Why advisers must take firm stance on structuring

Marcus Hinkley of Withers KhattarWong explains why advisers who do not guide their clients properly in putting the right structures and solutions in place to protect and transfer their wealth, will potentially be making the situation much worse.

One of the biggest challenges for many wealth planning advisers in Asia stems from them avoiding having difficult conversations with their clients.

Inevitably, the different stages of development in terms across the region – in terms of wealth management sophistication and inter-generational transfer – creates situations where clients don't always know the best course of action to take when trying to protect or preserve their wealth.

They might, for example, opt for solutions and vehicles because they relied on advice from friends and family, rather than industry professionals, or in speaking to their advisers, omit any 'difficult' facts or motives.

In a worse case, this can result in a structure that simply does not achieve the client's objectives, or might even exacerbate the very problem that was sought to be overcome (such as crystalising a tax liability or exacerbating one).

In Asia, succession planning remains the primary motivator, but such legacies need careful handling, advises Marcus Hinkley, special counsel at Withers KhattarWong.

In crafting structures where families end up having to ultimately decide how to share wealth, rather than simply giving discreet sums to individuals on the death of the patriarch, it requires a thoughtful process of how family members can and should work together – and appropriate exit strategies if they cannot.

"[They are] probably hindering, if not adding more risk to, the portfolios," says Hinkley, "if you put everyone together and let them work it out later. On the other hand, too much detail, and trying to leave instructions for many, many years ahead, can also be counter-productive."

MARCUS HINKLEY
Withers

Perhaps most importantly, the advisory industry also needs to stop feeling intimidated enough to have frank conversations with their clients about what is, in fact, the right course of action.

In short, advisers need to tell clients when they are making wrong decisions and be bullish when they feel that facts are being omitted.

CHANGING NATURE OF ADVICE

Taking this approach is even more important in today's environment, given the need to factor in transparency to all dealings and assets.

Hinkley, who has worked in offshore jurisdictions in years gone by such as the Cayman Islands and Guernsey, says that global regulatory changes such as the Common Reporting Standard (CRS) mean that all money should be tax-clean, no matter in which country.

"A few years ago, the impression that I think a lot of advisers used to give clients was that they're often best to diversify jurisdictions," he explains.

For example, the rationale was that by having a trustee as well as multiple companies across various jurisdictions, it created a certain amount of confidentiality if this was required.

"But with the birth of CRS, the reality is that this is completely different now," says Hinkley. "The more jurisdictions are touched, the worse it gets, because if you sit in Singapore |and you've got accounts in Hong Kong and London, with a BVI company and a Hong Kong trust, under different rules and different reporting requirements, the numbers which will be reports could be completely different." This quickly becomes an expensive structure.

Statistics indicate that, going forward, the numbers of clients will reduce but the sophistication of the remaining clients will increase.

In most cases, it is no longer adequate to park assets in a simple offshore holding structure. Advisers must be alert to the changing dynamic and not suggest structures that were useful two years ago but might not be useful today.

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PLAYING A MORE CENTRAL ROLE

As a region, however, Asia seems to be playing catch-up in other ways too.

Although it has taken longer for clients to warm to the concept of advice, there is a shortage of professionals to advise the next generation of clients – which tend to be globally educated and more familiar with the advisory industry.

And even despite this shortage, attracting new talent remains a challenge given that many private banks in Singapore and Hong Kong continue to view the wealth planning part of the business as ancillary, explains Hinkley.

This approach to wealth planning services is not good for clients either. It can lead to a drop in quality as it is essentially advice given 'for free'.

For instance, it takes a long time to arrive at tailor-made structures for HNW individuals and families, and must cater both to liquid assets and the family business. Where banks don't tend to help the situation, is that they only look at investible assets.

GETTING PAID FOR ADVICE

The challenges of talent acquisition and how to develop fixed-fee remuneration continue to loom large for the wealth management industry.

Plus, it takes time to develop the |right skills and knowledge – as well as patience – to work with a family. And professionals in advisory firms might be a mishmash of chartered accountants, lawyers and financial experts.

Ultimately, with the sun setting on the simple holding company, there is a requirement for advisers to step up.

This not only requires advisers to be multi-jurisdictional and skilled in a range of areas, but also to have the strength to have courageous conversations with their clients. Sometimes bluntness is called for in terms of telling a client they are really going down the wrong path and have the skill to identify better solutions. ■