial instrument which is tax efficient to provide HNW individuals in their respective home jurisdictions. We're also seeing great interest in developments around inheritance taxes in China as it eyes wealth redistribution to achieve common prosperity."

The Hubbis Post-Event Survey

APPROXIMATELY WHAT PERCENTAGE OF YOUR PRIVATE CLIENTS IN CHINA TODAY HAVE WELL-ORGANISED WEALTH AND ESTATE PLANNING IN PLACE?



Various structures such as VUL and PPLI are gaining in importance for Chinese clients

He explained that Variable Universal Life is of considerable interest, he reported, especially with the prospect of estate duties coming in the foreseeable future. There are plenty of conversations about Singapore, the 13X and 13R incentive, the Variable Capital Company, and how both Private Placement Life Insurance (PPLI) and VUL can be an integral part of the whole structure. "We are also having a lot of discussions through Hong Kong as well, especially for wealthy families where the second generations are heading to

Australia and the UK," he reported. "Because the tax system in those countries are more complex, so we are working with a lot of families how to simplify a solution."

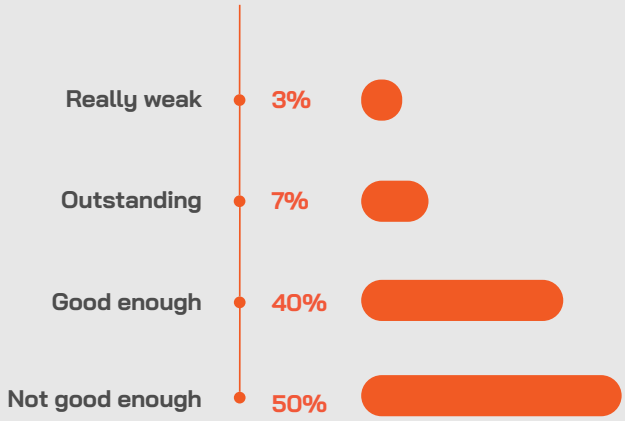
From wealth creation to wealth preservation, life insurance solutions to fit the seismic transition

A panellist observed that life solutions offer protection but for HNWIs they are also important tools for liquidity creation and wealth transfer, and they then tend to look for some other jurisdiction to offer the safety net of their wealth along with that insurance. They observed that this is especially important for the numerous one-child families. "Families want to protect and defend, and they have clearly become more risk averse since the pandemic," they commented. "They see insurance products as a way not just to cover their mortality risk, but also for liquidity for their beneficiaries. And they can see this separately to their investments, as a standalone risk management portfolio."

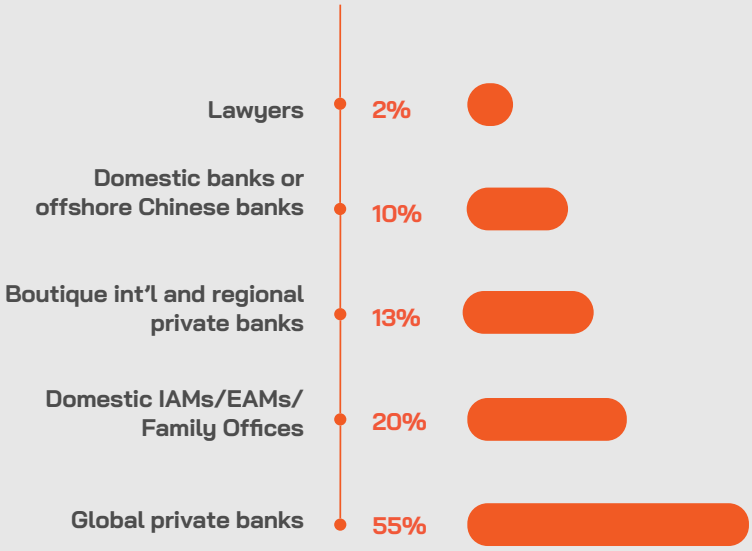
Life insurance solutions offer multiple levels of coverage

A guest agreed, noting that life solutions firstly protect, but they also provide immediate liquidity precisely when it's most needed, and if structured properly help facilitate the easy, probate-free transfer of wealth to different generations of beneficiaries. the lifetime and how that could be transferred. So, we would look at different solutions. For Mainland Chinese clients, they need to have one eye firmly on the potential tax changes and plan their life insurance and other solutions to cope with onshore and offshore regulations.

HOW WOULD YOU DESCRIBE THE QUALITY AND PRACTICALITY OF THEIR WEALTH AND LEGACY STRUCTURES AND PLANNING?



IN YOUR VIEW WHICH BANKS, FIRMS OR ADVISORS ARE CHINESE PRIVATE CLIENTS WORKING WITH TO ACHIEVE THEIR WEALTH AND LEGACY STRUCTURING?



In Hong Kong, several key structures have been particularly popular of late

An expert highlighted the popularity of PPLI, VUL, Whole of Life and also this year the savings plan in Hong Kong. In all cases, the role of wealth transmission upon death is very important, alongside the protection element. "I think in the past two years, there is a lot of buying power preserved and people would still see legacy planning as the key component when they look into their risk management and overall planning. I see in the coming year like in 2022, the protection business would definitely be the number one trend in terms of the high-net-worth market.

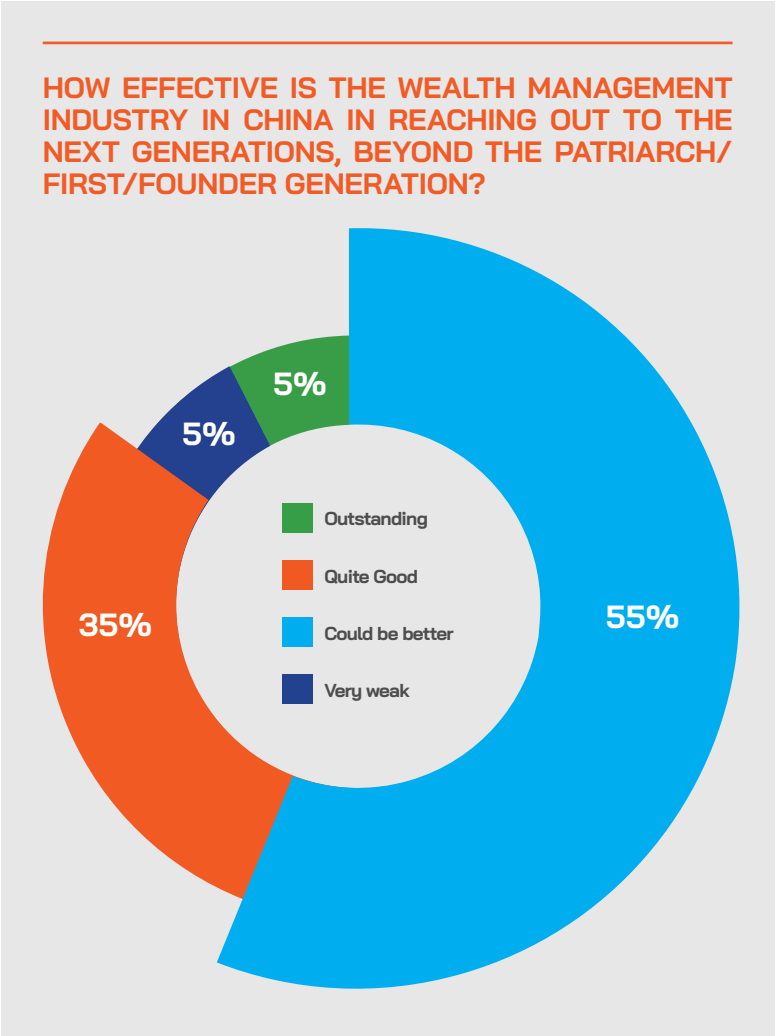
Plan B moves centre stage

A guest pointed out that alternative residency had moved centre stage, as Plan B becomes moves front of mind. "More are saying they need a place for the families where they feel safe, the taxes are low, and where they are welcomes. There are not so many places, but Singapore does provide that, including residency from day one for those with very large investment funds. "And even if you're not a wealth creator, if you are a founder of a high value adding VC company, these sorts of families are also welcome these days," he said.

Tax concerns and fear of significant change ahead also move centre stage

In terms of planning, there is no onshore and offshore divide, a guest remarked. "You have to really straddle both onshore and offshore, and a good advisor must understand what it means to create a structure outside of China that will have implications within China," he said. "Years ago, I think, many clients were very, very keen to do structuring of their assets offshore via a change in ownership of offshore companies without understanding and realising that that change could trigger onshore taxes, transfer taxes. So, I would urge all our advisors in this space to really pay attention not just to your own area of work, but also really, really pay attention and spend time with good advisors, top law firms and others to really understand the onshore and offshore implications. When you structure something offshore, whether it's a family office, whether it's a trust, you should be aware of the implications that this will have knock-on effects in China, for instance."

"We have been pounding the table telling our clients, telling them taxes are likely to increase across the board. You hear Senator Elizabeth Warren talking about wealth taxes just few weeks ago, there are Democrats wanting to start wealth tax in the US. If that proves true, that could gather momentum across other countries in the world. And even back in Singapore, not just one, but at least two ministers have made comments involving wealth taxes. In short, rising taxes are



the new norm that we should be prepared for. Clients therefore should really plan pre-emptively, because as one of our panellists said, the tax changes in 2018 caught a lot of us by surprise. So, talk to tyour advisors about structuring a solution involving trusts, insurance, the family office, whatever suits, so you can pre-emptively plan around this in a compliant way."

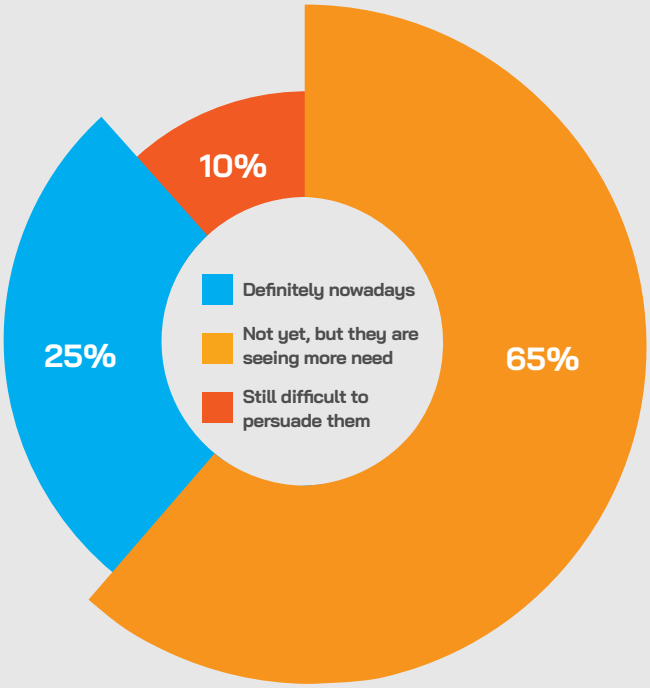
Do trusts fit this market?

An expert observed that Chinese clients are nowadays comfortable with the trust concept. With historically the BVI and Caymans as jurisdictions, but increasingly today mid-shore such as Singapore, Hong Kong or even New Zealand, those jurisdictions and economies that have more substance rather than only just providing offshore financial services. Life structures such as PPLI are also popular and can work with the trust, hand in hand, to enhance both protection and planning efficacy.

Different generations take different approaches

An expert observed that there are always differences in approach to all these matter, amongst and between generations. Some young entrepreneurs prefer to stay rooted in China and to make more wealth, even after they become wealthy, still seeing Mainland China as a very attractive business hub to grow their business and to create more wealth. In the background, they might also be considering another jurisdiction for future tax residence status or even citizenship, and for their children's education, with the UK, US, Hong Kong, Singapore and Australia as key destinations to tick these boxes.

IN YOUR VIEW ARE CHINESE PRIVATE CLIENTS WILLING TO PAY THE NECESSARY FEES TO BUILD REALLY THOROUGH WEALTH AND LEGACY PLANNING?



Expert Opinion

LEE WOON SHIU, Managing Director & Regional Head of Wealth Planning Family Office & Insurance Solutions, DBS Private Banking

"Chinese families are seeking jurisdictions and institutions that would be able to spark IDEAs in their pursuit of the optimal wealth planning regime: the ability to be Innovative and Disruptive, and to be fully equipped to Enable and Adapt to address their evolving needs will be highly valued."

FRED WONG, Head of HNW Solutions Hong Kong & NE Asia, Quilter International

"As to the jurisdictions Chinese clients prefer today, it is important to consider different elements before concluding which jurisdictional solutions may be best to address their needs. For instance, clients' asset types, where these assets are held, under what structures, where the clients and potential beneficiaries are residing now and in the future. All these could increase the complexity and influence the outcome."

Another guest agreed, adding that he see two types of clients, one the younger entrepreneurs, the second the second generation of entrepreneurs from the older generation. "Their approaches are very, very different," he observed. "The younger entrepreneur want to preserve your wealth, they will take a very proactive approach to understanding what's the best solution for them. The second generation, they kind of feel like these structures and plans are almost a scheme to stop them from tapping into their parents' wealth, and for these clients it often takes a lot of time to break the ice, and to help them to understand that the advantages, the benefits of having this legacy and succession planning.

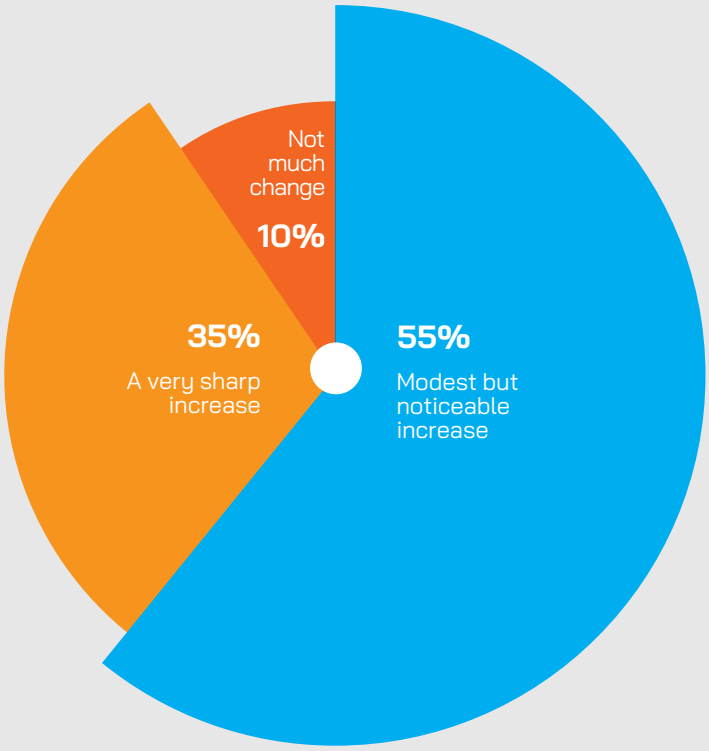
Gravitating towards the use of professional advisors and fee-paid expertise

A panel member said that in both instances, especially the younger entrepreneurs, there is an increasing gravitational pull towards all the generations seeking professional advice and expertise in all these matters, whereas it used to be more of a go-it-alone approach.

And there is a greater acceptance of the need for multiple views and an array of expertise

Another expert concurred, noting that there is also an increasing inclination to seeking out different areas of expertise to help as a team in some cases, especially the wealthiest clients. "I often have meetings with various professionals joining on a single case, lawyers, trustees, investment managers, bankers expert in family offices, insurance experts, residence professionals and so forth. This helps, for example, the client to understand the role of life solutions such as PPLI or VUL and how these fits with the family office, potentially. "When the client becomes more internationally mobile, you need to see the big picture, especially as the global rules are constantly changing. More professionals are now involved in ensuring the sustainability of the structures. And life solutions play a central role potentially in this type of robust planning."

TO WHAT EXTENT HAVE CHINESE PRIVATE CLIENTS BEEN INCREASING THEIR USE OF LIFE INSURANCE SOLUTIONS AS PART OF THEIR WEALTH AND ESTATE PLANNING IN THE PAST FEW YEARS?



Philanthropy is a key topic for Chinese wealth in the future

The same guest remarked that the very wealthy Chinese families are increasingly interested in philanthropy and the team approach to advisory and the right solutions clearly help facilitate this approach in a compliant and tax efficient manner.

Planning must look forward, it must include the widest range of assets as well

A guest pointed out the importance of planning that takes into account the assets of the future as well, such as cryptocurrencies and other digitised assets. "Many families are pivoting away from the usual assets that they're used to like real estate and shares," he said. He cited a report from Citibank

Expert Opinion

FRED WONG, Head of HNW Solutions Hong Kong & NE Asia, Quilter International

"Residency and citizenship planning play an important role in robust estate and legacy planning. Wealthy Chinese families are becoming internationally mobile and this increases the complexities and tax implications that residency and citizenship may have on their wealth. It's important to understand the current and future plans of clients and their families. This is where utilising flexible, robust and legally recognised solutions like PPLI and VUL can help in future proofing clients' legacy planning."

LEE WOON SHIU, Managing Director & Regional Head of Wealth Planning Family Office & Insurance Solutions, DBS Private Banking

"The Covid pandemic and the associated social and political uncertainty have prompted many Chinese families to place greater urgency on prioritising structural, long term needs such as wealth preservation, risk management and governance and adopting a global perspective in considering their options."

in the United States highlighting how a quarter of family offices are already invested in cryptos and many more are interested. "Any institution and any jurisdiction that want to be in this space has to really pivot and evolve with the changing times, we need to evolve in terms of taxes, in terms of legalities, but also in terms of being able to connect our clients in these new areas."

He also cited a recent report spearheaded by Singapore's Temasek that the Southeast Asian digital economy can grow up to USD1 trillion by 2030.

Explore the concepts and needs, try not to be prescriptive

The final word went to an expert who said that all conversations on these topics need to begin with empathy and understanding of the client's situation, needs and expectations. "I also lecture at the university and tell the students to never go for a meeting trying to sell or market or pitch your solution, it's always about first understanding the client's needs. Go there with an open mind, just have a chat, really be genuinely interested in understanding what troubles your client, what his or her anxieties are, and then extrapolate through to potential solutions. It is vital to be genuinely interested in the families that you serve."

And the final word went to a panellist who agreed wholeheartedly, and reiterated the importance of collaboration amongst experts and partners to achieve the best understanding and the best outcomes. ■

The Hubbis Post-Event Survey

DO YOU THINK THERE IS A MUCH MORE POWERFUL DRIVE NOWADAYS TOWARDS PROFESSIONAL WEALTH, LEGACY AND SUCCESSION PLANNING AMONGST PRIVATE CLIENTS IN CHINA? WHY, OR WHY NOT?

- Yes. Driven by the changes in regulatory environment and market outlook, and clearly there is more demand as well as need.
- Yes. To address regulatory requirements like CRS/FATCA /Economic Substance Reporting and change in tax regimes in the OECD and other countries.
- Yes. Instability during Covid and the fact they have been unable to travel has prompted Mainland Chinese families are looking for offshore family office and succession planning solutions.
- China has an aging population, so this is a vital element of this transition.
- Yes. As the country advances and the private clients gets exposed to and understands further the benefits of having proper succession planning, there are more requests from clients in this area.
- Yes, and there are more and more sophisticated products can be tailor made which can serve and match the needs of private clients.
- Yes, driven by the rise in the second and third generations of HNW families and the global exposure that they gain. People in general are more exposed and aware of the various means of investing and wealth preservation.
- Yes, I think there is more active drive these days towards professional wealth, legacy and succession planning amongst private clients in China, in part attributable to the Covid pandemic which restricts their mobility and hence, HNW/UHNW individuals and families have more time on their hands to address this all important topic which they would have put aside when their other business opportunities take precedence over wealth, legacy and succession planning matters.
- Yes, China is facing a peak wealth succession period related to the first major batches of incredible wealth creation. Most of the clients have little understanding of what to do.
- Yes, partly due to growing second and third generation awareness.
- The number of billionaires on the Chinese mainland has outpaced Asia's growth rate, and we see family offices deployed in increasing numbers to manage these towering family fortunes, particularly those on the technology and e-commerce fronts. All this wealth needs formalising and a more professional approach to its management, it can no longer simply be managed in an ad hoc or unstructured manner. At the same time, families are larger, they are more global and robust planning and structures must be put in place. More and more Mainland Chinese realise this and are gradually taking action. Another motivator is the uncertainty caused by shifting government policies, concerns surrounding future potential tax liabilities and of course the pandemic.
- Yes, and a major issue is often the lack of interest from the second generation in taking the reins of the family companies. Owner-founders increasingly face this reality and need to adjust plans accordingly, as succession and continuity are not so simple as they might have liked.

- No doubt, yes, partly because of the fear of change in China, with the common prosperity surely opening the door wide to tax and other changes ahead.
- Yes, and we see Hong Kong and Singapore benefitting from these trends. They have low taxes, strong incentives and excellent financial and professional services.
- Yes, and Singapore in the region is benefitting perhaps most from these trends because of its drive (supported by both the EDB and MAS) to promote Singapore as a wealth and family office hub following the promulgation of legislation (setting up Variable Capital Company, which is the equivalent of a Segregated Portfolio Company in Cayman) to encourage the establishment of funds in Singapore and also tax incentives, Section 13R and Section 13X of ITA which exempts certain income from taxes for funds managed in Singapore, which are particularly attractive for wealthy Chinese HNW and UHNW individuals and families looking to set up fund management and family offices in Singapore.
- Yes, and we think Singapore is most benefitting in Asia given that Singapore is the most established offshore wealth management and private bank hub. The launch of VCC scheme allows easy injection and withdrawal of the funds. This enhances the liquidity on wealth planning and not being lockup on the investments like in other countries in Asia. With very low taxes and a stable political scene, it has increasing appeal.

WITH IMPROVING REGULATION AND A MORE SOPHISTICATED AND COMPREHENSIVE WEALTH MANAGEMENT ECOSYSTEM, ARE MORE OF CHINA'S HNW AND UHNW INVESTORS MOVING MORE MONEY BACK INTO CHINA, OR PERHAPS KEEPING MORE ONSHORE? WHY?

- No, as the Chinese government is adopting common prosperity onshore, we are seeing more UHNWIs relocating a portion of their wealth offshore as part of geographic diversification.
- I believe Chinese HNW and UHNW investors would like to keep funds offshore as one way of risk diversification instead of keeping their wealth onshore only. This is consistent with their wish to become more globalized and provide more options for their families, in terms of both business as well as their personal lives.
- China is at the beginning of a fundamental change and it will for a while remain as a different and difficult market for global players. Global players must acknowledge the fundamental differences in local market structure and investor landscape.
- It depends on the generations and the types of clients. Some are fine onshore and want to build more wealth first. Others want to protect what they have made and slow down, so they see more interest in moving assets offshore. The reality is both onshore and offshore are very important to these clients.
- As we see it, wealthy Chinese are always looking for ways to get their money out if possible all out of the country, usually without getting noticed.
- Well, wealth that is already outside of China would likely stay offshore. The government is likely to change rules and practices to retain more wealth onshore as the population ages and for their drive to common prosperity, so there might be a rush for the gates. However, already we can see most HNW and UHNW clients in China are facing the problem of moving the onshore asset into offshore markets because of the tight regulation environment already in place in Mainland China and greater focus by the authorities on these matters.