

What are the trends impacting Legacy and Wealth Solutions for Asian Families?



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What are some of the trends and developments we are seeing today that impact ultra-high net worth families in Asia?

If we’re looking primarily at Asia today, there’s a number of very significant trends that we can see. One of course, especially in Singapore, is the trend to set up family offices. There are things happening with high-net-worth insurance, and one I think I’d like to just reflect on initially is the interest in migration, residency and passports, because there’s all time high interest in this really amongst sort of two groups of people. You have the very wealthy who generally are welcoming every country in the world. Most countries have some sort of scheme for welcoming people who have wealth into their country. And even if they don’t, they will welcome them anyway. And then there of course is there’s the poor and the persecuted and people in countries of war and all sorts of natural disasters who are just desperate to get somewhere else.

And unfortunately, these people are actually not welcome anywhere. In the financial market, in the financial industry, of course, we’re dealing mainly with the first group. And there’s a lot of interest in getting residency permission in other countries and as well as second passports. So, what are we seeing? We’re seeing wealthy people, not necessarily moving country, but acquiring the right to live somewhere else just as a plan B. Sometimes this is done for personal security, sometimes it’s done for tax, sometimes it’s done for the ability to retire later. Sometimes it’s done for family reasons and for the wealthy acquiring residency is relatively straightforward. Sometimes the need to acquire a second residency is fear of the future. There are some countries that perhaps still fear invasion from their neighbors. Clients want to have a plan B. Sometimes it’s the need to get education for children, second homes, health, better healthcare, all sorts of reasons why you want to have that option to change your country.

Sometimes even in some countries, a change of politics, political environment changes and it’s just better to be somewhere else. The citizenship, slightly different. Citizenship is often driven by ease of travel. There are a number of countries in the world where you still need visas for going to most countries.

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If you look at countries like India for example, or Pakistan, it's very hard to find countries that will accept you without a visa, which just makes travel a bit more arduous. There's a demand from many countries to have passports, even in places like the Caribbean where countries have negotiated visa free travel. It doesn't necessarily mean that the people are going to go and live in the Caribbean, but they have the benefits of the passport. The other very popular passports of course, are the EU passports because with something like 30 European Union countries, if you can acquire a passport in one of them, then you can live and work in any of the others.

These are also in tremendous demand. Probably the number one demand at the moment is for Portugal, although they are planning to close their scheme, but at the moment it's still open. And then some people are looking at Montenegro, which is not yet in the EU, but apparently is next in line to join the EU. The destinations that interest people for residency approval, US, Australia, UK probably, and the EU countries are the most popular at the moment. When people are actually planning to move as opposed to just acquiring the residency or just acquiring the passport, planning to move is a slightly different matter because there you have significant changes in terms of your tax status and sometimes you are dealing with a different legal regime from the one that you are familiar with. And the critical thing here is to get good advice.

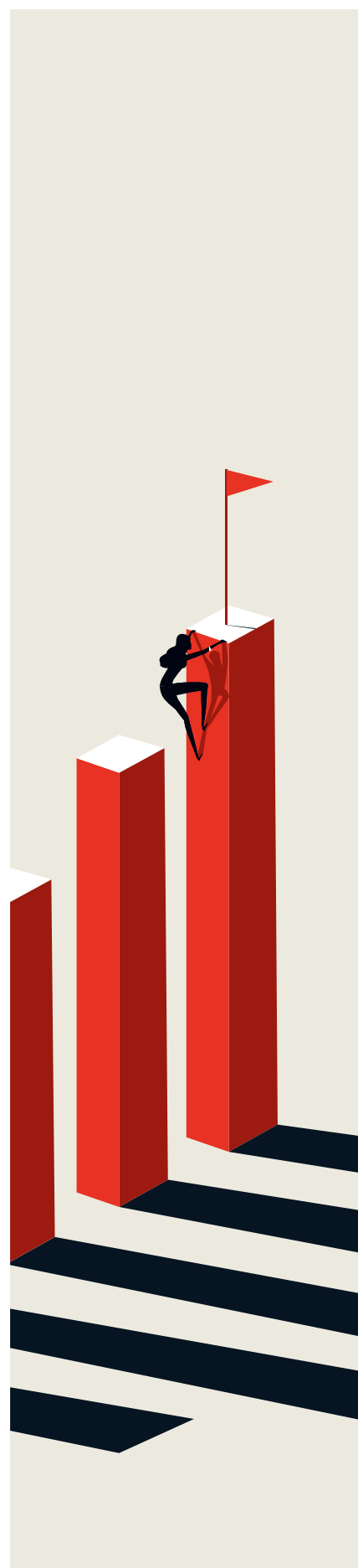
If you look at the three countries I just mentioned, the US, UK, and Australia, they all have very high income taxation. And in the case of US and UK, high estate tax as well. It's possible to defer or even avoid much of this tax with legitimate planning if you take advice. If you don't take advice, you go there and you have a nasty shock a bit later.

Either you've been breaking the law by not disclosing or that you are now paying 45% of all your income away on worldwide income and you are also subject to worldwide capital gains. There's a lot to play for in this area. And for the 1291 group, this is where we specialise in advising clients. We do a lot of different things, but in particular we're now seeing clients who are looking at second jurisdictions who need to have good advice, and half the time they don't even know what the problem is. Although we don't give the tax opinions and the legal opinions, we know enough to tell clients what their issue is, direct them towards the solution.

And interestingly enough, the solution very often involves putting assets into an insurance, into the ownership of an insurance contract in the ownership of an insurance company. There are some very elegant solutions in this space. And that's one of the many things that we do. I am very happy to tell you about some of the others.

How does high net worth insurance potentially fit into that scenario?

I can easily think of at least a dozen reasons why families of any kind of wealth need to have life insurance. Some very typical ones are the ability to pay foreign estate taxes on overseas assets. And if you're living in Asia, perhaps in a country that doesn't have any estate tax, it's easy to overlook this. But if you have property in the UK, property in the US, property in Japan or even securities in those jurisdictions, if you're holding significant US or UK stocks or Japanese stocks, your estate is subject to estate tax after your lifetime. And sometimes having the liquidity to pay these taxes is very important and people don't think about that. Paying off mortgages so you don't leave your mortgage to your spouse. Many Asian families are asset rich and cash poor. If your wealth is in your



family business, but you have three kids, how do you divide that? If your wealth is in your home, family home in Singapore, some of the properties are extremely expensive.

If your significant wealth is in your family home, how do you divide that between three children? Sometimes having some life insurance come in at the critical time enables you to equalize the estate. There are a lot of personal reasons why you might want to use insurance contracts avoiding probate, because probate delays running at about a year perhaps while your will gets processed. And by the way, nearly 50% of people managed to pass away even without writing a will. But if you're lucky enough to have a will and avoid the intestacy provisions of Singapore or Hong Kong, the assets could all be tied up for as much as a year. Insurance contracts have the advantage that proceeds are paid out straight away to your beneficiaries without the delays of the probate process. There's another advantage there in the corporate world, keyman insurance protecting the company against the loss of a key employee or for business people who've given a personal guarantee to secure a corporate loan for their company, if they pass away, the personal guarantee is worth nothing.

And the company, the corporate loan could be called putting the company at risk. Another reason to have the life cover, the company could buy life insurance in the name of the shareholder who's given the personal guarantee and protect the company against such eventuality.

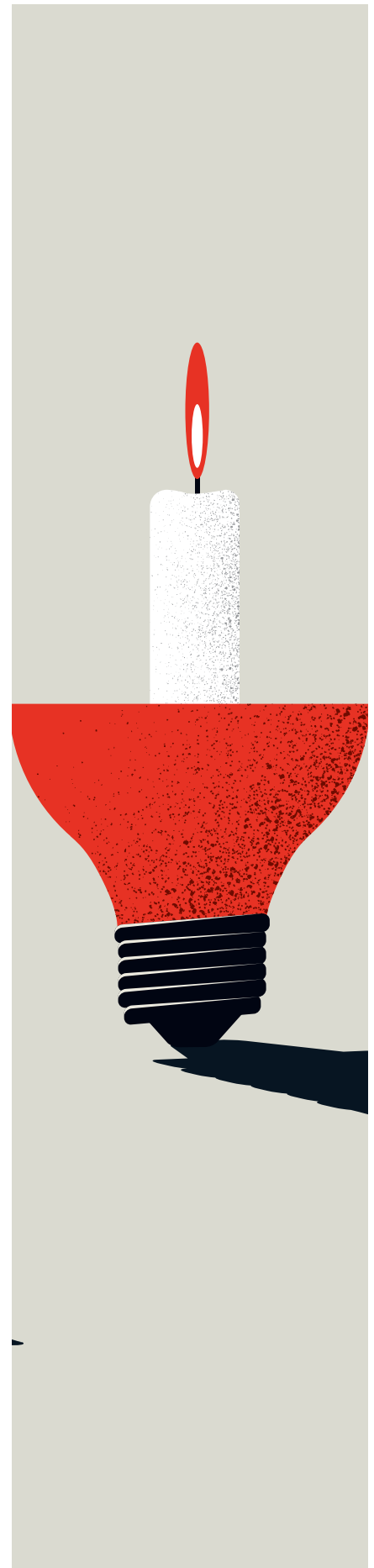
These are just a few off the top of my head, but there's probably at least a dozen, maybe even 15 or 20 solid reasons why wealthy families should be thinking about life insurance. And Transamerica, one of the major US life insurance companies actually came to Asia in 2020 and did a survey of high-net-worth families and they

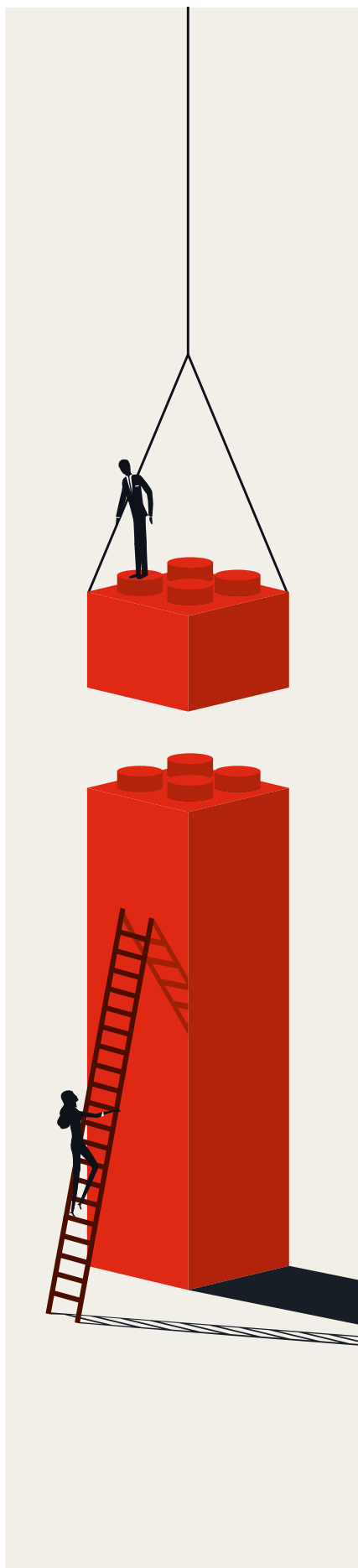
interviewed families that did not have life insurance. And they asked them a very simple question. Why don't you have life insurance? The number one most common response, actually 37% of all the responses, the number one most common response was because my relationship manager had never mentioned it. I was astonished. What do the relationship managers talk to clients about? If you don't touch on succession, business succession, family wealth succession, if you're not talking about providing for liquidity after the lifetime of the patriarch and matriarch, what are you talking about? Are you too busy trying to sell some product that you're under pressure to sell?

It seems to me like the right conversation is often not happening with wealthy families, which means they're going to be very poorly served. Life insurance is one of the most powerful tools in estate planning, in legacy planning. And I'm hoping that popularity will start to increase as people get to understand it better.

Why are we seeing increased interest in setting up a family office in Singapore?

The other big trend that we're seeing at the moment in Singapore is the setting up of family offices. I mean the number of family offices have grown substantially just in the last few years. I believe that in 2018 there are about 50 single family offices in Singapore. There's something like 700 now with about another 600 awaiting with the [inaudible 00:10:24], waiting for approval from the MAS. There is a huge demand for family offices. And I've met clients and I've got two or three recent examples of clients who've said to me, "Should I have a family office?" Or even, "Do I need a family office?" And the question I always ask them is, why, why do you think you need one? And they





often don't know, which I find quite surprising. It's because everyone else seems to be getting one that they need to have one.

And if you look at what a family office is, it's not really defined anywhere. In Singapore it's taking a particular form because the big driver seems to be the fund management exemptions that are given, which come with employment passes. And it looks like the number one driver for people from other countries setting up family offices here is to get employment passes for their kids to come to Singapore. Singapore's raising the bar, getting more wealth into Singapore, it's making it harder for this to be done. It's requiring that within your family office you need to have independent investment advisors who are non-family members, but clients are still getting one or three employment passes for family members and this seems to be a major driver. One question that I often sort of ponder is do these clients really want to have a family office or do they just want employment passes?

And if it's the latter, then what's going to happen in five, six years' time? Are we going to see the employment passes turn into PR applications and then family offices gradually being wound up again? A bit like what we saw with private trust companies. Several years ago, private trust companies were very popular around the world, people were setting them up, you roll on 10 years and actually they're being wound up again because they were not well understood. And I think a lot of people don't understand terribly well what is involved with setting up a family office. There's a lot of advice available to clients in terms of the structure you need to put in place to get the fund exemption. There's plenty of advisors who will help you make the case to the MAS for getting

your fund exemption, setting up the company, maybe setting up a trust.

There's less advice when it comes to what technology should you have, what's it going to cost to keep your systems up to date, how do you find the staff? Are there enough independent investment advisors around to join your family office? I think the answer to that actually is no. And some people are struggling now to staff it. And how do you retain staff in a competitive financial industry? How do you retain staff to work in your private family office? There's a lot of sort of second tier issues that I think are not necessarily appreciated by clients and they're further to get the things set up in the keenness of the banks to try to attract assets under management and the lawyers to get the mandate to do the MAS approvals.

It does seem to me that there's a lack of sort of second tier advice, which is the nuts and bolts, what does it really cost on an ongoing basis to keep the staffing motivated and in place to update your technology, to look at cybersecurity? There are systems out there, there's at least two good systems people can use, and I just wonder how well people understand what is required. I have a little bit of a concern about the future of this family office frenzy and the last meeting I had with a major family, the patriarch actually said to me, "I want to have a family office in Singapore." And again, I asked him my favourite question, which is why? And he didn't know. He didn't know. He just thought it, everyone seems to be having one up, maybe I should have one as well. And he wanted his children to work in the family office. He thought it would keep the family close together.

Actually his children were living in the US and Australia. They were doctors and married and had families. And the idea of them wanting to come back and sit in his family office in Singapore

I think seemed a bit hopeful. I think watch this space. I think the family office space is an interesting one. Of course, there's some very high profile cases of people coming to Singapore that we hear all about and Dyson and Barney and so on. These are wonderful acquisitions for Singapore. But I think a lot of advice is needed of a more basic nature for some of the smaller families.

What are some of the reasons that an ultra high net worth client would even be considering setting up a family office in the first place?

There's a couple of headline reasons which are designed to attract people to set up a family office in Singapore, and this does motivate some. The first headline reason is to get the fund tax exemptions. So you could set up a company, a Singapore companies, which is your fund management company. This gets the tax exemptions, and this enables you to trade actively without attracting tax at the company level in Singapore. You can trade investments, and this is very attractive to real fund managers who can trade actively without attracting tax. For the average private banking clients, they keep their investments in Singapore, they can execute trades

completely tax free today anyway. There's a difference between investing and trading. Most private banking clients are investing. They will buy stocks, they'll sell stocks, they'll buy bonds, they'll be taking advice from their private bankers.

But what falls under normal investment activity is not taxable here. It's not taxable in Hong Kong, it's not taxable in many countries. The fund tax exemption really only applies to people who want to actively trade. There are people who actually don't need the fund tax exemption, but they're applying for anyway because they want the second incentive. The second incentive, which I've touched on already is the employment passes. This is the key driver. And we're seeing a lot, there's a lot of interest, for example, from mainland China and the clients from there constitute quite a high percentage of people who are getting family offices here. But there are other real reasons why you might want a family office, which has nothing to do with tax exemptions or employment passes. And that is simply a mechanism for your family wealth to be continued over generations in a smooth way without being in the personal ownership of a patriarch who will pass away and then a child that will pass away and then a grandchild who will pass away.

You can set up a structure, perhaps a trust, which will last a long time, a hundred years if it's a Singapore trust, forever if you've used the trust law of a different jurisdiction. To manage the family wealth, you see families like the Kennedys, wealthy American families typically do this. You set up a trust to manage the family wealth separate from the family business, which may be continuing alongside or sometimes it actually disappears and the family business becomes managing the family wealth. You have a small group of people running the family office, maintaining, growing the family wealth where the broader family are the beneficiaries. So to have a family office for smooth, efficient administration of wealth, keeping the wealth together so you can benefit from size and getting institutional rates on investments, that is a very good reason to have a family office. And then where you situate it then depends on sort of lots of other factors.

Family offices are a good thing as long as they're well understood and you know why you want it. What we're seeing now is a bubble, which I think is motivated by a couple of specific drivers and it remains to be seen how this pans out in the end. ■

