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# Wealth management and Asia's HNWIs – the path to global standards

**In mid-March in Hong Kong, Hubbis and First Names Group co-hosted a broad-ranging roundtable discussion that focused on the ever-changing environment for wealth managers in the region, and discussed how some were reconsidering their offerings to adapt to evolving client demands, regulatory change and market evolution. Asia has traditionally forged exciting new routes through the global wealth industry, and those professionals who can personalise their service to clients while continuing to meet global standards will be ideally placed to achieve success for themselves, their clients and the whole private wealth industry.**

**THE TWELVE ROUNDTABLE MEMBERS** assembled at the China Club comprised an eclectic and highly experienced mix of seasoned professionals from all sectors of the private client industry, from global private banks, accounting firms and law firms to independent wealth advisers, fiduciaries and asset managers; all serving internationally mobile clients while keeping an eye on local developments.

If there was one overriding message emanating from the panel, it was that wealth advisers and service providers in the region must endeavor to thoroughly understand their clients and their needs, while ensuring clients are aware of and in compliance with reporting and other obligations created by worldwide legislative and regulatory changes.

In short, the wealth industry in Asia must continue to lead global standards if it is to withstand external pressures and prosper in the current environment.

## First Names Group sets the scene

The discussion opened with a brief introduction from Stuart Dowding, Hong Kong Managing Director of co-host First Names Group, a leading independent provider of trust, fund, real estate and corporate services operating in strategic locations worldwide.

Dowding relocated to Hong Kong from Guernsey in 2017 and has been rapidly acclimatising both to the weather and to the psychology of Asian clients.

"Things are continuing to change rapidly in Asia, where there is currently lots of focus on supporting and helping entrepreneurial individuals and families transition their wealth to younger generations. This is in fact one of the biggest challenges facing Asia's high-net-worth individuals these days."

There was a consensus around the table that Asian high-net-worth (HNW) clients, increasingly global in their outlook, are now much more willing to take third party advice from international legal and accounting firms as they diversify their assets across different classes and geographical regions. Part of the job of a fiduciary is to ensure that they seek the relevant tax and legal advice appropriate to individual jurisdictions.

**The First Names Group team (left to right):** Stuart Dowding (Managing Director, Hong Kong), James Russell (Director, Singapore), Hayley Huybers (Marketing Manager), John McGale (Associate Director, Corporate Services, Hong Kong)

## Dramatic proliferation and acceleration of regulation

A core challenge and weighty problem for wealth advisers and clients is the sheer pace of change in regulations and tax matters around the globe.

The table discussed the premise that over the past decade many clients have become fatigued with the rate of change because there is no longer reasonable expectation that a corporate structure established to hold assets would work for any foreseeable or predictable time-frame.

It was noted that many Hong Kong clients have invested in Australia, the UK, the US, Canada and across Europe, with each of those separate jurisdictions undergoing continual legislative change. But while some advisers acknowledge this and go back to review structures with their clients on an annual basis, it is not uncommon for individuals in the wealth management sector to stick their heads in the sand and to put off addressing the issues.

"Realistically," one panel member concluded, "regulatory change and compliance demands have now become so rapid and so pervasive that many firms and their teams struggle to keep up with it all." However, it is imperative that structures are reviewed on a regular basis to ensure that (i) they remain fit for purpose and (ii) in compliance with the ever-changing legislative and regulatory landscape.

This fast-changing environment has become an incredible challenge for clients. Wealth advisers and fiduciaries are often surprised, for example, at the number of Asian HNW individuals with UK property who have not understood fundamental matters such as changes to stamp duty, or the UK's Annual Tax on Enveloped Dwellings (ATED), as well as other targeted taxation measures focusing on the holding of residential property through a corporate vehicle.

John McGale, Associate Director of First Names Group in Hong

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Kong, added, "regardless of this being seen as a challenge, we have a duty to ensure our clients are aware of and can prepare for these changes. We work closely with the clients' legal or tax advisers to make sure this occurs."

### Great wealth = structures required

One expert noted that dealing with individual clients is still relatively new in Asia, as wealth is relatively young, and so most of the focus has been on businesses and wealth generation rather than on the wealth planning and estate advisory sides. "But today," he said, "things have changed."

As wealth in Asia transitions from the founder generations to the younger generations, more and more of those inheriting wealth do not want to remain involved in the family businesses, often preferring to invest elsewhere or to venture out on their own.

Wealth transition and the structures to hold that wealth are topics that go hand in hand, and the assembled experts focused considerable energy on the area of trusts and foundations.

"The younger generation is proactively seeking change and their priorities have shifted from those of their parents and grandparents. I believe we are in an exciting phase," added James Russell, Director with First Names Group in Singapore.

One attendee highlighted the issue of splitting wealth among family members. "If the client has an interest in a large listed company, with a stake of 60% for instance, there is no sense in dividing that between perhaps four children because that destroys the value inherent in the control premium." Noting that advisers must understand the family politics and the desires of the older generation, he concluded that "we always need to discuss such issues at length and ensure we're adding genuine value to the process."

### The right jurisdiction and the right understanding

With the growing catalogue of regulations across the globe and the drive towards greater transparency, Asian advisers must pay ever more attention to using well-regulated, reputable jurisdictions. Gone are the days where clients could drop assets into some overseas "wrapper" company and hope for the best. One expert highlighted a potential move away from the traditional BVI structure for some purposes. Meanwhile, Hong Kong and Singapore, with their strong legal systems, infrastructure of established advisory firms and reputations as well-regulated financial centres, are increasingly becoming jurisdictions of choice. In the words of one adviser, "onshore as a trend throughout the region is certainly developing momentum," though this is often balanced by the use of offshore for niche purposes where asset protection

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or tax planning for multi-national investment becomes a factor.

Above all else, advisers and service providers should treat each client on case-by-case basis. Rather than trying to sell a pre-designed product, bespoke structuring solutions should be built to suit each client's asset class, intentions and purpose.

Stuart Dowding commented, "Clients must also endeavour to understand precisely what they are doing. For example, with a trust, they are transferring legal ownership of their assets to the trustee, and that trustee is henceforth the controller of the assets. This means the trustee will ultimately be accountable for the ongoing management and oversight of the trust assets, working more closely with the settlor and their advisers."

James Russell added that the advent of the Common Reporting Standard (CRS) and of automatic and mutual information sharing between institutions and jurisdictions would further encourage clients to recognise that they need a trustee, or a service provider, who is willing to support them in meeting their tax compliance and reporting obligations. "There are, very frankly, too many service providers in the region who, at the first sign of any problem, will withdraw. But supporting a client through some of these challenges is often where we can add real value as an industry."

## Paying close attention to politics

Another challenge high on the asset protection agenda is political risk. Geopolitics is never far from the centre of any wealth management strategy in the region and the Hubbis-First Names Group discussion touched on this throughout the March 16 gathering.

The world indeed seems to have become less stable than most would have expected in the past 15 plus years. As geopolitics becomes more unpredictable and hazardous—Libya, Russia, North Korea, Syria, Iran, Pakistan/India and other flashpoints are just a few cases in point—more Asian clients need to start thinking about protecting their assets.

One expert at the discussion cautioned that Asian clients must recognise the need to factor political risk when thinking about establishing a trust and the assets to be held in that trust.

Political risk protection is increasingly considered essential, and wealth advisers and law firms are bolstering their experience and their expertise in dealing with these types of issues.

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"The underlying assets within a trust may be more vulnerable to attack if they are located in a jurisdiction that has fundamental political problems. The trust cannot always provide protection in circumstances where the rule of law is not respected."

Today, Hong Kong, Singapore and traditional trust jurisdictions (such as the Channel Islands, Isle of Man and Switzerland) suffer no such problems, but a trust with a perpetuity period stretching into the next century should be designed with one eye on any potential changes.

## Evolving family offices in Asia

There has undoubtedly been an increase in demand for family offices in Asia in recent years, even though such offices are not a cure-all for the full range of opportunities and challenges confronting families in a globalised investment world.

As alternative assets are on a global growth track, it is good to note that Asian family offices are increasingly cognisant of the need for external help from professionals. Art, for example, is an alternative asset class that has been growing in importance for Asian investors, but it is also one for which family offices require external expertise.

An alternative to trust structures was brought to the discussion as one expert said that foundations might be more logical for some clients today. "There are assorted options out there, even though the trust is still the one that is being promoted most vigorously."

Another attendee agreed that if clients want a greater level of control, some clients, for example, might choose a foundation.

"This," said First Names Group's Stuart Dowding, "can be a viable alternative to a trust because it has many characteristics of a company. In the end, it is all about considering the range of options and establishing the best solution for a client, the family and their future generations."

One panelist noted that with the increasing use of Jersey, Guernsey and Isle of Man foundations, the previous association between foundations and less well regulated jurisdictions has to some extent dissipated, and gradually these jurisdictions are building supportive case law and legal precedent.

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### The thorny issue of fees

The discussion also turned to fees, which are very often high on a client's agenda when looking for a service provider. Panelists noted that while some financial institutions have historically offered trustee services at a nominal cost given the provision of a broader asset management service, there is an increasing regulatory and compliance burden involved that makes this approach outmoded from a conflict-of-interest position.

One big challenge ahead for the industry is increasing disclosure of information across jurisdictions. The entire industry should by now be familiar with the implications of CRS. Among many outcomes is the likelihood that clients will see pre-emptive attempts at attacking structures held outside their home jurisdictions. This is where high quality advice, coupled with service providers doing the job properly, will be worth its weight in gold. A client with good advice and good service providers will be able to provide an effective defence by demonstrating proper tax compliance at the first hurdle. On the counter side, a client who has set up a structure at the cheapest price may well find themselves having to defend a structure without the appropriate advice or documentation to help them.

As time goes on, an increasing proportion of clients will adopt the realisation that you do get what you pay for with private wealth services. "Focus should be around the needs of our clients and providing a personalised approach; fees are generally not an issue for a client who feels that they've received quality service," added First Names Group's John McGale.

### Attuning expectations to new norms

What came across clearly from the Hubbis-First Names Group discussion is that the private wealth industry in Hong Kong and Singapore has embarked on an exciting journey, with outmoded methods dying out and a greater global awareness among clients quickly emerging.

With increased regulation, CRS and global mobility now firm realities, individuals and firms throughout the industry are embracing the opportunity to mentor their clients through this pivotal period, winning their loyalty for a lifetime of business, while at the same time enjoying a move within the industry towards well run, professionally advised, tax compliant structures.

The experts around the table on March 16 agreed: changes in regulation and client approach will favour those advisers and service providers willing to be proactive and invest time and energy in doing things properly. ■