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Business Families in Transition - Defining the Opportunity for Private Wealth Managers

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Business families in transition, why is this an important topic for private wealth managers?

Business families in the region comprise the vast preponderance of the private wealth clients. Now, those families, over 50% of them, will likely be looking at a transition in the next five to 10 years, probably even sooner than that. It's important because this is a period of stress for the families. They want to know which is the way forward, should they be recommitting to the business or not? Should they be looking at diversifying away from the business? What should they be doing? And of course, the natural place that they look is the wealth managers, their points of contact, that's what they want to seek help from. They generally won't know. The international private client lawyers personally, they won't know necessarily the trust companies by person, but they do know their wealth managers. They do know their relationship managers quite closely. So, they ask the questions. And if it's 50% of the client base that are potentially going through this and they form the backbone of the private wealth management sort of card in Singapore, then it's important. It's an important consideration that we need to know how to answer them.

If they ask the question, we need to know what's the narrative, what's the issues at hand, and how best can we help the families with an issue that starts in the business but can actually end up affecting their private wealth, and what's the latest tools and approaches that we can adopt? So, business families in transition are important. It's an important one because it's the beginnings of the conversation that may well end with a complete restructuring of a family's wealth management approach. Some of it may be institutionalised through a family office. Others will mean that they have a windfall of more wealth as a result of a liquidity event in the business going forward. So, it helps the wealth managers to be able to cope with those discussions going forward and to be able to talk intelligently to the clients about the issues, knowing the issues, that's the key bit.

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Why or how can you make this into an opportunity?

I think that the key opportunity that you'll encounter here is that these are families that are looking at how to reorganise potentially their private wealth. It could be as a result of a liquidity event. It could as be a result of them moving into a family office environment. But it's the beginnings of a trail of issues that if you are helping them through that, the reward that you'll get at the end of it is that you'll be front and centre when it comes to their decisions about asset allocations and who do they trust.

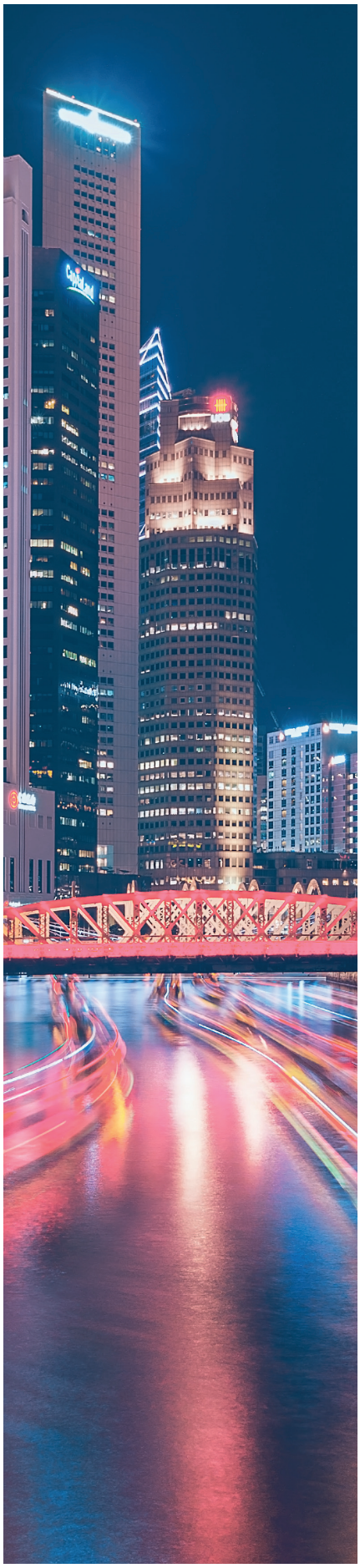
Now here's the difference. If we had a situation where you had no clue about any of this and the families are actively looking at their wealth managers to help them and you can't answer this question and they encounter a competitor who can, and not only answer it, but is quite knowledgeable and has literature about it, et cetera, then the chances are they will stay with that wealth manager. And if they consolidate their wealth, it's not just them on their own, but it's the entire family cohort coming together, then that means there's a lost opportunity to manage that wealth in a consolidated way. And it's a loss either to the multi-family office or it's a loss to the private bank going forward.

So that's why this is here, it actually helps the families to make decisions, intelligent decisions about the maturing of the way in which they approach their wealth management needs, on the backdrop of looking very carefully at whether or not the business as a concentrated position for them is the right platform long term, or does it come now at second or third generation with too much risk? Do they need to diversify? So, the narrative helps them come to a decision about who they trust and who they feel is competent. So, it's a very, very significant conversation to have.

As a private wealth manager, how could you best understand the needs of your client?

From a perspective of the client, here's what they're trying to find effectively. They've got backdrop of the family business with some level of dynamic influence. They may be perhaps looking at a senior passing away, which is going to be for the family a very emotional event. They may be looking at siblings that perhaps don't get on as a team going forward. So, what they're looking at is the effective viability of continuing together. That's generally what you'll encounter, so it can become quite emotive for them as well. Now, they're on a search, they're on search for solutions. They're trying to find the right way forward. They're trying to find the best learning for this. So, what you're challenged with is the family is trying to find what should we do with the business? How do we assess it? How do we continue to recommit to it? What are the tools that we use to make this happen? How do we effectively scrutinise this business to see whether or not it's fit for purpose longer term in the face of a potential transition?

That transition may be because the business is failing or a senior is passing away or is not in good health, or there's a certain level of tension in the family people are not getting on. So, they want to know what's the learning here? What do people do in the US? What have they done in Europe? Is there anything to learn here? So, we're first of all trying to give them an idea of there's a roadmap here, there's a way of you thinking about this problem going forward, and here's how you should do this. There are particular tools and key initiatives that you can initiate as a family to begin the remediation.



The first thing though is this, you need to actually assess whether or not it's worthwhile doing it. And that looks at the health of the business and the health of the family. Those two need to be done. As we'll explain, the toolkit is there to do it and to take them through how they should approach that. Once they get through that issue of, okay, the business is viable, the family is healthy, what other things could we do to enhance it? Then that's all fully into family governance and looking at governance reforms, et cetera. That's fine. However, there are going to be many families that won't recommit in this way. They want to know, "Yes, I understand the business, but what else should I be thinking about?" And here, your role is to say, "Look, it's not just about in a penny in for a pound, you're stuck in the business."

There are routes out of this. And one of the principal routes that families around the world have to undertake is looking at family offices as a way of a roadmap to take them from what would otherwise be a risky environment of a centralised, concentrated position in one business to looking at diversified approach, de-risking the family and de-risking the business going forward. And that's the transition effect. So they want to know, "How do I assess whether or not to move from the business to a family office? And if I do go to a family office, what's the learning there? How do I land? Do I do it now? Is it transitional? Should I do it over many years? Where should I go? Should I go Hong Kong? Should I go UAE? Should I go to Singapore? What's available technically there? And what should I be thinking about as I transition?"

So the skill set that's involved is appreciating the backstop of what's going on with the family, the business, the emotive elements, providing a client with a toolkit so they can understand the dynamics of should they recommit or not. And then if they want to transition over to a wealth management platform, like a family office, what's involved in all of that? What are the key aspects of the project that they need to get? Not just the tax incentive scheme and the investment migration element of having rights to live in Singapore, but what are the other bits that we should be considering? The legal design would be one of them. How do we fit in with the financial design on this, financial infrastructure? Physically, where will we be? So there's a number of elements in the practical side of transitioning them out of a business and into a family office environment. And you have to have all those skills. Otherwise, there'll be a gap in the narrative, and they'll find someone else who actually knows from start to finish what the family should be thinking about.

In terms of an unhealthy business, this is one that is in decline, hasn't got the financial resources at hand to actually reinvent itself, has a management team that's sclerotic or does not fit for purpose, is solely dependent on the founder making decisions going forwards, and the founder is unfortunately in a position where they can no longer contribute. So, it has all the trappings of a failing business. In those instances, what you're trying to do is effectively exit. You're trying to cut it and run. From a family perspective, an unhealthy family is the obvious one would be there's a high level of tension and arguments. It's confrontational.

But the other one is this. The family itself is wholly dependent on the business for its livelihood, but the family members themselves are not particularly skilled at next generation level. So you end up with a massive carry capacity issue that there are so many family members that want to have a stake in the business, but

the business, it can't deliver. It would have to grow at exponential rates in order to deliver on their liquidity requirements. It just simply won't work. So it's not just that people don't get on, it's also people can get on, but their requirements are unrealistic frankly. And it will mean that they draw on capital to actually finance their living expenses. So that's unsustainable.

How best can you curate a solution that will help the client?

So, curating a solution is really around bringing together the team. There are going to be different specialists that will come in. They won't be permanent. The only permanent result of all of this is going to be either the family continuing on with professionalised management or they're transitioning into a family office that then gets successfully launched. The key bit here though is the people that are involved have to be cohesive and led. So, a lot of the times with family offices, we find that they are missing their gaps and it's because there's no one taking central responsibility, or the person that is there is not skilled enough to understand all the issues that need to be dealt with.

So going forward, what you need to do is have, let's say, the trust company service provider, on one side you'll have the tax guys on the other, you'll have lead private client lawyers like ourselves would be potentially in lead role for chief drafting person, chief coordinating council. So you would need to bring together an ad hoc team of professionals in order to realise the transition from a concept idea to a reality. And then the team can disperse as we move into administration and that the family office begins to launch. But that's the key thing, is making sure that you understand that you have different stakeholders that have different skill sets and that need to be involved in this, and they need to be involved in sequence and not out of sequence going forward.

Is it possible to create a standardised and scalable solution?

Standardising and scaling this area are fraught with difficulty because the family's fundamental requirements are sort of uniform, but the way that they come at it and their circumstances could be quite different. The time scales involved also could be quite different. That being said, the issues that we need to deal with are going to be relatively the same. So, let's just take governance as an instance. The key aspects that we always discuss on needing to do well is the control of the entity, the participation of members in the entity, the way in which we draw benefits from the entity. And then lastly, how we manage areas of dispute or potential mismanagement. Those bits don't go away. And so we can scale it. We can adopt a standardised approach. Certainly, I would encourage that we do create literature around the issues that the families have to face, the milestones they have to go through, the individuals that they'll need to encounter and deal with, that's scalable.

The way in which the family use that knowledge and the way in which they develop it may be subject to variations that is difficult to do. So, for instance, a typical answer to this would be very, very careful where you have a multi-generation family, multi branch family in provisioning for them as standardised reserve power trust that we would use just for a founder set law, managing potentially an underlying company and an investment account. A family office is very, very different, and we shouldn't be offering documents that are effectively just for founders where we have multiple generations and multiple branches involved. That's a joint venture arrangement. You need to have more.

So, it's making sure that we upgrade what we have. Our literature should be fit for purpose, but also the backing documents that we have should be refreshed. We shouldn't always be using what we've used on let's say the founder and his bank account, to then use the same approach to second generation members who are going to be collaborating over a long term process and will need to have a lot of checks and balances in place in order so that they feel that they are being treated fairly in the structure. So it's scalable to an extent that we can provide the infrastructure around the service line, but in terms of the way in which the families actually integrate into it, there we'll need to have some level of dynamic response. ■