

Transition planning for HNW families in the new era of compliance and transparency

Transition planning for ultra-wealthy Asian families and their family businesses is as much an art as a science. Lee Wong, Head of Family Services at Lombard Odier, met with Michael Stanhope in Bangkok to explain her approach to a vital but often complex and sensitive process.

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LEE'S REGIONAL ROLE HEADING UP LOMBARD ODIER'S family services practice in Asia has only one limitation, namely the willingness of families here to embrace the need to prepare properly for the transition of wealth and businesses within families.

Whatever the asset - whether financial, collectible or property - the transition of such assets from the founder to the second generation and beyond, or from spouse to spouse, or to other members, is an area fraught with difficulty.

Lee observed that legacy planning is a much easier topic to broach with clients today than two decades



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ago. “And as bankers, we must bear in mind that we are relationship managers, not product salespeople, so we need to make sure the client is always at the centre of the equation. If we focus on understanding the clients and their families, we can then build a strong, lasting relationship and provide the best solutions for their needs.”

To achieve the goals, Lee noted that she and colleagues would very often need to bring in other experts to assist in this journey. “Understanding the key strength of partners that we can work with is of benefit to us and to the clients. There is no point in trying to be everything to everyone, we must leverage different facets of expertise for our clients.”

Internal & external challenges

Lee explained that the challenges facing family wealth management clients today can be divided into internal challenges and external challenges.

Internal challenges include the difficult transition for family businesses. The objective, she explained, is to establish the appropriate ownership structures to ensure that the family business transits smoothly, with as few impediments or difficulties as possible, from one generation to the next.

“Ensuring a fair and transparent distribution among family members as well as ensuring continuity of the business is not easy,” she said, “it takes a lot of thorough planning, careful execution and considerable sensitivity to the needs and hopes of family members.”

Lee explained that moving ownership of a family business to a broader family grouping could severely impact the management team’s ability to formulate and execute their business objectives.

Splitting financial benefit from management and control can be key. Lee further expounded that the drivers behind family and business are potentially conflicting and this can create tension and vulnerability to disputes if a proper governance framework is not in place. Family governance facilitates open communication and transparent decision making and thereby enables the family to build trust.

“It helps to avoid individuals’ personalities from getting in the way and it clarifies the relationships between family members and the business,” she explained.

Another internal challenge, according to Lee, that should be considered by families is whether the next generation heirs are keen or inspired to inherit the family businesses as they are today.

In the face of reluctant heirs, should families consider re-inventing their family businesses or re-defining assets that they share as a family.

From an external perspective, the impact of technological disruption on the viability of traditional businesses cannot be overlooked by family businesses intending to transcend across generations. Families must also deal with regulatory and legal matters.

“This,” she said, “can, for example, affect transfer pricing of assets into companies, ownership structures for this new era of regu-

latory intensification, and many other areas of corporate and personal governance.”

She referred to Indonesia as an example, noting that when the tax amnesty drew closer many families were initially in denial, but then most realised that they needed to set their houses in order and become more transparent, more compliant. “Indonesia has become more sophisticated. Acceptance is always the key - once people accept the new reality they can adapt and live within it.”

Lee highlighted the importance of reviewing existing structures for their relevance and efficacy in light of the new world of transparency today. “Simplification of structures where complexity is unnecessary is a key initiative throughout this industry,” she explained.

“Transparency is here to stay. Having multiple structures to create walls of confusion is not a sensible or viable option today. There is no point in those structures, they simply make people look suspicious.”

On that point, Lee further explained that structuring compliantly in a transparency arena requires more sophistication and may in some situations involve more complexity. There is no hard and fast rule. The focus is on substance over form.

As the original founder-creator patriarchs and matriarchs in Asia age and pass assets to direct and extended family members, the younger generations will either need to, or want to, embrace the values and structures that allow the internal and external challenges to be appropriately balanced. ■