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Family Wealth in Asia

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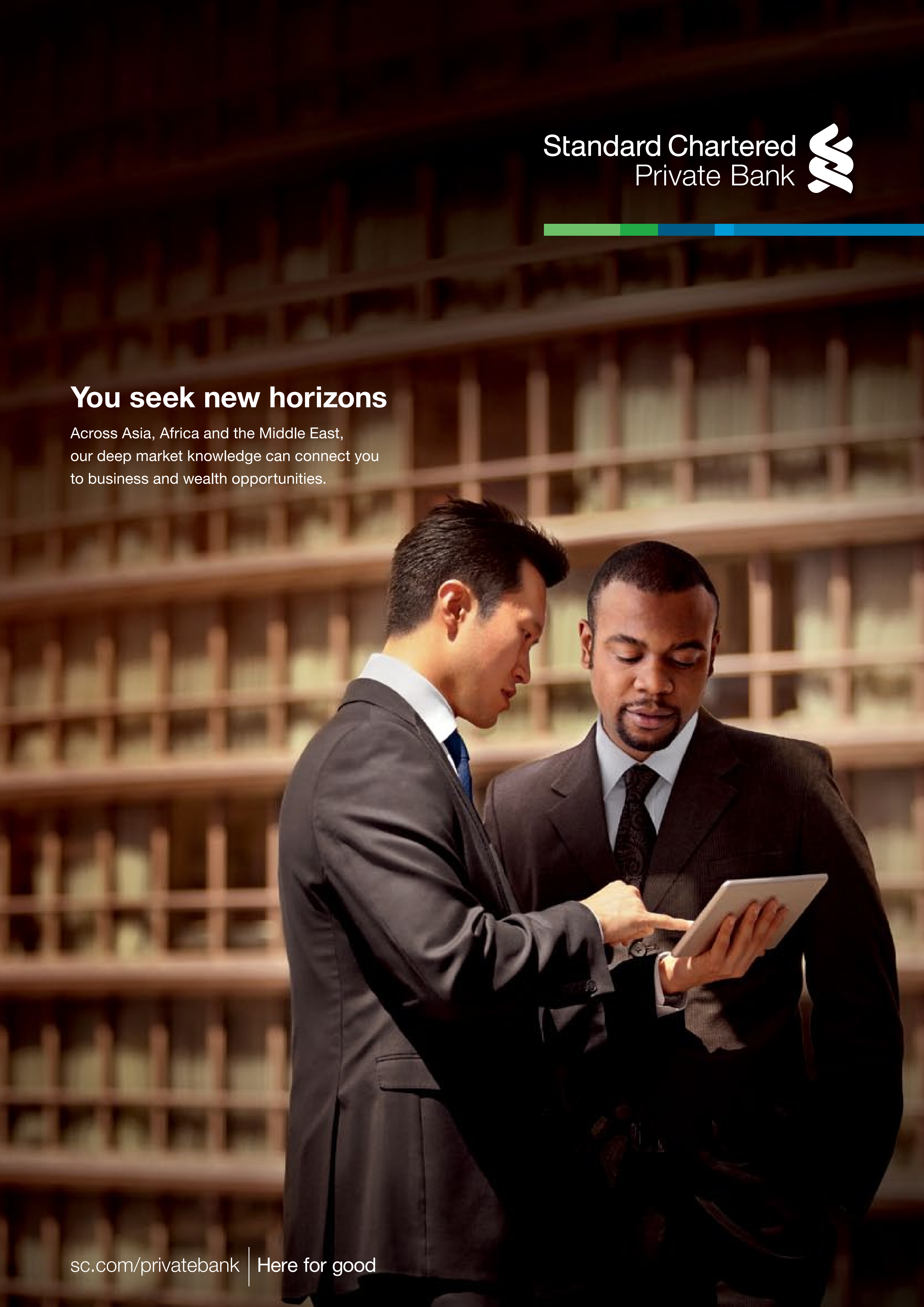
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Foreword

Welcome to Hubbis' second annual flagship publication that analyses the latest developments with regard to managing the wealth of Asia's growing number of HNW and UHNW families.

Their requirements are wide-ranging, but include the need to adapt to an increasingly transparent world, due to a demanding regulatory environment.

The coming introduction of Automatic Exchange of Information promises to profoundly affect the operations of today's industry practitioners, raising compliance costs and leading to questions about the relevance or suitability of many existing structures.

The region's private banks, trustees and other professional advisory firms need to respond to this onset of regulation if they want to survive and flourish.

The manner in which they do so is likely to redefine the wealth planning landscape over the coming years.

In addition, the issue of business and family succession planning is ever-pressing for the post-war generation of business creators and entrepreneurs. Asset preservation requires some frank discussions within families about how best to manage their wealth from a mix of structuring, business, personal and social perspectives.

This publication includes insightful views and analysis from many of the region's leading practitioners in this community – including private bankers, lawyers, family offices and other professional advisers.

The independent content contains practical opinions and case studies, focusing on specific challenges that HNW and UHNW families in Asia face, and the strategic options for addressing them.

This is an initiative I am pleased to support and be a part of. I hope you will enjoy reading these valuable insights.

MICHAEL BENZ
GLOBAL HEAD, PRIVATE BANKING CLIENTS
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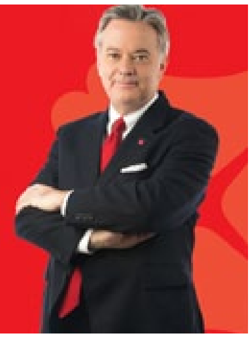






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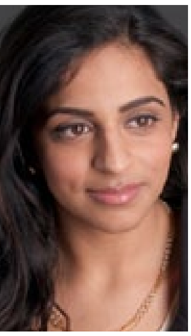
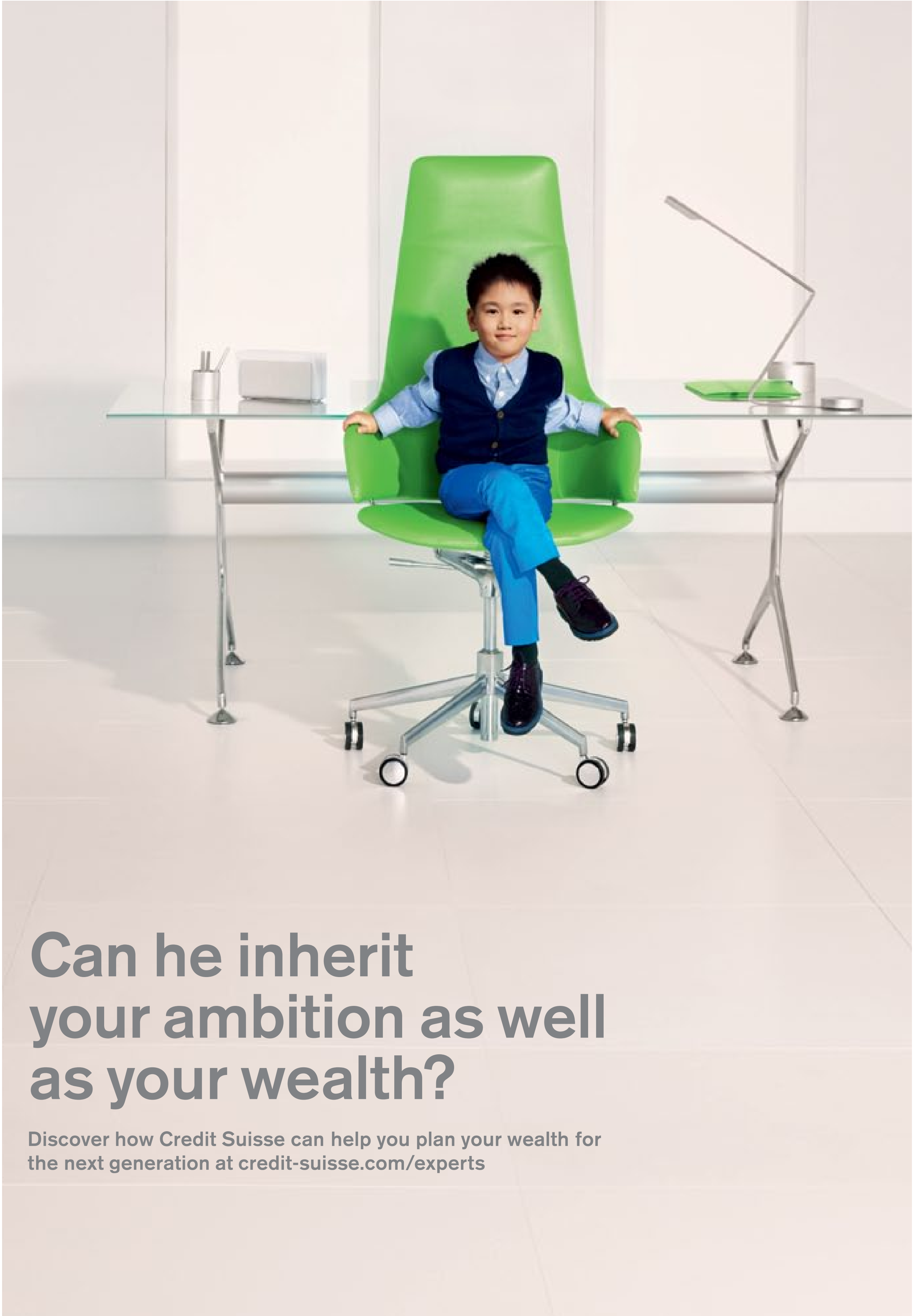


Expert Insights

Roundtable Summary

CREDIT SUISSE











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Directory

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80%+

Armando Rosselli of Coutts' estimate of the amount of businesses in Asia that are owned by families

Page 2

40.7%

The amount of Asia Pacific HNW individuals focused on wealth growth, according The World Wealth Report 2014

Page 40

US$1.7 trillion

The estimated amount of HNW wealth in Asia that is held offshore

Page 45

60-70 basis points

Private bank revenue margins today, according to E&Y's Re-thinking Private Banking in Asia report

Page 52

US$350,000

The minimum amount of assets that some banks require customers to hold in order to offer them premier banking services.

Page 62

88%

The percentage of Asian HNW families completely or somewhat unprepared for succession, according to the JP Morgan Asia Family Enterprise Study

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Understanding Asia's family wealth dynamics

Succession issues are becoming a genuine concern for many of the entrepreneurs who have inspired the region's ongoing boom in the numbers of wealthy families and individuals. They need to consider such factors as they make their plans.

The world's economic pendulum continues to swing in Asia's favour.

The region's combination of young, cheap workers – and increasingly affluent consumers – is helping businesses flourish in every country. This in turn has enabled thousands of individuals to rise into the ranks of the wealthy, and more are set to do so over the coming decade.

The Capgemini and RBC Wealth Management *Asia Pacific Wealth Report of 2014* notes the number of HNW individuals in the region grew 17.3% in 2013, and their wealth increased by 18.2%. This compares favourably with figures of 13.5% and 12.3% in the rest of the world. It is a similar story with UHNW individuals and families.

This trend is only continuing. By 2018, Asia Pacific is expected to reach US$76.9 trillion, more than one-third of the global total, according to the BCG Global Wealth Market Sizing Database. This momentum has provided Asia's wealthy families with some distinct characteristics compared to their European or North American peers.

"It is estimated that over US$1 trillion will change generational hands over the next 20 years."

ARMANDO ROSSELLI
Coutts

To begin with, a far greater proportion of the wealth in Asia has been formed relatively recently. As a result, it largely resides in the hands of first generation entrepreneurs and business owners, and is still linked to their business. But this is set to change.

"Studies estimate that more than 80% of businesses in Asia are family-owned and that family conglomerates are the dominant owners of wealth," says Armando Rosselli, head of tax and wealth structuring for Coutts. "It is also estimated that over US$1 trillion [of this

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"I have been around for 27 years in the financial industry but over the past eight months we have seen non-stop compliance requests."

CAROL SEAH
Wynnes Family Group

Although the areas of wealth creation might be shifting, wealthy families across Asia increasingly share one thing in common: an increasing need for succession planning.

"Asia is on the cusp of an inter-generational transfer of wealth, for the first time among many creators and owners of wealth," says Nisha Singh, a senior associate in the private client practice of Berwin Leighton Paisner in Singapore. "Accordingly, the need to consider succession planning in a broader context wealth] will change generational hands over the next 20 years."

"In jurisdictions where wealth is more established, we now see second and even third generations coming to the forefront as the stewards of their family legacies," adds Vicky Wong, head of key client solutions at LGT.

Asset concentration and the coming transition of wealth means it is particularly important for a patriarch or matriarch to plan how to seamlessly pass assets to the next generation. They would be well-advised to give such plans a lot of thought if they are ensure the financial certainty of their families for several generations to come.

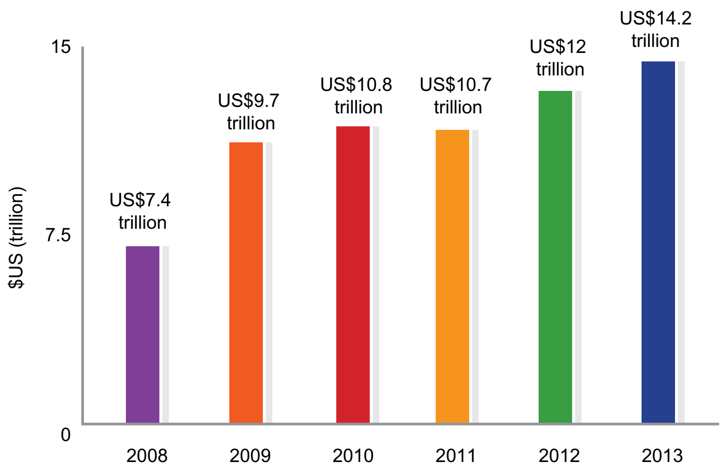
INTER-GENERATIONAL ISSUES

The rapid expansion of wealthy people in Asia has been due to the region's ability to offer low cost manufacturing and an expanding consumer class.

These dynamics are likely to shift within the region, with North Asian countries in particular greying and demanding higher wages, and some South and South-east Asian economies taking up the slack. But the wealth creation potential remains.

"Asia is on the cusp of an inter-generational transfer of wealth, for the first time among many creators and owners of wealth. Accordingly, the need to consider succession planning in a broader context has arisen for the first time across much of this [wealth management] industry."

ASIA-PACIFIC HNW WEALTH, 2008-2013



Source: Capgemini Financial Services Analysis, 2014

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has arisen for the first time across much of this [wealth management] industry."

Many of today's leading regional businesses were established in the decades following World War II, and have flourished in the years since.

Their founders have aged with them. Many are in their 70s or 80s, including the very wealthiest. Li Ka-Shing, Asia's richest man, is 86 years-old; Galaxy Entertainment Group gambling mogul Lui Che-Woo is 85, South-east Asian tycoon Robert Kuok is 91, and Malaysia's Ananda Krishnan is 77. According to JP Morgan, 67% of the Chinese entrepreneurs featured in the 2014 *Fortune Magazine* 500 Richest List are over 50.

Most first generation company founders are heavily involved in running their businesses, and have only diversified their wealth to a small degree. Richard Norridge, lead partner in the Asia private wealth practice of Herbert Smith Freehills, notes the wealth of European investors is typically invested in a wide range of assets.

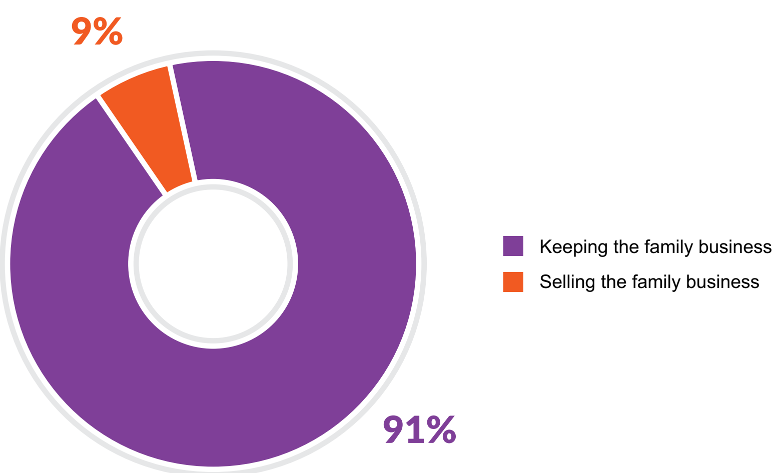
"Given the level of regulatory change, it is important that they are 'properly advised' to make sure that they set up an optimal structure."

SIMON NG
RBC Wealth Management

"A large number of families in Europe or North America sold out of their businesses a long time ago. But the majority of private wealth in Asia is in private companies."

In contrast Asian HNW families have over 80% of their net worth sitting directly in their family businesses or through corporate ownership structures.

AMOUNT OF HNW FAMILIES SEEKING TO SELL THEIR BUSINESSES



Source: J.P. Morgan Private Bank

CORPORATE CONCENTRATION

"A large number of families in Europe or North America sold out of their businesses a long time ago," explains Norridge. "But the vast majority of private wealth here in Asia is wrapped up in private companies. This includes old school manufacturing companies in China, as well as large amounts of real estate in the region, and increasingly in other property markets such as London and Australia."

These business investments are often quite active. Norridge notes that one client's family has a net worth of over US$30 billion, yet it has continued to actively purchase new interests, including sometimes buying businesses.

However, these families need to embrace the concept of structured succession

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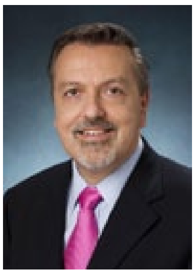

Philippe Legrand - CEO
Philippe brings nearly 30 years of experience with International banks in private, corporate and Investment banking. He developed the Asian private banking platform for Rabobank/Sarasin in the late 1990's and subsequently headed the Private Banking North Asian operations of ABN AMRO. Before setting up L&C, he was Deputy CEO of BNP Paribas Wealth Management North Asia, a group for which he worked for more than 13 years. Based in Hong Kong since 1995 he has also worked in Europe, North America and India. Philippe speaks fluent English and French.

Sanam Ramchandani - Deputy CEO
Sanam brings nearly 30 years of experience in the International financial Industry. Before founding L&C Asia, she was Managing Director at BNP Paribas Wealth Management. Her experience of close to 20 years in wealth management also includes managing senior private bankers in both BNP Paribas, ABN AMRO and Rabobank. Prior to that, Sanam held various positions at Ernst & Young and the Rockefeller Family Office. Sanam is fluent in English, Cantonese, Hindi and Sindhi.

Benson Wong - Managing Director, Corporate Advisory
Benson brings nearly 25 years of experience in Investment Banking and has transacted more than US$12 billion in mergers and acquisitions, capital markets and corporate advisory deals. He was most recently head of Greater China Debt Capital Markets (DCM) at BNP Paribas. Prior to that he was head of DCM at Bank of China and a Director in mergers and acquisitions at ING Barings. Benson speaks fluent English, Mandarin, Cantonese and Shanghainese.

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planning soon if they wish to maintain the health of the business supporting most of their wealth.

The JP Morgan Private Bank *Asia Family Enterprise Study*, which was released in April, notes that 91% of the HNW families it interviewed intend to keep their family businesses. Yet 88% admitted to being somewhat or not at all prepared for succession.

Yet it's not an easy discussion for wealth planners to initiate, especially as discussing death is considered taboo in many Asian cultures, including China. But they will need to find a way to do so, if they are to look after the best interests of these families.

UNWELCOME EXPOSURE

One option for families considering how best to transition their wealth might be to look at the available options in trusts, or foundations.

Industry practitioners generally agree that HNW clients understanding of the concept of trusts is improving, although it remains well below that of their contemporaries in Europe or the US.

Establishing trusts can help families gain more certainty of asset succession, provided they are able to get over the psychological hurdle of no longer directly owning the assets.

One remedy to this has been the use of trusts in which families have more say in the management of the assets that they contain, such as VISTA trusts and private trust companies. One regional head of wealth planning at an international trustee argues that the use of trusts in Asia could well grow as modern social and demographic trends risk taking a toll on first generation wealth.

"Succession and trust planning will become more central to family wealth, as we see more divorces, and children, and the passing down of assets from one generation to the next," the head notes.

Although trusts can help smooth the transition of assets, one of the most appealing aspects of these structures – confidentiality – is fast being eroded.

The US introduction of FATCA in 2013 marked a step in this direction, with all banks and trusts having to fill out paperwork to confirm no clients or their client's businesses should pay tax.

These information disclosure requirements are set to become more onerous as jurisdictions introduce the OECD's Common Reporting Standards (CRS).

Under CRS, countries will agree to automatically send information about an individual and their wealth structures if requested to do so by another nation with which they have an agreement. Some argue this effectively eliminates private client confidentiality.

Carol Seah, the founder and chief executive officer of Wynnes Family Group, says this will only add to the compliance burdens being placed on private banks and trusts.

"I have been around for 27 years in the financial industry but over the past eight months we have seen non-stop compliance requests, and I am only dealing with a small retail financial advisory business," she says. "For the banks there is a great deal more to deal with."

"Succession and trust planning will become more central to family wealth, as we see more divorces, and children, and the passing down of assets from one generation to the next."

"In jurisdictions where wealth is more established, we now see second and even third generations coming to the forefront as the stewards of their family legacies."

VICKY WONG
LGT

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Simon Ng, head of trust and wealth planning for Asia at RBC Wealth Management, believes the changes just underline the importance for HNW individuals to gain professional advice about their wealth structures.

"Every client needs a structure that is independently advised by a legal and tax adviser," he says.

"Given the level of regulatory change, it is important that they are 'properly advised' to ensure they set up an optimal structure which is tax compliant and caters for their needs."

The regulatory scrutiny could lead HNW individuals to consider whether it is worth conducting offshore wealth structuring at all.

Although some wealthy individuals will do so to keep assets away from local regulators and political systems, others might decide it isn't worth the hassle.

Christopher Marquis, global head of wealth solutions at HSBC, believes onshore wealth planning will rise. "We are seeing a big trend towards clients looking onshore in terms of their private banking needs," he notes. "With all clients having to become fully compliant, it is likely more will decide to be regulated locally."

POSITIVE POTENTIAL

The overall outlook for wealthy families in the Asia Pacific region remains very rosy. The 2014 *World Wealth Report* predicts the region will continue to lead global wealth growth into 2016, adding US$4.6 trillion to investible wealth to take the region's total to US$18.8 trillion.

Yet while there should be more millionaires and billionaire families than ever in the coming years, they face unprecedented uncertainties.

These wealthy families need to consider how best to seamlessly transit their wealth from an increasingly elderly first generation and avoid family squabbles from frittering away their resources.

They would also be advised to better diversify their wealth, to ensure their financial futures are not entirely bound to the company that helped them rise into the ranks of the wealthy.

Additionally, the families need to be prepared for the onset of automatic information disclosure through CRS.

Industry practitioners should strongly advise families to seek out specialist taxation and wealth structuring advice to ensure their structures are compliant with these coming rules, and to decide whether they need to restructure their wealth plans. ■

"We are seeing a big trend towards clients looking onshore in terms of their private banking needs. With all clients having to become fully compliant, it is likely more will decide to be regulated locally."

Chinese opportunity

The flourishing HNW populace in China could offer the biggest opportunity for family wealth services in Asia.

The country boasts 758,000 HNW individuals, according to the Asia Pacific Wealth Report. Yet its strict capital rules and less sophisticated onshore wealth management services have left many families less versed in the concepts of wealth planning than their peers in most other countries.

"If you talk to a US or UK HNW individual they largely understand the concepts of wealth planning," says a leading private client-focused management consultant based in Hong Kong. "Typically China HNW individuals require more education."

Their tax planning and wealth needs are often linked to broader corporate plans, often selling stakes in their businesses or listing them outside of the mainland to raise wealth offshore. Plus China's unique demography also poses unique wealth planning issues. "China is quite different from other Asian countries because of the one child policy it had for so long," says Carol Seah, founder and chief executive officer of Wynnes Family Office. "When it comes to the transfer of wealth the patriarch usually has only one or two people to look to."

Beijing's attitude towards China's rising number of wealthy citizens could also prove important, says Britta Pfister of Rothschild Trust: "The attitude of China towards family wealth and wealth structuring could have a big impact on the industry in Asia."

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Why FATCA may be repealed

Dr Angelo Venardos of Heritage Trust Group explains that Common Reporting Standards (CRS), the "son of FATCA", may get push-back if FATCA is repealed in 2017.

The Foreign Account Tax Compliance Act (FATCA) – a law passed in 2010 to tackle the abuse of using offshore financial accounts for the purpose of evading US taxes – is now in effect after a two-year delay.

As it requires foreign financial institutions (FFIs) worldwide to identify and report to the US all financial accounts owned by US citizens and Green Card holder, many American are facing an enormous challenge while living and working abroad amid an expanding range of regulations, says Dr Angelo Venardos, chief executive officer of Heritage Trust Group.

GUILTY UNLESS PROVEN OTHERWISE

The basic principle of FATCA is the assumption that every financial account held by US Citizens overseas is potentially used for the purpose of evading US taxes.

Every American who lives in London, Zurich, Singapore or Hong Kong, for example, needs to have a bank account simply because they need to be able to write cheques and pay utility bills just like anywhere else.

The number of Americans living abroad is estimated to be 7.6 million worldwide – from whom there are about 440,000 IRS tax forms filed for Section 911 Foreign Earned Income Exclusion every year. The vast majority of overseas Americans who are not filing US taxes are not trying to evade taxes but in most cases simply believe they do not need to file because they do not owe anything or they know they fall underneath the exemption threshold allowed under Section 911.

UNINTENDED CONSEQUENCES

Banks and financial institutions around the world have been scrambling to put in place their own system of due diligence and building up an infrastructure for the purpose of identifying those individuals who may be subject to US tax liability.

ANGELO VENARDOS
Heritage Trust Group

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Yet, because the requirements for FATCA compliance are so cumbersome, there are an increasing number of cases in which Americans are reportedly denied banking services, particularly among those who are seeking to open a new account.

The impact on Americans living and working abroad has gone far and beyond. Whether you are a teacher working in China or a senior business executive running a multinational company in Asia, you are affected as long as you are American.

There are many affected people more than willing to fulfill their US tax obligations but who are very concerned about getting something wrong in a tax filing.

price that Americans have to pay in terms of their freedom and privacy is in fact tremendous.

To go after a small number of people in a way that takes away the freedom of 7.6 million Americans overseas is overreaching. Whether in the US or abroad, American citizens' freedom is recognized in the Constitution.

This is ultimately a bipartisan issue – whether one is a Democrat or Republican, one has the same concerns. It goes back to the question whether it is worth the freedom of every single American overseas.

The answer from the US Constitution is clearly no.

"There are an increasing number of cases in which Americans are reportedly denied banking services."

CONSTITUTIONALITY

Critics of FATCA have often cited the new law to be an infringement of freedom and the right to privacy of overseas Americans.

The fact that overseas Americans need to report all of their financial information of any asset or bank account to the IRS is staggering.

Conversely, in the US, the IRS must have reasonable cause and obtain a subpoena to be able to retrieve bank account information.

The increase in tax revenue expected from FATCA is relatively small, but, the

LEGAL GROUNDS FOR A CHALLENGE

With chapters in 40 different countries, Republicans Overseas has been garnering support from US officials and elected representatives to address the issues of FATCA deemed insensibly onerous. Republicans Overseas are about to launch a challenge to the constitutionality of FATCA in a US court of law on three major legal grounds.

The Intergovernmental Agreements (IGAs) are bilateral agreements signed between the US and partner countries and are designed to facilitate compliance for FATCA. There are two types of such agreement: Model 1 requires a foreign government to report to the IRS. Information collected from financial institutions within its jurisdiction, whereas FFIs report directly to the IRS under Model 2 without involving a foreign government.

Model 1 IGAs can be challenged under the Treaty Clause of the US Constitution because they have not been submitted to the US Senate for its advice and consent. These are essentially treaties with foreign governments.

Before the US signs a treaty, America needs to have it ratified by two-thirds of the Senate. Because this has not been properly done, Model 1 IGAs can be rendered unconstitutional.

Secondly, excessive reporting of personal information violates the Fourth Amendment to the US Constitution, by which "the right of the people to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures" is guaranteed.

When FFIs are required by law to report every detail of financial information of every US citizen abroad to the IRS unconditionally, it is in reality seizure without probable cause or warrant.

Thirdly, FATCA can be deemed a violation of the Eighth Amendment due to "cruel and unusual punishment" in the form of excessive fines and penalties. The 30% withholding tax (to be imposed on FFIs for non-compliance) is not a tax but instead a penalty designed to compel financial institutions to comply with FATCA and is grossly disproportionate to the offence of not complying with FATCA's mandates.

Similarly, fines and penalties also apply to the individual American.

If one has a bank account with US$100,000 and it has not been declared for four years, one can be fined up to US$50,000 for every one of those four years and could theoretically end up getting a US$200,000 fine.

Even if it is an account that has no interest payments or income tax obligation, one is still liable for the fine.

A TWO-PRONGED APPROACH

The legal challenge is part of a two-pronged "attack" on FATCA. On the legal side, Republicans Overseas will file a lawsuit to challenge the constitutionality of FATCA; on the legislative side, it will try to "repeal" FATCA through a bill that is likely to be part of an overall tax reform package.

Rand Paul, the Kentucky senator and 2016 Republican presidential hopeful, is leading the effort to repeal FATCA. Senator Paul formally introduced legislation in March in the Senate to reverse the main requirements of FATCA, saying the law has wrongly deprived American expatriates of access to banking services, violated their privacy and forced many to renounce their citizenship.

The senator first introduced legislation in 2013 to reverse the impact of FATCA, but it went nowhere in a Democratic-controlled Senate. With Republicans now in charge, he hopes to move the bill to the floor for a vote. It has no co-sponsors yet and was referred to the Senate Committee on Foreign Relations for initial review.

Whether the bill advances or not, it gives Senator Paul a forum to raise some of his favorite issues - tax fairness, privacy and government overreach - as he gears up his 2016 presidential bid.

The lawsuit is actually complementary to legislative efforts of Republicans Overseas because it makes it easier to gather support once people start seeing the process and understanding more about the issues.

FATCA AS A BIPARTISAN ISSUE

These are obviously fundamental rights that are very important to every American. Through the lawsuit the Republicans Overseas are trying to serve a purpose in addressing issues that are not as well understood in US domestic politics but could affect the lives of millions of overseas Americans as well as some domestic Americans.

In 2014, 3,415 renounced their American citizenship, up from the 231 who did so in 2008.

There are after all some 7.6 million Americans living overseas in countries all over the world.

Collectively, it's the 13th largest "state" in the union based on population.

> **"There are an increasing number of cases in which Americans are reportedly denied banking services."**

FATCA statistics

80,000+ the number of financial institutions that have registered with the US government

80+ the number of countries the US has reached final of provisional agreement with for streamlined information exchange, including the Cayman Islands and beginning discussions with China

45,000 the number of US taxpayers who revealed offshore bank accounts through the IRS offshore voluntary disclosure programs (OVDP) since 2009

30 the number of banking professionals charged by the Department of Justice in offshore tax evasion matters from 2008 to April 2003

60 the number of US taxpayers charged by the Department of Justice in offshore tax evasion matters from 2008 to April 2013

2,999 the number of US citizens who renounced their citizenship in 2013, the highest number on record

OUTLOOK

Should FATCA be repealed, and the US takes it cards off the table, this leaves only the UK and EU to play with the "Son of FATCA". Common Reporting Standards (CRS) which are bilateral, not unilateral, and residency based, not citizenship driven, will most likely get push back.

So the horse may have bolted, but the pendulum may swing back to a healthy level playing field. ■

Wealthy families need good advisers, not product pushers

Private banks and individual advisers can best assist wealthy families by fully listening to their needs and helping to arrange effective succession planning, said industry experts at Hubbis' inaugural Building the Skills You Need for Success in Wealth Management Forum 2015 in Singapore.

Relationship managers (RMs) looking to offer true value when dealing with wealthy families need to be patient and truly listen to the needs of their clients before offering various investment and financial solutions.

This was according to practitioners at Hubbis' first-ever skills-focused forum in Singapore.

"You need to be able to discuss the transfer of wealth between generations, which requires a company or wealth manager who can cut across generations," said Yash Mishra, managing director and head of private clients at Taurus Wealth.

"You need to be able to connect with 11-year olds, [for example,] as well as their 50-year old mum and dad, and a 70- or 80-year old patriarch," she added. "And you have to deal with them all as you cannot be sure who the decision maker is."

"It takes sitting down and listening to where they [the family] are today; getting their story."

TERRY ALAN FARRIS
Taurus Wealth Advisors

Mishra added a big part of an adviser's role is to discuss what the family needs.

Her colleague Terry Alan Farris, managing director and head of family governance and philanthropy at Taurus, added that this often requires getting to know a family and understanding what [wealth and assets] they have and what their goals are.

"It takes sitting down and listening to where they are today; getting their story," he explained.

Yet gaining such intimate details takes trust, which is not something quickly earned, underlined Kees Stoute, the former chief executive for South-east Asia at EFG Bank, and now managing director at Hubbis.

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"You need to be able to discuss the transfer of wealth between generations."

YASH MISHRA
Taurus Wealth Advisors

"You need to be able to connect with 11-year olds, [for example,] as well as their 50-year old mum and dad, and a 70- or 80-year old patriarch."

"If I go and meet a client and say 'Hi, I'm Kees, I'm in private banking and here to help,' the client won't necessarily believe that I'm there to help, and if he does he may think I'm moving them towards a deal."

Stoute noted that the important factor for RMs was not to focus on what they wanted from the relationship, but how to help the client.

And to do so effectively, they need to start by learning about the client. "Don't go and ask silly questions such as 'How can I help you?'," Stoute said. "You should begin by saying 'will you allow me to ask you a few questions?' They will normally say 'yes' and then you can control the conversation."

Farris added that building the trust can take a lot of time and patience. "We often have conversations three or four years before they are willing to move forward," he said.

FIRST IMPRESSIONS

Mishra noted the key factor to consider is that many wealthy families approach new RMs from a cautious – even sceptical – perspective. "Many have a negative investment experience because a bank did a bad job somewhere. So you need to listen without judgement and then consider how to move forward and add value for them."

She advised RMs to ask open-ended questions about what the client is doing, and only when the RM has listened fully can they end up saying 'perhaps we can help you on this'.

Farris said that it was particularly important for the RM and the family to come up with a particular plan and set of goals, which is agreed upon by all members. That way, he explained, there is less chance of miscommunication and disappointment. "Good governance comes down to a family setting for themselves rules of engagement," he said. "We can help with family governance, walking them through the values and their mission. We then take 10 to 12 key issues and areas of risk management, and put together a model."

This frequently involves creating a family charter or constitution. And getting the approval on such a thing often takes the first generation family patriarch, Farris said. "If the patriarch is the one who sets up the business and says 'this is how it's done', then he is the one who most needs to be convinced," he added.

SUCCESSION PLANNING

Stoute noted that it's vital for RMs to work with families to prepare proper succession planning and agree on a proper division of assets.

Even families that believe they get along well together can see internal harmony collapse when it comes to squabbles over asset succession. "Back in 1995 I met two brothers, who ran a large and successful business," he recalled. "One brother had a son in the company, and the others were not there. We told the brothers that as they had good harmony in the company they should consider succession planning at that time, because they didn't want to get into a situation where somebody died and everybody ended up fighting."

Now, Stoute added, 15 years later, it has become clear that Chinese clients are like everyone else [when it comes to in-fighting over wills and succession]. "Singapore is the number-one place in the world when it comes to court cases for families against each other." ■

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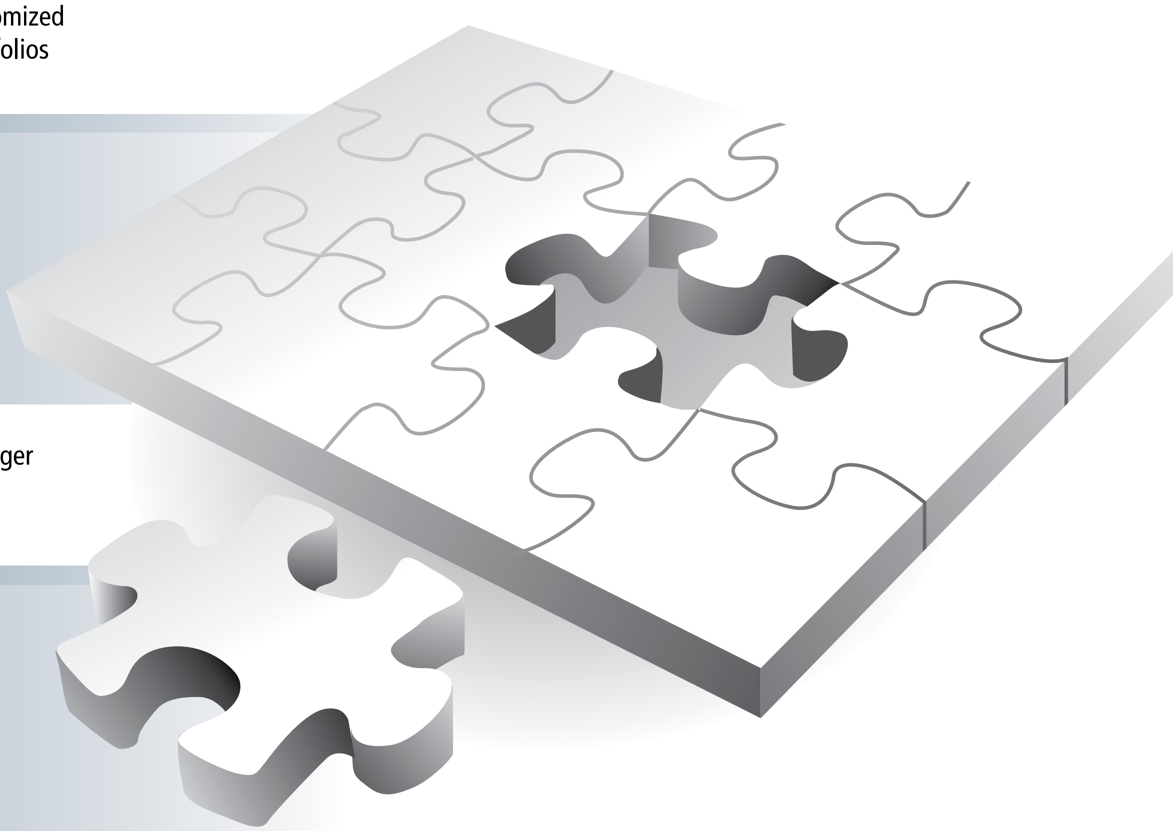

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Size and scale to prove vital in a consolidating market

More private banks could divest their Asia operations or wealth planning departments as they struggle to make money in wealth management. Christopher Marquis explains how HSBC Private Bank aims to be one of the industry's winners.

High operating costs, disappointing levels of AUM and increasingly onerous compliance requirements are likely to force more private banks operating in Asia to retrench or consolidate.

Institutions wishing to continue offering wealth planning capabilities require economies of scale, client knowledge and a genuine service advantage, believes Christopher Marquis, the global head of private wealth solutions at HSBC Private Bank.

"To succeed in wealth planning today you increasingly need a critical mass, because the cost of doing business has risen in the past few years," he says.

HSBC Private Bank's private wealth solutions business certainly possesses this attribute. "Globally, we have over 500 people dedicated to this business and ensuring we are up to speed with [industry regulatory] changes," notes Marquis. "In terms of private wealth solutions, we are the oldest and largest business in Asia."

COMPETITIVE ADVANTAGE

He says HSBC as a whole benefits from the longstanding relationships it has with business leaders and companies in Hong Kong and beyond.

"Many of our private clients are also corporate clients, and as a result we understand a lot about how they created their wealth, what businesses they are invested in and what these do," says Marquis.

This is important because Asia's rich people are often business owners. McKinsey's *Global Wealth Management Survey 2014* says over 40% of China's HNW individuals are entrepreneurs.

This client understanding has enabled HSBC's wealth succession and planning business to avoid discounting its services, unlike many of its rivals.

CHRISTOPHER MARQUIS
HSBC Private Bank

"We operate as a profit centre and as such we have to meet all [the bank's operating] metrics in terms of revenue growth and profitability, whereas some of our rivals have tended to run their trust divisions as a loss leader in an attempt to attract assets and to charge on the discretionary and advisory [investment] side," says Marquis.

He argues that HSBC Private Bank can offer in-depth and technical advice when it comes to effectively transitioning their wealth. "Several clients have come back to us and told us they appreciate the level of support we offer, after having experienced the service offered by other institutions."

For example, HSBC Private Bank's private wealth solutions business offers some HNW clients consolidated reporting of their wealth positions in structures, which can be analysed across industries, jurisdictions, geographies, asset types and other metrics.

It also offers analytics on the investments that a client's trust has with different private banks or independent asset managers, allowing them to consider which institutions are performing well and their risk exposure.

"Each bank operating in the wealth planning business needs to discover and then focus on what it is best at," Marquis says. "We are all under margin pressure, so banks that do not do particularly well in one area should divest it if they want to maintain a healthy business."

CLIENT EDUCATION

Another issue common to all private banks is the need to become more transparent. Governments across the world are seeking more information about their citizens' wealth to reduce tax evasion and money laundering.

HSBC found itself at the sharp end of these efforts in February 2015, when news emerged that its Swiss private banking division was being investigated for helping clients evade taxes eight years earlier.

Stuart Gulliver, the bank's chief executive, said at the time such behaviour was "unacceptable" and that HSBC had put its entire private banking customer base through "enhanced due diligence and tax transparency filters", as well as aiming to implement Common Reporting Standards (CRS) and other measures.

Marquis underlines that all banks and fiduciary service providers must fully live up to their information disclosure responsibilities and explain the ramifications to clients.

"Significantly more client information will be shared with governments through CRS and other initiatives," he says. "It's our role to ensure that our clients both understand and are fully compliant with these requirements."

HSBC's private wealth solutions division has taken a two-pronged approach.

"We have a dedicated legal team looking after all the issues surrounding regulations, which is vital because we are the legal owner of a trust's assets," says Marquis. "Additionally, we have dedicated project teams working on all regulatory initiatives, to understand the effect of these changes on all aspects of the business."

After researching new regulations, the bank reaches out to its clients to discuss the impact on their confidentiality and service needs.

"Complying with the new rules might be more costly, but it will help create a more responsible industry." ■

Succession concerns

Christopher Marquis of HSBC Private Bank says transitioning wealth from one generation to the next is one of the primary concerns of HNW clients in Asia.

"Patriarchs work hard to create and manage this wealth, but they wonder who will oversee it in the future, and how they manage potentially diverse family branches that have different perspectives [on this issue]," he notes.

HSBC Private Bank attempts to address such concerns by offering expert forums.

"We offer family enterprise events that bring commercial bank and private bank clients together to talk about these issues," says Marquis. "It offers them a chance to understand the experiences of those who have been through the process, to help them see the value of proper succession planning."

Failing to prepare for the inheritance of family wealth can be damaging. At best it can fracture a family's wealth. At worst it can lead to expensive and damaging inter-family feuding. It can be difficult and costly to repair the problems raised by insufficient succession planning.

"Families passing wealth to the second generation without a plan can see it fragment," says Marquis. "Nobody is in control, which stifles decision-making and can lead to loss of control premium. Some clients ask 'how can we put this back together?', but rarely can it be repaired. Inevitably some of the second generation want to monetise their inheritance."

Taking advantage of the family wealth opportunity

The rise in the number of wealthy people in the region offers service providers many chances to build their businesses, so long as they can demonstrate the value of the services they offer. This could be easier said than done.

Asia's family wealth industry offers a tantalising combination to service practitioners. This consists of a rapidly-expanding base of HNW individuals, yet most of them place relatively small amounts of assets into wealth structures or investments.

Convincing the region's wealthy families of the wisdom of transferring more of these assets into their management is vital if the regions private bankers, trustees, lawyers and investment advisers are to thrive.

"Clients are increasingly finding that different professionals have their niche strengths and see banks and multi-family offices or independent advisers as having different roles to play."

CHARLES LUCHANGCO
Convergence Capital

The lack of formalised family wealth advice in the region is notable, particularly when comparing Asia to other regions. Insead estimated that there were some 100 to 200 family offices in Asia as of the end of 2013. This compares to about 1,000 in Europe and 3,000 in the US.

Market participants say the opportunities in Asia are plentiful.

"Wealth succession and structuring increasingly provides opportunities for wealth managers," says Armando Rosselli, head of wealth and tax structuring at Coutts. "On one hand some clients are seeking further sophistication, advice and structuring alternatives. At the opposite end of the spectrum, in some jurisdictions and for a variety of reasons, wealth succession and structuring are in their infancy and wealth managers have a unique opportunity to lead the conversation around advice and structuring options."

Although the potential scope for advisers is large, practitioners caution that the needs of Asian clients tend to differ from their more cautious Western peers. "It's good to be mindful that, by and large,

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"In some jurisdictions wealth succession and structuring are in their infancy and wealth managers have a unique opportunity to lead the conversation around advice and structuring options."

Asian HNW individuals are first- and second-generation entrepreneurs. And their focus remains on wealth creation," says Jason Lai, founder of Thirdrock Group, an independent asset management firm.

"Clients are increasingly finding that different professionals have their niche strengths and see banks and multi-family offices (MFOs) or independent advisers as having different roles to play," adds Charles Luchangco, founder and principal of Convergence Capital.

OFFERING VALUE

Family wealth practitioners say impressing and gaining the confidence – and business – of clients is relatively simple: advisers should be clear, honest, insightful and responsive.

These concepts are ones that too few advisers follows today.

"It may sound simple or obvious in practice, but experience tells us [advisers who follow such tents are] the exception and not the norm," says Luchangco.

"Following the economic crisis and the experience faced by investors, especially HNW investors, there is still a big gap in trust between them and many of their advisers, including the banks, lawyers, trust advisers or investment managers," adds Noor Quek, founder and managing director of NQ International.

"Everybody is looking to offer discretionary advice and management because it offers good and steady fee-based income, but who is willing to pay for advice or entrust their money unless they feel totally comfortable with the professionalism and integrity of the adviser? Many prefer to manage their own funds, which in itself may also not be a viable alternative."

Wealth planners that listen to family needs before offering an array of advice are likely to succeed, agrees Rosselli.

"Take the time to listen and understand the client circumstances and objectives," he says. "These [objectives] are increasingly complex, multi-jurisdictional and require sophisticated advisory skills and related solutions."

He notes that it is also important to only introduce complexity to the wealth plan-

"Clients are increasingly finding that different professionals have their niche strengths and see banks and multi-family offices or independent advisers as having different roles to play."

"There is still a big gap in trust between them and many of their advisers, including the banks, lawyers, trust advisers or investment managers."

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> **"Too many flail away at different business models as soon as they see the environment change. These are still developing economies; change is inevitable."**
>
> **CLIFFORD NG**
> Zhong Lun

> **"Often families don't think of themselves as an enterprise, but a family with money. It means they are typically not organised, and unless they take time to do so they risk being unprepared if anything goes wrong."**

ning model gradually, and that this should be balanced by the ability to position a whole firm's suite of services and products.

"It is also important that advisers have the softer skills of empathy, understanding of family dynamics, listening and coaching to really assist their clients to plan for the future," he adds.

At least for now, lending and investment management fees are set to remain the largest sources of advisory revenue. However, Rosselli says it is important for advisers to try and diversify the types and sources of revenues

"Structuring can also play a key role," he notes. "Aside from traditional fiduciary and insurance revenues, fee-based advice will gain importance going forward. This will also include advice on family governance and philanthropy."

Clifford Ng, a partner covering cross border structuring and transactions at law firm Zhong Lun, adds some simple advice on how advisers can best add value to HNW clients: "Find a focus and competence and stick to it," he says. "Too many flail away at different business models as soon as they see the environment change. These are still developing economies; change is inevitable."

FAMILY OFFICE OPPORTUNITY

One obvious area in Asian wealth planning set for growth is the family office space. Advisers say the increase in very wealthy families in the region has created a similar need for more unbiased, independent advice.

The big issue is getting rich families to the stage where they are prepared to trust and pay professionals to advise and invest on their behalf. This means the key immediate opportunity to serve wealthy families might reside in the single family office space.

"More single family offices will emerge in Asia because families here need to get more organised about how they manage their wealth," says the chief executive officer of a Singapore-based MFO. "Often the biggest issue is that the families don't think of themselves as an enterprise, but a family with money. It means they are typically not organised, and unless they take time to reflect and organise they risk being unprepared if anything goes wrong."

Although establishing a single family office makes sense for many of the region's top-tier UHNW individuals, clients worth slightly less – perhaps US$100 million to US$1 billion – have the option of joining an MFO.

The key challenge for these organisations is to gain client trust at the outset. "The difficulty is getting them to agree to join an MFO; your clients may well say 'I don't want other clients knowing about me'," says the joint-head of a family office based in Hong Kong.

Luchangco believes MFOs can best overcome the secretive nature of clients by demonstrating that they fully reflect the needs of the client, provide a variety of high-quality services, and have no hidden agenda. Provided an MFO can do this, it has a lot of opportunity to satisfy the HNW family's needs.

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"Clients like the continuity of MFOs as they have a one-point contact with skin in the game for the founders," he says. "Time after time we find that families are looking for advisers who sit on their side of the table, and can objectively evaluate risks and opportunities.

"Clients like the continuity of multi-family offices as they have a one-point contact with skin in the game for the founders. Time after time we find that families are looking for advisers who sit on their side of the table."

BEYOND INVESTMENT ADVICE

Another area in which wealth advisers can make their value felt is in their ability to combine investment with corporate and business advice.

"Given Asian clients do not always have a clear segregation between their corporate and financial management needs, they need a partner that understands and can help with these needs," says Lai.

FACT Family Office is offering HNW families personal and corporate advice and planning through a broader array of services. It will be opening an investment bank in Labuan, while applying for a licence in Hong Kong to conduct dealing, advising and management services for securities and assets.

"We are looking for a strategic partner for our investment bank in Labuan," says Patricia Bee Kuen Thomas, FACT's Hong Kong-based chief executive and an industry veteran who says she created the first immigration funds in Hong Kong in the 1990s. "Our HNW clients in Europe would like to have exposure to Asia, so our Labuan investment bank as well as our Hong Kong family office are being set up to cater to their needs."

Additionally, she believes there are plenty of opportunities for MFOs in particular to find cost-efficient solutions for HNW families through their open architecture platform and network of trust and estate companies.

FACT Family Office offers its HNW clients trust and foundation services out of Luxembourg and the Channel Islands, and has also set up an umbrella fund with unique features, in that an individual HNW family may own their own compartment within the umbrella. Thomas says this is cost effective and gives the family more direct access and control over its assets, while reducing administration work.

SUCCESSION PLANNING

Increasingly, asset protection and succession planning will lie at the core of most HNW family needs.

Asset protection is becoming more important, given the rising levels of divorce in the region and the danger of companies or even individuals having their assets become at risk in the event of legal disputes.

"Trusts can help to protect the assets of a client's family if the client's business goes wrong, or they face professional liability, or if a company director faces a situation in which they are in breach of his or her fiduciary duties," says Michael Shue, executive director for trust services of Vistra Hong Kong.

Meanwhile many of Asia's HNW business creators are reaching old age, and require high quality advice about passing on wealth to descendants. This offers an opportunity for trustees, MFOs and banks to offer good structuring advice.

"Trusts can help to protect the assets of client's family if a client's business goes wrong, or the client faces professional liability, or if a company director is in breach of their fiduciary duties."

MICHAEL SHUE
Vistra Hong Kong

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"There are vast opportunities for succession planning as, increasingly, UHNW clients in Asia look to ensure a smooth transition of their wealth and businesses for successive generations," says Lai of Thirdrock.

"Clients from emerging wealth will often start addressing needs around more immediate succession planning and asset pooling needs," adds Rosselli. "As the family evolves this will often develop into inward investments in a number of international markets (from liquid investments to unquoted businesses and real estate) and looking at family governance and philanthropy."

However, the opportunities are not yet easy to access. "Most [HNW clients] are still reluctant to bring in external advisors to formalise successions, whether through a contract or lasting structures such as a trust or foundation, [but] the concept is gaining ground," says Lai.

Kuen Thomas feels the concept of succession planning is likely to grow.

"Travel is so convenient and easy today, more and more parents are sending children abroad to learn languages or attend universities," she says. "Businesses are being moved and expanded into other countries, all of which require careful tax and succession planning."

The gradual transition of wealth also offers practitioners an investment opportunity. The second or third generations of families are more likely to diversify wealth away from the core business and into a broader array of investment.

Two types of investing could benefit from these trends: passive fund management and discretionary portfolio management (DPM).

Passive investing is likely to gain popularity as HNW investors seek exposure to markets they are confident will do well, but in which they want to avoid unnecessary risks.

Such an approach makes sense; actively managed funds seeking to outperform a benchmark tend to underperform passive ones that follow it. For example, Vanguard notes that 68% of US large-cap value equity funds underperformed their benchmarks between January 1, 2003 and December 31, 2013.

"We may see more clients look to the asset allocation of their investments as being more important than the advice they get in terms of their portfolios."

"We may see more clients look to the asset allocation of their investments as being more important than the advice they get in terms of their portfolios, and as a result they might trend towards passive investment management versus active," says the head of wealth planning at an international bank. "When they do that they commit to asset allocation across a 10-year time horizon."

Complimenting this is DPM. HNW individuals can pay a trusted investment professional to allocate a set level of assets with pre-agreed investment preferences and limitations, giving them the comfort of knowing their views are driving the portfolio manager's strategy.

"The preferred approach of many first-generation Asian entrepreneurs and HNW individuals has been to make all the investment decisions themselves," says Lai. "But with generational shifts taking place in the region, we're observing a marked change in the openness towards outsourcing some of their portfolio management and an increasing appetite for discretionary services, ranging from real estate and private equity to hedge funds."

PATIENCE REQUIRED

These services should offer opportunities to private banks, many of which offer arrays of investment products, advice and trust divisions. Added to this, private banks have only captured 10% to 20% of the HNW market in Asia Pacific, according to Ernst & Young's *Re-thinking Private Banking in Asia Pacific* report.

Yet it is not a clear-cut opportunity at a time when they face high costs and competition. Their biggest challenge is to stand out. They mostly offer similar investment products, lending, and access to club deals, which can make it difficult for them to demonstrate their value over rivals or independent advisers.

Smaller private banks, trustees and EAMs alike need to demonstrate their value beyond product selling to benefit from the growing wealth in Asia today.

This is likely to require patience to establish strong relationships, and a willingness to sacrifice short-term gains for stronger longer-term relationships. ■

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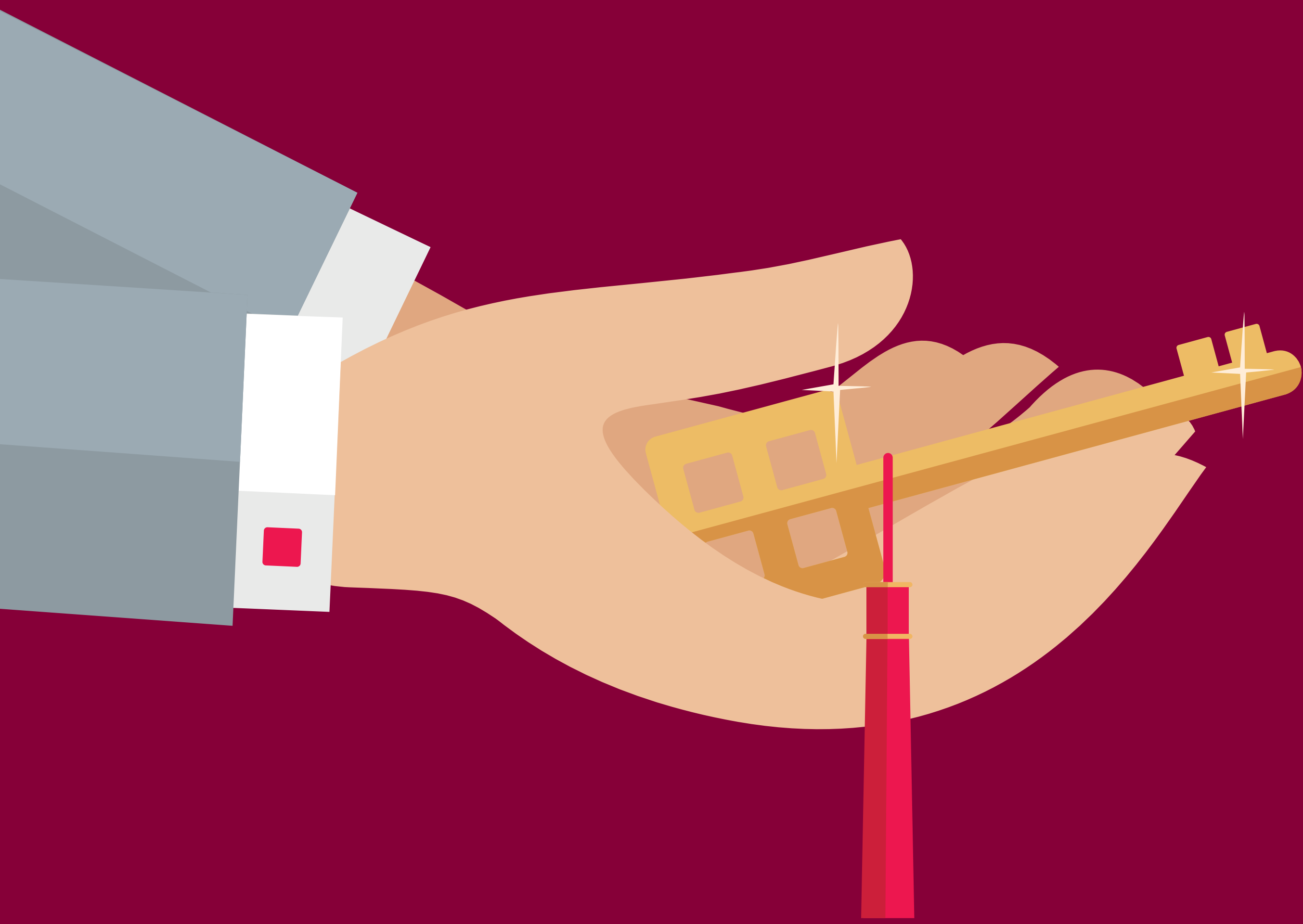

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How DBS can help families prepare for greater scrutiny

With the wealth of many families generally widely diversified across asset classes and geographies, understanding the implications of Common Reporting Standards and automatic exchange of information is critical to careful planning, says Peter Triggs, managing director of wealth planning at DBS Private Bank.

In a rapidly-changing world of financial advice, the importance of wealth structuring cannot be over-emphasised. And in particular for families with children, assets and business interests dispersed globally, the potential impact of borderless initiatives such as Common Reporting Standards (CRS) and Automatic Exchange of Information (AEOI) is too great to be left unaddressed.

However, many clients seem to either not understand, or they under-estimate, the implications for their overall financial situation – both today and into the next generation.

This should give private banks a very clear and tangible way to position their offering to create a competitive edge.

"The real service that private banks can provide for their major families over the next five to 10 years is to put serious wealth structuring at the centre of discussions," says Peter Triggs, managing director of wealth planning at DBS Private Bank.

Yet this needn't be a complicated thing to achieve. It is about educating the banker to ask the right questions, he adds, and also explaining the implications clearly to clients.

NOBODY KNOWS EVERYTHING

At first, many families didn't think AEOI would have much to do with them. But, as Triggs points out, a lot of families in Asia already have strong ties with the US and Europe. For example, their investment portfolios are often spread across multiple jurisdictions.

They tend to hold residency permits or have citizenships of other countries. And they likely have business interests which span the globe. While it's not easy to get a clear picture, families ticking many of these boxes need to reconsider their investment plans, vehicles and structures.

PETER TRIGGS
DBS Private Bank

These wealth solutions rely on an approach that involves gaining advice from multiple parties, but is coordinated by one person.

"What private banks need is a kind of quarterback, who can make sure the family understands the big picture and addresses some of the personal issues," says Triggs.

"That person has to be somebody who can direct the family towards the best advice in the different jurisdictions and can put together the whole map for them," he adds.

It isn't realistic to expect an individual private banker to be able to advise on complex wealth structures in such cases, he adds. Instead, it is about getting them to ask the right questions.

Knowing what these are, however, isn't as easy as it might seem to be from the outset or on the surface.

It requires experience, knowledge and understanding of different issues from one jurisdiction to the next.

Triggs proposes market-specific education for bankers that explains the scenarios, their possible implications and the related questions they need to ask their clients. This is on the cards for the relationship managers (RMs) at DBS Private Bank, in addition to their regular internal training programmes.

"We plan to roll out country-specific training," he says. "It's not so the bankers will know all the answers, but so they will know the right questions to ask."

CREATING LONG-TERM RELATIONSHIPS

It makes sense that one of the ways for banks and individual RMs to put themselves back into positions of genuine trust with their clients is by becoming cognisant of the issues, risks and needs of their clients amid the new world of complex financial regulation.

In addition to providing more targeted training for its bankers, DBS is planning to broaden and deepen the range of services and solutions it offers in relation to wealth structuring. Triggs is spearheading capabilities to advise clients in areas like business succession and helping them meet their various philanthropic goals.

"Engaging with the patriarch on wealth planning issues is something which we are putting at the centre of the plate," he explains. "We can also help clients on the retail banking side, the corporate side, or in the setting up of offices in Singapore. Being able to talk about everything that touches the financial interests of the family is a strength that we have over a pure-play private bank."

These capabilities don't always map directly to profitability.

"What private banks need is a quarterback, to make sure the family understands the big picture and addresses some personal issues."

For example, while offering trusts and similar solutions doesn't add hugely to the bottom line specifically, it helps the bank be able to keep client assets for much longer.

Further, these services improve a relationship by making clients feel secure, comfortable and open to in-depth discussion of their wealth and goals.

"If we take this approach, then we can add a lot of value to the families who are our clients, just at the time when they are most needed," says Triggs.

DEFINED VALUE

Combining a long-term mind-set with products and services that solve problems for wealthy families is a key step in creating an appealing value proposition at a time when regulators and a more transparent market environment have cast so much doubt over the value many industry players offer.

"The value proposition is what it is all about," says Triggs. "Increasingly, what clients are looking for is somebody who can talk to them about more than just investments, because actually they realise their problems now go far deeper than the rate of return on their portfolio."

DBS Private Bank has found what it believes to be an important niche.

"We are the largest bank in Southeast Asia. We are the safest bank in Asia. We are seen as the national bank in Singapore. Our value proposition is safety and access to Asia," he says.

"We can bring clients Asian opportunities with a degree of granularity that is deeper than a foreign bank which just happens to have an office in Singapore," he adds. ■

Bringing clients up to speed with CRS

The advent of Common Reporting Standards will have an impact on every private client with a wealth structure. Alan Taylor of EFG Wealth Solutions explains why relationship managers (RMs) should engage their private wealth clients on the matter.

IT WILL AFFECT ALL HNW CLIENTS

"It's important the relationship managers of private banks understand CRS (Common Reporting Standards) so they can explain the impact to their clients," says Alan Taylor, the managing director of EFG Wealth Solutions in Singapore.

"Clients need to understand the extent to which information about their wealth structures will be subject to disclosure to local and foreign tax authorities."

CONFIDENTIALITY IS GONE

The confidentiality and privacy of ones financial affairs can no longer be assured due to the current political movement to establish global transparency on tax matters. This is regardless of the type of structure used to hold and manage wealth. Clients need to be aware of this.

"Singapore has taken significant steps to develop its framework for the international exchange of information on tax matters," says Taylor. "For example, it has signed an IGA (inter-governmental agreement) with the US to enable compliance with FATCA and it has indicated its support for the OECD's Standard for the Automatic Exchange of Financial Information, commonly called CRS. Financial institutions are therefore legally obliged to report financial information on clients to the local tax authority."

In addition, if the Internal Revenue Authority of Singapore requests financial information on any client from a financial institution, it must now disclose it. The tax authorities say they will ask for such private client financial information only where there is a legitimate reason for doing so.

"We have to trust that the IRAS or any foreign tax authority will not embark on fishing expeditions, however once information is shared internationally it is impossible to know where it might end up," says Taylor.

Private clients who sought legitimate confidentiality for their wealth have to understand the remaining degree of confidentiality that can now be provided by financial institutions and wealth structuring, given the move to international tax transparency.

GET YOUR OWN LEGAL ADVICE

The message RMs should deliver to the clients is: get your own professional legal and tax advice on the ramifications of the automatic exchange of information on your wealth structures.

"We always tell RMs that their clients must get their own independent tax and legal advice on the nature and effect of setting up a structure and the tax consequences of doing so in the client's home jurisdiction, that now includes the impact of CRS," says Taylor. "It's an important message for the RM to deliver. Many clients are cost-conscious and don't understand the need for personal legal or tax advice." ■

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The difficulties of gaining a new client's trust

HNW individuals are often inundated with wealth planning advice from banks, advisers or lawyers. Trust companies can provide quality wealth structuring advice tailored to a client's circumstances, but don't always get the chance, says Markus Grossmann of Trident Trust.

Wealthy clients in Asia tend to be 'multi-advised', and so are often sceptical of new financial advisers and reluctant to pay for advice regarding their wealth and succession planning. It is therefore particularly important for independent trust companies to create a good first impression, says Markus Grossmann, managing director for Singapore, Hong Kong and New Zealand at Trident Trust.

Grossmann says many wealthy Asian clients are unaccustomed to paying for advice on wealth structuring.

"Once you start talking about fees, many discussions with prospective clients come to a halt and you often do not hear back from them, as they then tend to see whether they are able to get this advice for free from another adviser," he says. "To some extent, this is understandable: they don't necessarily know if the adviser they are talking to is competent to give them good advice and they may not be attuned to the different perspectives that advisers of different types can bring."

He says that clients who let independent trust companies assess their situation often realise their genuine understanding and then have very interesting conversations. But getting them to this point is the challenge. "Generally they are reluctant to pay for such preliminary advice until they have a very specific indication of what the proposed structure is going to look like."

This attitude stems partly from the fact that many private banks possess large wealth planning or advisory teams with substantial resources that the banking business model allows them to offer to the client for free.

MARKUS GROSSMANN
Trident Trust

Several law firms also advise on succession planning structures without friction over fees, as the concept of paying a lawyer by the hour for professional advice and guidance is quite culturally ingrained. However, many local lawyers lack sufficiently rounded experience to provide the necessary international wealth and succession planning advice.

> **“Asian families tend to be quite secretive about their plans. It’s like going to a doctor because you’re feeling sick and not telling him what your problem is, yet expecting him to provide a cure.”**

This provides an interesting opportunity for credible and well-established international trust companies that straddle the wealth planning teams within the banks and the local private client legal practices.

SECRETIVE DISPOSITION

A key challenge is to get wealthy families in Asia to open up about their needs.

“Asian families tend to be quite secretive about their personal situation and plans, their business and their assets,” says Grossmann. “It’s like going to a doctor because you’re feeling sick and not telling him what your problem is, yet expecting him to provide a cure.”

Again, private banks and lawyers enjoy an advantage, because they have often served the family in other areas for years. Grossmann believes the key for independent trust companies to gain such interest is to demonstrate the value they can offer immediately.

“The first meeting is very crucial, and it requires the prospective trustee to really ask the right questions about the client’s situation and needs, and demonstrate they understand what they are doing,” he says.

“This conversation should also cover various possible solutions, structures and jurisdictions on a global scale and international trust and corporate services providers are well placed for that kind of dialogue.”

Probably the best way for professional advisors to establish their value to HNW clients is to cooperate with private bankers and the private client legal practitioners. This in turn can create a productive tripartite partnership that benefits the client.

“Private bankers in Asia often hold a special position with HNW families; they are trusted and perceived as the sort of person that can ask appropriate questions about a family’s wealth and wealth planning needs,” says Grossmann. “Some banks introduce their own wealth planning team, but others come to independent, international firms like us. The private bankers serve as a crucial interface since they can provide the prospective trustee with invaluable insight into the family’s situation and wealth plans.”

PROVING WORTH

Although private bankers can help advisers get into the frame with their client, from that point it is up to the adviser to demonstrate their worth. This can come down to relevant expertise. Grossmann notes that many banks have little appetite for wealth structures that include non-financial assets, because it lies outside their expertise, while some local lawyers may lack relevant experience. However this gap is closing slowly.

“To use my previous analogy, it’s like going to a GP who only has three medicines in stock,” he says. “It’s wiser to go to a GP with a full pharmacy and who takes the time to ask the right questions about your symptoms, your issues and concerns, and then offer you a tailored course of medicine. Such a practitioner can do a thorough analysis, and if he happens to be out of his depth is likely to have [access to] a network of specialists.”

Grossmann says this helps distinguish Trident as an international trust company. “We try to find out as much as possible about the client’s background and needs so as to craft a tailored solution that best advances their goals. And from time to time we may tap the expertise of specialised legal and tax advisers who are better suited to advise on a specific area that we may be unfamiliar with.”

In contrast, other advisers such as local law firms may only possess expertise in certain jurisdictions. The risk of such limited advice is that clients establishing solutions that do not fully align with their goals or changing circumstances, or the various regulatory developments coming into force.

“The new transparency rules under the Common Reporting Standard mean some types of solutions will have to be completely restructured or wound down,” says Grossmann.

“If a more thorough job had been done when setting up the structures, there would be much less need for them to be changed.” ■

How RMs should discover a family's wealth structuring needs

Private banks that gauge a private client's priorities early in the relationship are more likely to offer accurate structuring solutions. Andrew Miller of Walkers offers some tips for how a relationship manager can get started.

ASCERTAIN THE CLIENT'S AIMS

"First, you need to ascertain what the aims of the client are," says Andrew Miller, the head of the global trusts group at Walkers. "These don't tend to be investment product-focused. Usually, wealthy clients – especially patriarchs – are more concerned with succession planning, or passing assets down to the next generation.

"They are also frequently thinking about business succession, and making sure there is a seamless transition of business assets down to the next generation. This can involve discussing issues of bringing on board the younger generation during the lifetime of client.

"The RMs (relationship managers) also need to think about whether asset protection is in the interests of the client."

This can be general, in terms of potential financial crises, and more personal, such as the client having a divorce, or an immediate family member going through one.

"Additionally, the banker needs to find out whether tax minimisation or simplification is part of the client's aims."

TAKE A HOLISTIC APPROACH TO ADVICE

"You need to take a holistic approach to all the advice you offer a client, considering all their possible needs given their situation," Miller adds.

"Sometimes a client can be quite narrowly focused in their aims, for example just focusing upon certain assets they want to pass on to the next generation.

"However, a well-trained and experienced RM ought to know that the client may well have all sorts of other issues to consider. These can be teased out through wide-ranging conversations about the situation of the client, their family, and their business."

CONSIDER CULTURAL SENSITIVITIES

Discussing a combination of succession, business, family and money encompasses a range of sensitive topics. Different cultures have different levels of sensitivity to discussing these.

Experienced RMs need to know the particulars of the client they serve, and always keep these in mind when conversing with them.

"These conversations have to be culturally sensitive," says Miller.

"For example, many RMs in Asia understand that it is considered unlucky to talk about death to the client. So you need to understand the relevant cultural issues in the region, or country, from which the client originates." ■

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Defining the value proposition of Asia's service providers

A myriad of advisers are offering their services to wealthy clients in Asia. Each claims to offer unique services. The trick is working out which ones truly can provide value, and which cannot.

A fairly simple concept lies at the heart of pure wealth advice.

"The fundamentals [of good wealth planning advice] have never changed. If you are real wealth managers and private bankers you should always strive to preserve and grow the wealth of the clients, based on their needs," says Simon Ng, head of trust and wealth planning for Asia at RBC Wealth Management.

"Banks like to put themselves forward as trustees too, but the trust knowledge of most RMs is hazy."

CHANDRA MOHAN RETHNAM
Rajah & Tann

Putting the customer first is a concept that many companies claim to follow, across the entire financial services industry. Yet all too often listening to the client comes a distant second to maximising an employer's profits. Added to this, the number and variety of advisers seeking to talk to wealthy families can be bewildering.

"There are more advisers than families can handle today," says the head of wealth structuring for the trust division of an international bank. "There are private bankers, which includes different people in departments inclusive of wealth planners, there are legal advisers and for some we even see psychologists come in. Bringing all of this together is a challenge in itself. Who exactly should the client trust?"

There is no simple answer to this question, because each type of adviser tends to have his or her own focus. Additionally, some advisers specialise in certain fields. And the advice that HNW families want depends on their personal wealth planning and investment needs.

However, wealthy families have become that way for a reason: their principal founder is astute, and tends to have a good idea of what he needs.

"Most of our clients say that with the business environment changing so fast you cannot do rely on doing the same corporate activity for the next 20 years."

ALEX PAN
Cypress Capital

"If you are real wealth managers and private bankers you should always strive to preserve and grow the wealth of the clients, based on their needs."

Advisers seeking to gain his business need to prioritise what he wants, before considering what they can offer him.

BANKING APPROACH

For private banks, the ability to differentiate themselves is fast becoming a priority, given the number of institutions seeking client assets while having to cope with mounting costs.

An important first step is for banks to demonstrate the fundamental value they can offer HNW families.

"For me, a private bank adds value if it provides a platform that allows its clients to do efficient and effective transactions, get access to capital markets, and provides true advice on investment that goes beyond selling products," says Andri Manatschal, a partner covering international private clients at PWC in Zurich. "This is what clients tell us they are looking for when they ask us for names of private banks to work with."

However, the value proposition of some banks is not always very clear – particularly if they overly focus on selling products instead of offering advice.

"A private bank ultimately needs to ask itself: 'what kind of creature am I?'", says Lee Wong, the Singapore-based head of South Asia and global non-resident Indian planning at Coutts.

"They have grown from focusing on a few areas to cover many as they pursued more profits. But with cost pressures of compliance coming in, many need to focus on what they are good at and can make money from."

Some of the region's larger financial institutions boast a natural advantage over smaller rivals, because they service them and their businesses through multiple means. This enables them to take a more considered approach to clients' needs, and also means they don't wish to damage relationships through ill-considered advice.

"Many of our private clients are also corporate clients, and as a result we understand a lot about how they created their wealth," says Christopher Marquis, global head of wealth planning solutions at HSBC Private Bank.

He notes that this offers him and his team multiple service advantages. "In private wealth solutions, we have a strong relationship with our clients in order to understand their generational situation, family dynamics and particular trust needs."

RELIABLE RMS

One factor that is key to the success of any private bank is the strength of its relationship managers (RMs). Ideally, these individuals should be jacks of all trades, able to sufficiently understand the various needs of HNW individuals well enough to offer general advice, or source experts who can provide more detailed solutions.

However, relatively few teams of RMs boast many individuals that can do all this. As a result, banks that can find, employ and educate their client-facing teams to be personable, well-mannered and willing to listen can often make an excellent impression. They also need to understand and be able to explain the coming regulation requirements.

"RMs here are given budgets to meet sales targets, and in the process are not understanding or willing to take the time to discover the real needs of their clients," says Patricia Bee Kuen Thomas, the chief executive of FACT Family Office in Hong Kong. "The RMs need to care, and ideally, there should be seminars on family governance [that they attend]."

Nicholas Jacob, a partner at Wragge Lawrence Graham, argues RMs well-versed in the needs of HNW clients can spot the issues before they arise and also add a great deal of value to their clients. "By telling their clients ahead of time they can do their relationship with them a lot of favours."

This sort of problem-solving can come down to offering very simple advice.

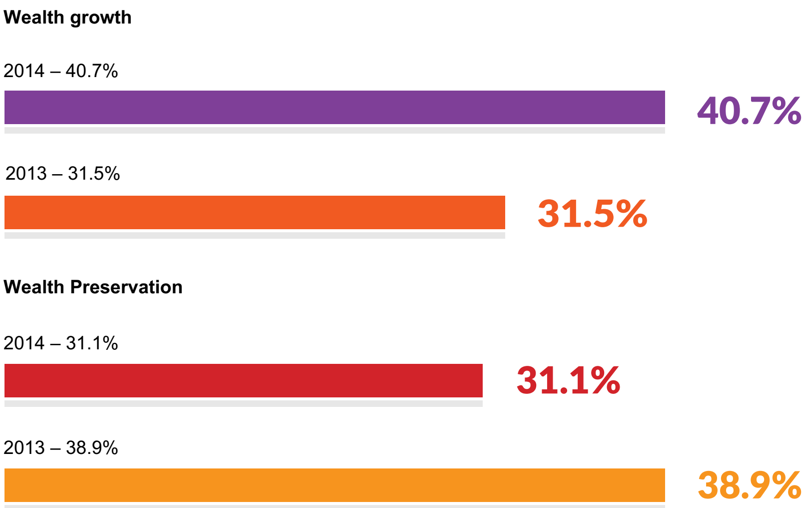
"We advised the family of one individual who died in a country in East Asia owning about GBP16 million (USD24.83 million) of UK listed stock," says Jacob. "However, nobody ever told this individual (and we were not advising him personally) that these shares were liable to UK inheritance tax. That mistake cost the estate about GBP6 million in inheritance tax. It would have been very simple for an RM to get the client to take advice on this to avoid holding those shares through an offshore company to prevent that liability."

"By telling their clients ahead of time about potential problems, bank RMs can do their relationship with them a lot of favours."

NICHOLAS JACOB
Wragge Lawrence Graham

"Relationship managers here in Asia are given budgets to meet sales targets, and in the process are not understanding or willing to take the time to discover the real needs of their clients."

ASIA PACIFIC HNW INDIVIDUALS' FOCUS ON WEALTH GROWTH VS. WEALTH PRESERVATION



Source: Capgemini, RBC Wealth Management, Scorpio Partnership Global HNW Insights Survey, 2013, 2014

FAMILY OFFICES

Another way advisers can value is to offer HNW clients investment and business services. It's a logical approach, given that so many HNW families have much of their wealth linked to or wrapped up in their businesses.

"A private bank adds value if it provides a platform that allows its clients to do efficient and effective transactions, get access to capital markets, and provides true advice on investment."

ANDRI MANATSCHAL
PWC

"These clients are successful in what they have been doing, so you need to consider where they need help. It often isn't the investment opportunity. Many are not bothered how the money they have in assets performs."

Multi-family offices (MFOs) often seek to tout their strength when it comes to investment advice. They are often set up by former private bankers or investment managers, who then seek to gain a select set of HNW clients and invest money on their behalf in a discretionary manner, touting their ability to be entirely product agnostic.

"These clients are extremely successful in what they have been doing, so you need to consider where they genuinely need help," says Alex Pan, co-founder of Cypress Capital. "It often isn't the investment opportunity. Many are fairly frugal in the way they live, and are not overly bothered how the money they have in assets performs."

Instead, Pan believes these business-owning families are more interested in corporate-themed advice.

"Most of our clients say the business environment is changing so fast you cannot rely on doing the same [corporate activity] for the next 20 years, because it might not be worth transferring at the end," he says. "You need to do something new, and be aware of new opportunities."

Pan was a private banker at Goldman Sachs before leaving in 2013 to help set up Cypress Capital with a set of colleagues. He uses the skills learned at Goldman to offer value to his clients. The MFO conducts discretionary portfolio management (DPM), and Pan says it's very important that it can offer a strong wealth management platform.

But he adds that focusing on investment products alone makes it hard for an MFO to stand out. So Cypress Capital also offers consultancy services for its HNW client businesses, such as providing corporate investment ideas.

"We try to help our clients with business ideas and growth, while taking a very private approach," he says. "Many of them also like to use our platform to talk to others in a confidential manner because they have common problems. Also, going beyond the line to help clients with their business continuity or transfer or with business ventures is very value-added."

A QUESTION OF TRUST

Although some wealth planners can point to genuine competitive advantages and unique focuses, others merely bundle services together and hope to attract clients.

The danger for private banks in particular is that this means they end up selling the wrong things.

"Banks like to put themselves forward as trustees too, but the trust knowledge of most RMs is hazy," says Chandra Mohan Rethnam, a partner at Rajah & Tann Singapore.

"The risk is the HNW clients don't have the concept explained fully enough before entering a structure with a bank that might not be ideally suited for them."

Lacking distinct market knowledge in the trust space, many private bank RMs try to compete instead on price, offering cut-cost trust services to try and undermine their competition and gain assets. This can be surprisingly effective with Asia's cost-conscious HNW individuals. But it risks undermining the value of the industry as a whole.

"Third parties and banks need to charge appropriate fees and not compete merely on price, but on the level of service provided," says Goh Seow Chee, head of wealth advisory for South-east Asia at JP Morgan Private Bank.

"We have a long way to go to get there, with many clients focusing mainly on the cheapest options. This mind-set will need to evolve too; it takes two hands to clap."

"Although providers are often pressured to give a quick solution at a fixed cost, this may not be the best approach." says Tan Li Lee, head of private client and trusts for Asia at Appleby.

"We prefer to have an initial discussion to understand the client's situation and objectives, and draw relevant information from them before deciding which solutions might be appropriate.

"Often it takes more than one meeting, as the client starts to consider their requirements with clearer direction."

Britta Pfister, the head of wealth planning for Asia Pacific at Rothschild Trust, believes this will not last, with mounting pressures set to clean out players that cannot demonstrate the value they offer in wealth planning.

"For me, this is quite a positive pruning exercise," she says. "It ensures that there is more room for real trusteeships for family wealth planning. Service providers will have to shift focus to helping clients safeguard and transition their assets across generations."

INDEPENDENT OPINIONS

The difficulty for many HNW clients is that the concept of trusts remains less well-understood than in Europe or the US. As a result they sometimes consider the purpose of the structures from the wrong perspective.

Rethnam argues that lawyers well-versed in the concept can help HNW clients understand exactly what trusts entail and the benefits that they can provide, without trying to hook the clients into buying one.

"As lawyers we have to fully understand the nature of trusts and explain the difference between a revocable trust or an irrevocable trust," he says.

Melanie Ison, the managing director for Hong Kong at Nerine Trust, also advocates the benefits of independence over structuring advice tied to banks.

"Fundamental to any client relationship is trust and track record, in addition to expertise," she says. "Independence is becoming ever more important as the trust industry continues to consolidate.

"Clients know their private wealth structuring specialists are not tied to particular structures or particular institutions and the focus remains on what is best for the client."

REGULATION WATCH

Perhaps the most important manner in which wealth planning advisers can offer value in the coming year will be for them to clearly explain the complex and still-shifting regulatory landscape to their HNW clients.

Several trustee executives and lawyers that Hubbis spoke said it was important that a private bank RM understands the impact of Common Reporting Standards, given his or her status as the first point of contact for HNW individuals.

On the flipside, not discussing these important and highly impactful changes from the very outset could ultimately prove to be damaging to private banks, notes Nick Jacob, a partner at Wragge Lawrence Graham.

"It could be dangerous for banks not to mention these things to clients because they will find out from another source about the automatic exchange of information eventually," he notes. "When the clients do so they will be bound to ask their bank why they weren't told [immediately about the changes].

Banks that don't seize this thorny problem may find it ultimately proves more painful. "In a worst-case scenario the client might feel the banker has short-changed them." ■

"Third parties and banks need to charge appropriate fees and not compete merely on price, but on the level of service provided. We have a long way to go to get there, wth many clients focused mainly on the cheapest options."

Shaping the future of fiduciary services in private banking

At two exclusive roundtable discussions hosted by Amicorp Group and Hubbis in Hong Kong and Singapore, banking leaders from more than 15 leading wealth management institutions discussed the future of the trust industry – including the extent to which they will offer wealth structuring solutions going forward.

Overshadowing Asia's large – and rapidly growing – pool of wealth, private banks face mounting uncertainty over the strategic positioning of their fiduciary services businesses.

This is against a backdrop of regulatory complexity, tax transparency, cost pressures, scalability hurdles and a shortage of talent. As a result, many banks are at a tipping point in their decision-making around whether to remain in the business of wealth structuring.

Already these organisations are grappling with fundamental business objectives such as cost and risk reduction on the one hand, and scale and operational efficiency on the other. Now, increasingly, the question of how – and indeed, if at all – they choose to deliver fiduciary services most effectively is under the microscope.

These were among some of the high-level conclusions and talking points at recent discussions hosted by Amicorp and Hubbis in Hong Kong and Singapore among more than 25 industry leaders in Asian private banking.

The aim was to examine the key strategic and critical issues facing banks around the important options and choices – and explore these issues in light of a strategic report by Amicorp and Scorpio Partnership on the future of the trust industry.

This also forms part of a series of global Amicorp-led discussions with business heads in the coming months – including in Zurich, New York and Miami.

The upshot of the strategic challenges is that some banks are selling off their trust arms or considering exiting this business, as the appetite for doing everything in-house has disappeared.

Others continue to rely on these divisions to provide what they consider as

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Link to Amicorp / Scorpio report

value-add to clients. Yet a growing number of banks remain undecided.

"We are focused on helping the leading global private banks by supporting them as part of their review and consideration of alternative choices around optimally delivering fiduciary services," says Peter Golovsky, managing director and global head of private clients at Amicorp Group, which is working with more than half of the top 10 global private banks on such projects.

Determining the way forward is easier said than done. Ultimately, the optimal outcome for each institution will come down to how it addresses the three-pronged challenge of managing costs, controlling risks and increasing revenue. And there is no right or wrong way to do this.

PETER GOLOVSKY
Amicorp Group

"The optimal outcome for each institution will come down to how it addresses the three-pronged challenge of managing costs, controlling risks and increasing revenue."

BRIGHT FUTURE FOR TRUSTS

The many industry reports and research papers in recent years about Asia Pacific all make a similar conclusion – that the region offers perhaps the largest opportunity globally for managing wealth, across generations. In particular, it is expected to emerge as the clear leader in 2016, confirmed Cap Gemini and RBC Wealth Management in their 2014 report.

The region's predicted annual growth rate of 9.8% to US$18.8 trillion in total wealth compares favourably with growth estimates of about 6.9% for the rest of the world. Further, to put the global opportunity in context, conserva-

STATE OF THE GLOBAL TRUST INDUSTRY

10% per annum growth in trust industry business volumes

US$5trn worth of assets held by Latin America and Asia Pacific in offshore markets

475,000 trust structures held worldwide

50 - 60 interviews undertaken across the globe with leading market professionals

4 business models covered
- Universal banks
- Private banks
- Local banks
- Multi family offices

5 geographic regions analysed and covered around the globe

Amicorp brought together 50-60 participants across Asia, Europe and the Americas to disucss the future of trust and examine the key factors driving change in the industry.

Source: AMICORP / Scorpio Partnership

6 KEY FACTORS DRIVING CHANGE IN THE GLOBAL TRUST INDUSTRY

Cost management, business profitability, consolidation and polarisation	▪ Bank owned trust companies are reviewing their operating models for fiduciary services, evaluating what is core v non core, retain in house (i.e. options include – sale, strategic segmentation/ 'moving upscale', outsourcing/white-labelling) ▪ Expect consolidation as banks review their strategy, footprint (around core markets)
Emergence of new operating models	▪ Emergence of specialist independent trust operators, that challenge the traditional operators ▪ Access an 'open architecture' platform that offers, scale, flexibility and reliability
Cross border complexities and regulation	▪ Complexity of structures across borders and jurisdictions to cater for HNWI's given changing regulatory environment (i.e. FATCA and CRS) ▪ Need for operators that can deliver 'product excellence' that offer transparency for regulators and governments (talk more about this shortly)
Demand for talent	▪ Finding, attracting and retaining talent to meet projected growth rates will be a challenge in an industry that has not traditionally attracted younger people
Operational excellence / efficiency in administration given margin compression	▪ Need for operational excellence and efficiency in delivery of 'smarter' systems (i.e. trust administration, reporting, IT, compliance, client acceptance /AML etc) ▪ Improvement in communication channels between adviser, trustee and client
Models that can support business growth	▪ Operators and platforms that offer 'scale' and 'open architecture' that can support business growth ▪ Diversification and focus on new markets (i.e. align with growth in emerging markets)

Source: AMICORP / Scorpio Partnership

tive analysis suggests US$8.5 trillion of HNW-owned assets are held offshore, with Asia's share of this at around 20%. This is projected to grow by 5.7% a year to US$11.2 trillion by 2018.

In particular, the joint research project between Amicorp and Scorpio Partnership in 2014 proves a useful benchmark around the state of the global trust industry.

In seeking to uncover the perspectives of industry leaders at global private banks in Asia, Europe and Latin America, the findings shed more light on three main aspects of the topic today: first, the challenges and issues facing the trust industry; secondly, how senior executives view the fiduciary business within the context of a broader wealth offering; and thirdly, the approach of different banks to the challenges presented by initiatives related to global tax transparency.

"[From the research], we found that Asia Pacific and Latin America represent the two largest international offshore markets with an estimated value of US$5 trillion of the total US$8.5 trillion," explains Golovsky.

Plus, while there are an estimated 475,000 trust structures worldwide, only around 5% of the HNW population seems to have a fiduciary structure.

"That presents interesting opportunities for us in this segment, and in terms of the growth rate in business volumes across the trust sector," he says, "which is estimated at 10% per annum, with the emerging markets of Asia Pacific and Latin America to lead the way."

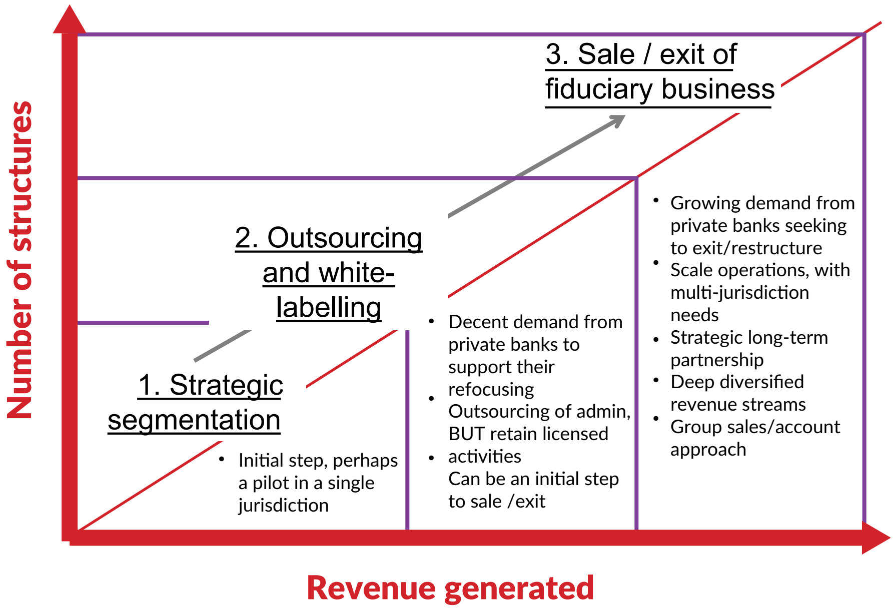
CHANGE DRIVERS

The report highlights six key factors driving change in the trust industry.

And many of the private banking leaders at the discussions agreed with these as key issues shaping the future of the fiduciary business.

First, is a combination of cost management, business profitability, consolidation and polarisation. Bank-owned trust companies are reviewing their operating models for fiduciary services, evaluating what is core versus non-core, and what aspect of the offering to retain in house, said a number of the banks represented.

WHAT ARE WE SEEING - 3 MAIN APPROACHES BY THE BANKS



Recent work by one global bank, highlights that risk and cost reduction, together with need for growth scalability were key to exploring which options make sense.

Source: AMICORP

"Their options include a sale, strategic segmentation, or outsourcing / white-labelling," says Golovsky. "I expect to see consolidation as banks review their strategies and reassess their core businesses, markets and offerings."

Secondly, there is an emergence of new operating models. These include specialist independent trust firms, challenging the traditional operators.

According to some of the banks, one of the benefits that this provides is the ability to access an open-architecture platform which offers scale, flexibility and reliability.

A third factor relates to cross-border complexities and regulation.

To cater for HNW clients, given the changing regulatory environment and transparency that global regimes such as FATCA and Common Reporting Standards (CRS) now impose, there is much greater complexity required when creating for structures across borders.

"There is a need for operators that can deliver 'product excellence' and that offer transparency for regulators and governments," confirms Golovsky.

The demand for talent is another key issue for the industry, agreed banking leaders at the discussions, regardless of business models and geographic diversity of the offering.

And it is something at the forefront of the minds of many banking leaders, given the limitations it imposes on the business model – regardless of other components which might be in place.

In short, this comes down to finding, attracting, training and then retaining talent. That includes wealth planning specialists as well as client advisers, to help banks keep up with projected growth rates in the HNW population.

Practitioners acknowledge this is a particular challenge for an industry which has not traditionally attracted younger people.

It is also an area where banks have the potential – if they get it right – to more clearly differentiate themselves, especially given that the challenges of compliance and regulation confront everyone equally.

Having sufficient knowledge is also increasingly important given the need for practitioners to anticipate issues relating to the structures.

A fifth factor driving change stems from the goal of operational excellence and efficiency in administration, especially in light of margin compression.

This comes down to putting in place "smarter" systems for functions such as trust administration, reporting, IT, compliance, client onboarding and AML.

At the same time, improvement is needed in the communication channels between adviser, trustee and client.

A final change-driver, said private banking heads, is in terms of the models to support the direction of the business. "The objective is to identify and implement operators and platforms that offer scale and open architecture to support growth," says Golovsky. Diversification and a focus on new markets where real growth is taking place is another part of this strategy.

MAPPING AGAINST UNCERTAINTY

The choices private banks make about the extent and type of fiduciary services they will offer within today's changing regulatory environment has the potential to significantly re-shape the look and feel of the industry in the years ahead.

Some of the fundamental questions banking leaders are increasingly asking of themselves, and their senior management, include how best they can respond to increasing tax transparency? And given regulatory scrutiny and complexity, along with enforced business changes, how can they deal with the cost of non-compliance?

The choices for banking heads seem to boil down to one of two broad options, according to the conclusions of the roundtable discussions. Either they remain in their core businesses and exit all non-core activities; or, for those operations which are considered to be more peripheral, outsource or white-label the offering.

The benefits are essentially a de-risking that fits with their overall objectives in today's environment.

Ultimately, they are striving to find clear points of differentiation in their strategy and value proposition. Indeed, standing out is a key objective for many, which, by extension, is also likely to drive whether they in-source or outsource as a strategic priority. However, that decision seems to be somewhat connected with the size of the organisation, according to participants at the recent discussions. Scale is seen as a vital ingredient.

Finding a winning formula to re-align certain businesses to deliver the right service for a client who is willing to pay a reasonable amount of money for it, is akin to the holy-grail of wealth planning.

Plus it is a way to achieve sustainable, controlled growth in priority markets.

Yet doing that in a way that also enables the bank to control the risk – not just from a fiduciary point of view but also a franchise perspective – continues to leave executives stumped.

> **"We have seen decent demand from private banks to support their refocusing through outsourcing of the admin function, but they retain their licenced activities."**

FINDING THE RIGHT PATH

It seems a growing number of banks are now looking at their options from a very practical perspective. In particular, they are focused on resolving the challenges in a way that suits their core strategy and client segmentation.

For many, their view is: "If you don't have [wealth planning] as a core strategy, you should outsource it."

In general, private banks fall into one of three camps at the moment in terms of their thinking and positioning.

Strategic segmentation of the wealth planning and fiduciary services part of the business is one avenue that some are pursuing.

This involves, for example, an initial step where perhaps a pilot is launched in a single jurisdiction. This might be done by fee threshold, or per market or product, for example. This is typically a first step to a more significant change down the line.

Other banks are looking at selling their fiduciary business, or otherwise exiting this space. In particular, this has been a growing trend, confirms Golovsky.

An alternative to the first two options is outsourcing / white-labelling.

That can also be an initial step to sale or exit. "We have seen decent demand from private banks to support their refocusing through outsourcing of the administrative function, for instance," explains Golovsky, "but they do retain their licenced activities." ■

Asia's families should expect big changes to the trust industry

Wealth planning in the region is undergoing a restructuring that will hopefully lead to more client focus, and a willingness to offer families fiduciary services and advice for an appropriate fee, believes Britta Pfister at Rothschild Trust.

The global trust industry is set to undergo significant changes as providers of fiduciary services eliminate outmoded structures and consider the risks and rewards of offering wealth structuring services.

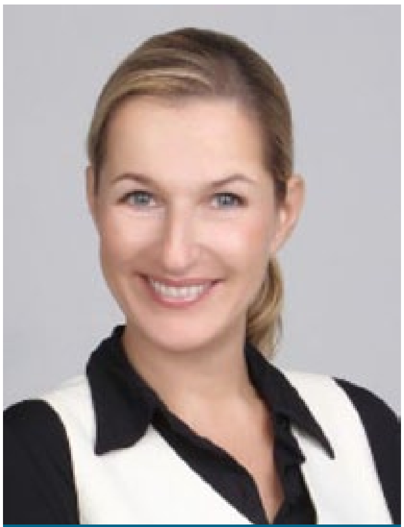
This will cause some providers of fiduciaries to exit or sell out, but should eventually create a more mature industry serving clients who better understand the value of high quality structuring and advice, says Britta Pfister, head of wealth planning for Asia Pacific at Rothschild Trust in Singapore.

She notes that, in general, the fiduciary services industry has not prioritised the needs of the client for a long time.

"Private banks in particular used to provide fiduciary services and trust vehicles to prolong the life cycle of a client relationship," says Pfister. "As a result, many institutions were interested in 'selling' these vehicles not necessarily for the benefit of their clients, but because they were motivated by self-interest.

"This model worked very well for private banks in Asia and in Switzerland for several decades."

The validity of this strategy has come into question in recent years, as a US-led quest to stamp out tax evasion through FATCA, stricter KYC and now the introduction of Common Reporting Standards forces banks and trust companies to consider if and how they wish to offer fiduciary services.



BRITTA PFISTER
Rothschild Trust

PRUNING EXERCISE

"The key for service providers must be to place a lot more scrutiny on their clients' needs," says Pfister.

"Wealth structuring will have to move to a more realistic model and it is likely that quite a bit of consolidation in the trust industry will result. A number of [structuring] models will not be sustainable anymore, because the risks of offering them will outweigh the not-significant rewards, due to their generally low pricing."

Pfister notes this has started to take place, to a degree.

"We are already seeing the changes taking place in that there is a welcome shift away from planning to avoid taxes and towards assisting clients to be compliant on a global basis."

She notes that this could have a positive impact on the industry.

"For me, this is quite a positive pruning exercise. It ensures that there is more room for real trusteeships for family wealth planning. Service providers will have to shift focus to helping clients safeguard and transition their assets across generations."

"For me, consolidation in the trustee industry will be quite a welcome pruning exercise. It will ensure there is more room for real trusteeships for family wealth planning."

RE-ORIENTATING TRUSTS

Pfister also believes some banks will ultimately choose to keep their wealth structuring businesses, noting that they offer value beyond their immediate revenue-generating capabilities.

"A lot of the knowledge that banks need to better service their clients sits within the fiduciary arm," she says.

"As a result, what might have once been seen as an add-on service to private banking might become quite integral to the overall service offering."

The Singapore-based head of wealth planning is largely confident about the prospects for Rothschild Trust. She notes the company is owned by the Rothschild Group and was established to help families structure their assets.

Pfister says this means the company doesn't face the same short-term commission-focused pressures that bedevil so many of its private bank-owned trustee rivals.

"At Rothschild, we aim to set up and administer bespoke, globally compliant structures for international families and we expect to be compensated adequately for these services."

In addition to navigating the changing tides in wealth structuring, Pfister believes that Rothschild Trust and its industry peers will need to respond to Asia's shifting social and demographic currents.

These changing dynamics could end up offering new market opportunities to dedicated trust companies like Rothschild Trust.

"I think succession and wealth planning are only going to become more central to family wealth as we see an unprecedented amount of wealth being created to be eventually transferred to the next generation," says Pfister. "This is a generation that, because of their upbringing and education, will think and live much more internationally than their parents."

CHINA WATCH

China offers a prominent example in this respect.

The *World Wealth Report 2014* by Capgemini and RBC Wealth Management estimated China's HNW populace to be 758,000, possessing a combined US$3.8 trillion in wealth in mid-2014.

This represents the largest single collection of wealthy individuals in Asia and it is growing fast, rising 17.8% on the previous year in terms of numbers and 20.5% in terms of wealth.

The combination of China's economic heft as the world's second-largest economy and the view of its government towards citizens conducting onshore and offshore wealth structuring will be important for the region's wealth planning industry.

"It is a good idea to keep a close eye on how China emerges in the family wealth space," says Pfister.

"The country's attitude towards wealth structuring is very much in motion and could have a big impact on the industry across Asia." ■

Re-building Asia's wealth advisory infrastructure

A combination of reluctance among HNW families to pay advisers for services and mounting compliance requirements are pressuring private banks and wealth advisers. This could cause sizeable industry change in the coming years.

Asia's wealth management industry offers a frustrating paradox to its aspiring practitioners: the rate of growth in the region's wealth is matched only by how hard it is to make money from servicing it.

"It's easy for clients to zoom in on the costs first, and only then pick a structure. But this often distracts them from finding a trust structure and holistic solution."

TAN LI LEE
Appleby

The expansion in the region's HNW riches is well-known. The Capgemini and RBC Wealth Management *World Wealth Report 2014* predicted the region would have the most HNW individuals in 2014, and the most HNW assets this year.

Yet HNW families and individuals in Asia are far less interested in allocating their wealth to private banks, external asset managers, trustees and other advisory roles than their counterparts in Europe or the US.

E&Y's *Re-thinking Private Banking in Asia* report notes that private banks have only captured 10% to 20% of the potential HNW market in the region. This figure offers private banks hope that there is AUM growth to be had. Yet it also offers evidence that there is not a great deal of desire among wealthy individuals and families to place their assets with private banks.

"Everybody knows the wealth market in Asia is growing, and that [knowledge] has an impact on firms' strategy in this market," says Simon Ng, head of trust and wealth planning for Asia at RBC Wealth Management. "I think it gives many financial institutions more patience to stay in this market. They may have a miscalculated belief they can become profitable and that is slowing down some urgently-needed consolidation."

The lack of progress in penetrating Asia's HNW asset base is a particularly acute

> **“The concept of getting paid to offer advice is relatively recent, and it’s not one that many first generation entrepreneurs recognise at all.”**

issue for private banks. Their personnel costs have been high and rising for years, as more international and local private banks have established themselves and chased experienced bankers in order to gain a portion of the region’s mounting wealth assets.

In addition, private banks and fiduciary advisers alike are having to pay more to ensure their HNW clients and their accounts comply with Know Your Customer and US FATCA rules.

These costs are spiking further with the coming implementation of the OECD’s Common Reporting Standards (CRS).

Low service penetration, rising competition and increasing costs make Asia a difficult region in which to run a profitable private banking business.

E&Y’s study estimates that Asian private bank revenue margins have fallen from 90 to 100 basis points over AUM a few years ago to around 60 to 70 basis points today, and their cost-to-income ratio stood at around 75% in 2014.

Industry practitioners claim the ratio is much higher at some institutions, which are either struggling to make money or are losing money from their regional private banking operations.

The region’s wealth industry practitioners face some difficult choices if they are to flourish.

LIMITED OPPORTUNITIES

The principal challenge facing wealth advisers in Asia is the small penetration of wealth services with HNW clients.

Most of the region’s wealth remains in the companies that have turned so many Asian families into multi-millionaires. External AUM are a small part of total family wealth.

Additionally, HNW families in Asia are less familiar with concepts such as trusts, foundations and succession planning than their European and US peers.

They are also unused to paying for structuring or family succession advice.

Many banks aim to gain their attention by offering wealth structuring services at very low rates to get client assets into the bank, from where they can earn money from investment management.

> **““There is a dearth of talent in this field and that can only be built up with experience and training. Private wealth is such a broad area that it is difficult to just teach.”**

> **“The financial institutions need to make a choice: either they want to be in trust business or they don’t. If they do want to be in it they need to do it well.”**
>
> **MARNIN MICHAELS**
> Baker & McKenzie

"The concept of getting paid to offer advice is relatively recent, and it's not one that many first generation entrepreneurs recognise at all," says the head of wealth planning at the trust division of an international bank.

"Many clients here have obtained [structuring advisory] services for free, or gained them in the bulk of their private banking fees."

"It's important that Asian clients not overly focus on cost at the outset," adds Tan Li Lee, head of private client and trusts for Asia at Appleby. "It's easy for clients to zoom in on the costs first, and only then pick a structure. But this often distracts them from finding a trust structure and holistic solution that address fully the issues they have."

This practice has led many wealthy clients to believe wealth structuring advice should be cheap, making life difficult for independent trustees wanting to offer advisory services. Meanwhile the banks offering discounted trusts have generally economised by not offering a full range of advice, typically limiting themselves to financial structuring.

The appeal of trusts has not been helped by the introduction of CRS, which lets countries demand and receive information on individual's accounts and wealth structures from other jurisdictions. By eliminating the tax and confidentiality advantages of structures it makes them less appealing for wealthy families.

The new rules will also force the banks and trustees to gather detailed, accurate information about their clients and all trustee participants. This will further raise their compliance costs, and expose them to the risk of staff failing to properly follow the procedures.

"We could see changes to the ways in which trusts are covered, with more regulation being introduced in places like Hong Kong and Singapore."

GOH SEOW CHEE
JP Morgan Private Bank

"The danger is that internal personnel fail to follow the new levels of practice, and the bank's compliance people fails to catch it. This has potential reputational risk."

"The danger is that internal personnel fail to follow the new levels of practice, and the bank's compliance people fails to catch it. This has potential reputational risk," says a senior consultant for private clients in Hong Kong.

CHANGING TIMES

Industry practitioners believe there are several ways industry players can adapt to deal with these concerns. First, they need to be dedicated, and willing to ensure their bankers keep learning.

"Banks need to train relentlessly," adds Clifford Ng, a partner at Zhong Lun law firm. "There is a dearth of talent in this field and that can only be built up with experience and training. Private wealth is such a broad area that it is difficult to just teach. It is a long term investment." Structurally, private banks may have to question their strategy over offering full-service wealth advice and planning.

"Increasing regulatory compliance and a rising cost base might mean you are not able to be all things to all clients 'you cannot be the best in everything'," says RBC's Ng. "You should probably focus on what you are good at rather than be a complete total solutions provider, unless you are big and have the skills and resources [to do so]."

Market participants believe most banks have two options. Either they start outsourcing their trust operations entirely or charge their clients a realistic rate for a full range of structuring services.

"The financial institutions need to make a choice: either they want to be in trust business or they don't.

"If they do want to be in it they need to do it well, which means being prepared to take more than bankable assets. If they don't they should get rid of it," says Marnin Michaels, a partner focusing on trust planning and taxation for Baker & McKenzie in Zurich.

This trend could be accelerated by a rise in trust regulation. "I think we could see changes to the ways in which trusts are covered, with more regulation being introduced in places like Hong Kong and Singapore," says Goh Seow Chee, head of wealth advisory for South-east Asia at JP Morgan Private Bank.

More oversight is likely to further raise compliance costs, hastening consolidation in the industry.

PRODUCTS APPROACH

Another way to evolve the industry would be to better diversify product selling and fiduciary wealth planning.

> **"With age comes experience, understanding and patience, on how to deal with clients to obtain maximum information so as to offer maximum support. The younger generation may not have the experience for this."**

"The market needs to evolve to the point where people selling products cannot say they are offering wealth planning advice. Getting to this point might require a combination of education and regulation," says Chandra Mohan Rethnam, a partner with Rajah & Tann.

"For example, insurance agents can currently tell clients they want to conduct a wealth planning exercise, when in fact they really only want to sell insurance products. As a result, a lot of the client advice in the industry is superficial and product-based."

> **"The market needs to evolve to the point where people selling products cannot say they are offering wealth planning advice. Getting to this point might require a combination of education and regulation."**

Part of the problem is that many HNW clients lack enough understanding of fiduciary investment and wealth structuring advice.

"Many of Asia's wealthy are first generation entrepreneurs who made money on the stock market or through an SME (small and medium-sized enterprise), and lack the sophistication to make long term wealth plans. They are the people who most need good, unbiased wealth planning advice."

Raising these concepts to HNW clients unfamiliar with them requires relationship managers who are capable, well-educated and experienced.

But private banks have increasingly had to hire young relationship managers, as they seek to keep track of the rising number of wealth individuals. These people lack the years of professionalism and first-hand experience of market movements and varying client needs that help add weight to their views.

One solution would be for banks to seek out older finance professionals with market experience.

"With age comes experience, understanding and patience, on how to deal with clients to obtain maximum information so as to be able to offer maximum support," says Patricia Bee Kuen Thomas, chief executive of FACT Family Office in Hong Kong. "The younger generation may not have the experience for this.

"An understanding of what is on offer worldwide is crucial today, given the speed of information."

COMING CONSOLIDATION

It could take years before the penetration of private banks and trustees rise to similar levels as the US and Europe. Until this happens, private banks and fiduciary advisers might want to consider whether they can afford to provide a full range of wealth planning services for HNW families in Asia.

The largest players, such as UBS, HSBC Private Bank, Credit Suisse and Citi Private Bank, enjoy the depth of AUM to maintain a broad array of services. But it may prove too costly for most mid-tier players.

"There are clearly pressures on private bank margins. I think clients want to see they are getting value in terms of what they pay for. Banks need to clearly communicate to the family what they are offering," says Christopher Marquis, global head of wealth planning solutions at HSBC.

One possibility would be for these banks to sell trust divisions that are effectively cost centres, potentially to independent players with which they form a business relationship.

Doing so might help reduce costs of the banks, while not too greatly hindering their service reach.

The outsourcing of trusts might be just the first step. The gradual regulatory drive towards more transparent fee charging and fiduciary advice over investment products, as well as the gradual rise of online broking platforms could lead private banks to get out of internal investment management too.

They could potentially outsource this to asset management specialists or external asset managers.

The trust industry is also undergoing sizeable change, with the rise in compliance costs and risk forcing consolidation upon the industry.

"It's not an easy business in which to conduct risk management. And with more stringent regulations the costs of compliance and risk management will grow," says Markus Grossmann, managing director for Singapore, Hong Kong and New Zealand at Trident Trust.

"So the trend is clearly going towards a consolidation in the industry. The international independent trust providers will look for economies of scale to manage this additional cost as well as possible."

Many private equity-backed global independent trust or corporate services providers have expanded quickly through acquisitions. They have also started outsourcing or offshoring a number of administrative and accounting-related functions to low cost countries such as India, Labuan or the Philippines.

"Such outsourcing can of course result in considerable cost savings [but] has to be managed very carefully, because of the amount of client data passing from one jurisdiction to another," notes Grossman of Trident Trust.

Some regional trust players are also seeking to acquire to grow.

"We are seeking to grow in Asia and are discussing taking over some companies, as well as talking to banks about taking over their trust operations," adds Philipp Schmid, a member of the management board at First Advisory Trust (Singapore).

He says that his company's desire to grow through acquisition is being welcomed by some rivals. "A lot of smaller trust companies are concerned about the changes in the regulatory environment and happy to join a bigger company with legal expertise attached."

Asia's wealth advisory industry looks set to undergo some sizeable changes in the coming years, courtesy of rising regulations and an insufficient appreciation among HNW clients of the value of the services they are being offered.

To survive and flourish, providers will need to cut costs and convince these wealthy individuals through education and demonstration that the services they offer provide genuine value.

This will take time, and not all market players are will succeed. In five years' time, Asia's wealth advisory space is likely to look less crowded. ■

"There are clearly pressures on private bank margins. I think clients want to see they are getting value in terms of what they pay for. Banks need to clearly communicate to the family what they are offering."

The advantages of offering tailored investment advice

Sometimes the best service an investment expert can provide to a HNW client is to offer an entirely distinct point of view that raises suggestions they had never even considered. Charles Luchangco of Convergence Capital offers an example.

TAKE THE CLIENT'S PERSPECTIVE

A key way for family offices to underline the value of their investment advice is to consider a wealthy client's situation in its entirety.

The advisers should begin by discerning exactly what their objectives are, and then propose a multi-faceted solution, even if it appears somewhat bold or controversial, based upon what they would seek to do in the client's shoes, with their objectives.

Charles Luchangco, founder and principal of Convergence Capital, offers a recent example of a client he advised.

"We recently engaged a client whose business and investments were concentrated in a market that has an aging population with stagnant economic growth," he says. "The client had sold his company and had put some of the money this raised to work into the local real estate market.

"However, this was reaching stretched valuations, primarily due to overseas money swamping the market."

PROPOSE BOLD SOLUTIONS

The key concern for the client was that most of his investments were exposed to one country with limited upside opportunity at a time when many other markets offered far better potential returns on investment.

"We identified the following opportunity: the client's exposure to markets with a larger, more vibrant demographic was limited," says Luchangco.

"In order to change this situation, we suggested investments in areas he could identify with, since he previously ran a consumer-driven company and hence understood these dynamics.

"His currency exposure was primarily his home currency, which was commodity and real estate-linked. This was also an area which we looked at for hedging and diversification."

RAISE RETURNS, LOWER RISKS

By making these suggestions, Convergence Capital helped the client to expand his investment exposure to new geographic areas with much better potential returns.

This enabled the HNW individual to diversify his investments away from the performance of one lacklustre market with limited growth potential. Doing so both increased the chances that the client would enjoy a higher annual return on his assets and it reduced the risk of him losing money by dropping his asset exposure to one market.

"This approach of offering true risk diversification to has given us an avenue to work in a deeper way with clients rather than just looking for uncorrelated assets within a single portfolio," Luchangco says. ■

Building a more relevant wealth planning business

The nature of the conversations advisers have with clients must change to reflect an increasingly complex regulatory and tax environment, says Jonathan Hubbard, Head of wealth planning for UBS Wealth Management, Asia Pacific.

In today's rapidly-changing regulatory landscape, the biggest concern for clients with internationally-diversified portfolios is tax transparency as addressed by initiatives including the US Foreign Account Tax Compliance Act (FATCA), the automatic exchange of information (EOI), and Common Reporting Standards (CRS).

But there are countless other reforms affecting global and local markets which continue to be made every day.

"The huge wall of mis-information, and misapplied information, threatens to disrupt the market over the next three to five years," says Jonathan Hubbard, head of wealth planning for UBS Wealth Management, Asia Pacific.

Significant demand for truly sophisticated products and solutions is increasingly likely to materialise over the coming years, he predicts.

"Only when we emerge fully from this era of mis-information will the majority of clients finally come to terms with the right reasons to use providers for sophisticated wealth planning and the right attitude to long term investment performance," explains Hubbard.

At the same time, the tax-transparency drive can be expected to improve perceptions about the value proposition of private banking, he adds.

A NEW WAY OF THINKING

Despite the uncertainty and concerns that various new regulations and tax initiatives such as US FATCA, automatic EOI and CRS have sparked, the reality of their impact won't be as bad as many people fear.

"The mere fact there is automatic EOI doesn't actually mean anything," says Hubbard. "It doesn't mean things are taxable if they weren't taxable before."

JONATHAN HUBBARD
UBS Wealth Management

Instead, it has just become easier for relevant governments to determine whether their citizens are paying tax or not. And over time, Hubbard expects clients will become more comfortable with a transparent environment, with the knowledge that their information is confidential and that it will be exchanged only for the purposes which have been discussed.

DELIVERING RELEVANT ADVICE

As the industry comes to terms with the changing environment and regulators seek to strike a balance between the interests of the Treasury and those of the end investor, the nature and quality of the advice given to clients will also change.

Competency is a critical component of any firm's ability to survive the next phase of growth and development in Asian wealth management.

To meet the new requirements, Hubbard insists that organisations and individual advisers must move quickly to understand both what is required of them and the implications of the new environment for client portfolios.

"If we can't adapt we don't deserve to be looking after clients because we are not looking after their needs," he says. "We have to adapt fast – as fast as our clients expect or need us to."

Ultimately, better advice comes from advisers with the right kind of knowledge, skills and professionalism, explains Hubbard. Notwithstanding claims to the contrary, not everyone can talk intelligently to clients about their tax and structure needs.

Yet wealth planning professionals are a rare breed, Hubbard adds. Ensuring that advisers are equipped to engage clients in a detailed conversation is a good starting point. An adviser who properly understands a client's needs can direct them to internal and external specialists capable of adding value to the offering of the bank as a whole. "We don't necessarily expect them to finish the conversation," says Hubbard. "The key is that they have got to be able to identify a concern, and then introduce a specialist."

"If we can't adapt we don't deserve to be looking after clients because we are not looking after their needs. We have to adapt fast – as fast as our clients expect or need us to."

EMERGING DIGITAL PLATFORMS

Many firms, including UBS, are seeking to provide digitally-led advice for certain aspects of the process. Digital is an increasingly important part of the UBS strategy especially when communicating with customers, says Hubbard.

In particular, he expects future generations to operate almost entirely in a digital world, in terms of how they consume information.

Significant investment, beyond that associated with compliance and IT infrastructure, needs to be made for wealth mangers to remain relevant to their client bases.

"Future generations will navigate the internet for their information, and will inevitably expect to be able to access and act on advice via the medium," explains Hubbard. "It is up to us to cater to their expectations." ■

Private banks must ponder service value proposition

Rising competition and regulatory pressure is forcing banks to reflect on how to succeed in wealth planning. Lee Wong of Coutts believes they should focus on where they can add genuine value and place client interests at the forefront.

Private banks need to have a paradigm shift in their thinking and should look to restructure their wealth planning business models, in the face of rising competition and regulatory pressure.

HNW clients are becoming increasingly sophisticated, and banks will have to consider how to continue adding value to them in order to remain relevant, shares Lee Wong of Coutts.

"Private banks ultimately need to ask themselves: what kind of organisation am I?" says Wong, the Singapore-based head of wealth planning for South Asia and global non-resident Indians.

"Over the past few years, many private banks have attempted to grow coverage to non-traditional areas in an effort to increase market share.

"As the wealth management landscape continues to evolve, private banks should consider adopting a more focused approach, targeting areas they are good at in order to be successful."

Wong believes that part of this recalibration process should involve banks returning to their original purpose of supporting HNW clients meet their personal and family aspirations, in relation to their private wealth.

Products should be used to facilitate meeting clients' specific needs; not merely to increase sales. She says the focus should be to help clients understand and use the products to achieve their objectives. By placing client's interests first, profits will follow.

Technological advances make it far easier for clients to compare and contrast investment products online, via broker platforms or robo-advisers.

Private banks seeking to succeed in this environment will need to realise that access to a comprehensive product suite is just one facet of HNW client requirements. The differentiating factor may well shift to quality of advice, analysis and research.

LEE WONG
Coutts

FIDUCIARY FOCUS

With an increasingly challenging regulatory landscape, private banks need to re-consider how to conduct their fiduciary business going forward.

International regulators' demands for jurisdictions to introduce automatic exchange of information will make it more difficult for wealthy individuals to keep their assets confidential.

Hence, clients will have to evolve to come to terms with the greater demand for transparency in the new world.

Meeting their primary objectives of succession, legacy planning and seamless generational transition through more sophisticated compliant structuring will be the key focus in the future.

"A particular structure might help to address a client's succession concerns, but perhaps a will or an insurance policy might better serve his overall objectives from a cost or reporting perspective," says Wong. "As his adviser, I should maintain my neutrality and advise what is best for the client and coordinate it."

That sort of impartial advice would help banks to stand out with wealthy families and individuals.

"Is there room for people to play this role? I think so," says Wong. "The question for the client is whether it's easier to find it from a private bank platform or an independent adviser platform. I hope they will find that banks like ours can deliver it."

KNOW YOUR STRENGTHS

Private banks or independent advisers conducting such self-examination should consider their core strengths. This includes being prepared to work with entities outside their organisation should clients' needs extend to areas outside their strengths, instead of attempting to monopolise their interest across all services, says Wong.

She thinks this is a particularly important point when it comes to servicing wealthy Asian clients who require complex wealth structuring in relation to their non-financial assets.

"For example, where clients residing in South-east Asia require assistance to address succession concerns relating to their financial assets," Wong says.

"This is usually relatively simple, as countries like Singapore and Malaysia have fairly benign tax regimes. "But the moment a client says 'I have children who have migrated to the UK or are studying in Australia and I need to make distributions to them', the bank should offer to put them in touch with appropriate law firms or trustee companies capable of servicing them, if it is beyond the bank's expertise. That would demonstrate a genuine desire to put the client's needs first."

"Private banks ultimately need to ask themselves: what kind of organisation am I? As the wealth management landscape continues to evolve, private banks should consider adopting a more focused approach, targeting areas they are good at in order to be successful."

THE WAY FORWARD

The ultimate question for private banks will be to decide the extent of wealth planning advisory and fiduciary administration services they should provide.

"Financial institutions with a wealth planning advisory and fiduciary administration practice have to determine their commitment level," says Wong.

"Private banking-focused or large institutional banks where private wealth management is a core segment of their business might decide such a practice is integral to their service delivery.

"In coming to that decision, they will have to be committed to invest in people with the relevant technical structuring skills and a platform that is robust and equipped to address the more rigorous compliance and regulatory environment going forward."

Meanwhile, other banks may focus on what they do best, and work with external service providers in areas that are not their core services, Wong adds.

"For complex structuring, particularly in relation to non-financial assets, I expect these banks will steer much of the fiduciary administration piece of such structures to independent trust companies and the advisory piece to law firms." ■

Why banks must balance profits against long-term client needs

An ever-larger proportion of South-east Asian wealth is held by families. Private banks must build longer term advisory skills if they are to benefit, believes Francis Koh of the Singapore Management University.

As Asia's HNW populace ages, private banks need to prioritise long-term family relationships over their focus on short-term business and profit goals.

Those banks that can adapt and offer good advisory services such as estate and succession planning will be best-placed to succeed in an industry undergoing structural change, believes Francis Koh, the vice provost for special projects at the Singapore Management University (SMU).

Koh, who is also in charge of the SMU's Master of Science (MSc) in Wealth Management programme, says wealth in South-east Asia is increasingly shifting from an entrepreneurial to a family model, as more second- and third-generation children inherit assets.

"Private banks are increasingly moving to [focus on] families because of the ageing population in the region," he says. "As a result, there is more demand for [advice relating to] philanthropy, and more interest in courses and seminars that cover areas like trusts and foundations."

However these are long-term skills, which do not necessarily offer quick commissions. Senior managers dedicated to succeeding in private banking need to recognise that their business model will need to change if they are to succeed with such customers.

"Clients are looking for a long-term relationship. But it is not easy to provide solutions because banks have their targets and short-term goals. This is a long-term business, and that requires scale and resources. You shouldn't be in it if you are looking for short-term gains; the KPIs (key performance indicators) and returns won't be there."

FRANCIS KOH
Singapore Management University

PRIORITISING PLANNING

Koh's belief that wealthy families increasingly want professional planning advice is borne out by various sources. A survey conducted by the Economist Intelligence Unit on family business success in South-east Asia in November

2014 found that 67% of family businesses had implemented succession plans, and 74% of executives said they are integral for growth.

The SMU is trying to help private bankers build skills to meet this family-orientated approach to wealth in the region.

The university has offered its MSc in collaboration with the Wealth Management Institute and Swiss Finance Institute since 2004, and added Yale University as a partner in 2009. Koh says it has adjusted its focus to help give aspiring bankers the skills they need to better communicate with wealthy families.

"The students have role-playing sessions in which they act out the role of wealth manager handling the client, and you can comment on whether they are doing it right or wrong and how they can improve," says Koh.

"In addition, they interact with lots of bankers in Switzerland and Singapore, learning from the captains of the industry about what to avoid and how to manage themselves better."

He adds: "You need at least three key things to be a trusted adviser: competency, conduct and compliance.

"Competency is the technical part and perhaps the easiest to get. Second is

"This is a long-term business, and that requires scale and resources. You shouldn't be in it if you are looking for short-term gains; the KPIs (key performance indicators) and returns won't be there."

"The foundation courses do not change, but we have placed more emphasis on families and managing money for the family, so that we move beyond the individual."

THREE C'S

To assist students with learning communication and relationship-building skills, the SMU has built scenarios that they have to play through, as well as reaching out to real life mentors to offer guidance.

conduct, or the ability to interact with and serve the clients. That part is always missing [in course entrants] because you can't learn from a book how to manage clients. And compliance is the hardest part, because there is so much of it to learn."

FINDING A NICHE

The training offered by the SMU is helping more bankers enter an industry that is slowly evolving. While a few years ago one private bank may have sought to engage everybody from premium banking clients to UHNW individuals, the rise in HNW and UHNW client numbers means institutions need to specialise.

"Private banks are having to find niches. Some are focusing on the middle market and don't think of attracting UHNW individuals, while others may concentrate on HNW because they don't have the kind of products suitable for the lower end," says Koh.

"I think this makes sense. Even banks that just go for the mass affluent clients have more opportunities, as these clients are getting richer.

"For example premier banking used to be [offered to clients with investible assets of at least US$200,000], but I think it is now closer to US$350,000 for some banks and US$500,000 for others."

Specialising in parts of the market may also help banks when it comes to managing their compliance costs, something that has become an increasingly burdensome issue for private banks.

Koh sympathises, but is also optimistic that the requirement will begin to ease as banks find ways to automate aspects of it.

"Over time we may not need as many compliance people if the systems [of a private bank] are structurally organised.

"Banks may be able to create IT platforms that cut down the compliance cost because they can process documents, or take over requirements without a human being involved." ■

The importance of succession planning

As more of Asia's first generation of wealth creators reach old age, the need for good succession planning is becoming increasingly important. The concept is gradually gaining ground within the region.

"Over 60% of listed business in South-east Asia are family-owned yet the sad truth is that many businesses in Asia do not survive beyond the first generation."

NISHA SINGH
Berwin Leighton Paisner

Proper planning lies at the heart of any successful endeavour. When it comes to ensuring the maintenance and growth of a family's riches, this planning needs to focus upon succession.

Asia's family wealth remains largely based in the hands of a first generation of entrepreneurs and business creators, who are usually actively involved in its management. The region's demographics have supported this trend, with men and women often remaining capable and active well into their 80s.

However, the inevitable passage of time means the issue of how best to pass on the management and ownership of these riches is becoming more urgent.

"This is a pivotal time for Asian families and their businesses," says Nisha Singh, a senior associate for the private client practice of Berwin Leighton Paisner. "Over 60% of listed businesses in South-east Asia are family-owned yet the sad truth is that many businesses in Asia do not survive beyond the first generation."

A key first step is to gain a thorough understanding of the client's situation. "It's important to gain an understanding of the families you want to work with, and this requires asking them a lot of questions, not just immediately offering solutions," says Markus Grossmann, managing director for Singapore, Hong Kong and New Zealand at Trident Trust. "For example, where is he a resident, what passport does he have, does he have children and if so how old are they? What are both his business and personal plans?"

One common point of tension is that the first generation figures who typically

"In Asia it often takes five to 10 meetings to get a client's understanding and interest."

PHILIPP SCHMID
First Advisory Trust (Singapore)

"One of the most interesting as well as challenging aspects of succession planning is to get the patriarch or matriarch and their children to agree on a suitable long-term strategy for their businesses, investments and wealth."

created the family's wealth often have fixed ideas about how they wish to see this and their business continue. It is usually important to gain their assent to any succession plan.

"One of the most interesting as well as challenging aspects of succession planning is to get the patriarch or matriarch and their children to agree on a suitable long term strategy for their businesses, investments and wealth," says Woon Hum Tan, partner and head of the trust, asset and wealth management practice at Shook Lin & Bok.

Tan notes that different generations often have very different goals, plans and priorities, which can complicate wealth planning. "A person in his 40s would still be focussing on creating wealth; whereas a person in his 60s would be focussing on passing on wealth and business control."

DIFFICULT DISCUSSIONS

Succession planning also inevitably involves discussing death, often a taboo topic among Asian cultures.

Experts say third party advisers can help bridge this cultural and familial gap.

"We can tell people innumerable stories where failure to plan for succession caused substantial difficulties for the next generation and used significant amounts of their wealth in legal fees," says Richard Norridge, a partner and head of the Asia private wealth practice at Herbert Smith Freehills, who is based in Hong Kong.

"It is also easy to refer clients to the regular newspaper stories about families who were happy and harmonious, only to fall into bitter disputes due to lack of proper planning."

One example that played out in the lurid lights of Hong Kong's media was a battle over the estate of billionaire Nina Wang Kung Yu-sum, who died of cancer in 2006 at the age of 69. Originally Wang's feng shui consultant and lover Peter Chan Chun-chuen claimed he was named sole recipient to her HK$83 billion (US$10.7 billion) estate under a 2006 will.

However, a court deemed the will to be a forgery, and Chan was sentenced to 12 years in prison in 2013.

Separately, Hong Kong's Court of Final Appeal ruled in May 2015 that a charitable foundation established by Wang could not receive any part of her estate as "an absolute gift", but could exercise trusteeship on the basis of her will.

Succession planning can reduce the risk of such disputes by ensuring a clear plan for the succession and ownership of family assets. It can also help families minimise probate costs on their assets and distribute wealth to younger generations in a measured manner they consider to be healthy.

The first point of call for a family seeking to arrange succession planning is a will, and power of attorney. Every family should take these basic steps.

Families also need to consider the risk of mental incapacity as first generation members grow older. Norridge says it can be a wise idea for senior family members to conduct frequent physical and psychiatric medical checks.

"This can be a delicate topic," he admits. "We typically tell the client that we don't mean to suggest they have a mental capacity issue or will pass away in the near future, but that at some point there will need to be a passing of the wealth, and it is best to make plans in advance."

SUCCESSION STRUCTURES

The next common step is for families to ensure an orderly transition of assets through wealth structures, commonly family trusts.

Although the advent of anti-money laundering regulations and the coming introduction of the OECD's Common Reporting Standards (CRS) has reduced the confidentiality of such structures, they still offer several advantages.

"Fundamentally trusts are still a good means to protect family wealth, and to protect people from themselves," says Stephanie Jarrett, head of the wealth management practice group in Geneva for Baker & McKenzie.

"The biggest difficulty in the past was that some RMs, at the lower end of the market, sold trusts as a sort of product, almost a glorified bank account."

ANDREW MILLER
Walkers

"European clients usually know exactly what they want, and within a one-hour meeting we could prepare for a structure to be set up. However, in Asia it often takes five to 10 meetings to get a client's understanding."

"Some family members have mental, physical or other incapacities, or are simply not very good at managing things. Plus you can have gold diggers marrying into – or just hitching up with – families.

"Structuring helps to protect the family wealth in these situations and ensures it can be passed through the [succeeding family] generations."

Trusts can also help family members arbitrage their tax exposure. They do so by ring-fencing assets from inheritance fragmentation, inheritance taxes, divorce or creditors, and ensuring the family wealth is passed to younger family members in measured amounts, to support education costs or ensure they are not spoiled.

"A trust will allow the private client to specify the beneficiaries, percentage of distributions, manner of entitlement and pay-outs and conditions for the pay-out," says Shook Lin & Bok's Tan. "The business control and philosophies on wealth and investments can be enshrined in the trust deed."

The concept of trusts is no longer entirely alien to many Asian families, but regional clients remain less familiar with it than their US or European peers.

"European clients usually know exactly what they want, and within a one-hour meeting we could prepare for a structure to be set up," says Philipp Schmid, a member of the management board at First Advisory Trust (Singapore).

"However, in Asia it often takes five to 10 meetings to get a client's understanding and interest."

TRUST CONTROL

One of the biggest concerns family patriarchs or matriarchs have with trusts is the fact they lose direct control of the assets placed into them.

"When you put into place a large trust or foundation, you are legally transferring those assets to the trustee," says Jarrett.

"If you have US$200 million you are essentially transferring the legal title to those assets to a third party: exactly how comfortable do you feel about that? It is likely, you will want to give that step some thought."

This was not helped by a lack of explanation from some private bank relationship managers (RMs).

"The biggest difficulty in the past was that some RMs, at the lower end of the market, sold trusts as a sort of product, almost a glorified bank account," says Andrew Miller, head of the global trusts group at Walkers.

"They didn't explain the reality to the client, which is that the assets will be controlled by the trustee, albeit that, with well-considered structuring, sensible checks and balances can be built into the structure."

Jarrett agrees that there are ways for the family to keep responsibility for the trust well-weighted.

"You may well decide to put in place what we call protectors, or something similar, to counterbalance the trustee's power," she says.

"This might be constituted by two or three people who sit behind the trust and are either re-elected or replaced on a pre-defined basis, but while they are there they have the key powers to hire and fire the trustee.

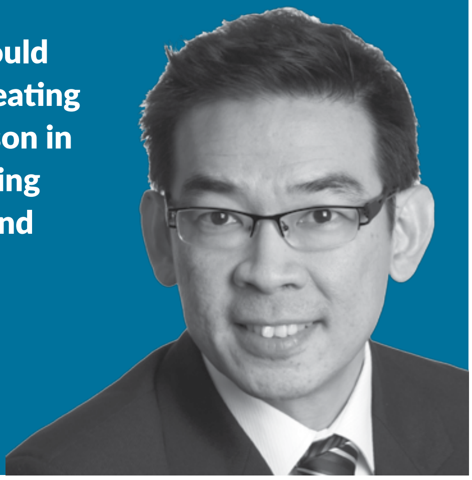
"They are there to help consult with the family and ensure good governance. That should give the family comfort that the service provider acting as trustee has somebody keeping an eye on them."

Lara Mardell, a senior associate at Ogier, an offshore jurisdictional legal advisory firm, cautions that families should always seek out quality independent tax advice before establishing trusts.

"Whatever the reason behind the structuring, it is important to take appropriate

"A person in his 40s would still be focussing on creating wealth; whereas a person in his 60s would be focusing on passing on wealth and business control

WOON HUM TAN
Shook Lin & Bok



"It is important to ensure the family is well coordinated, that its members understand the structures so assets can pass seamlessly from one generation to the next."

tax advice, to analyse the structure to ensure it will do what is intended, and to obtain relevant local advice where necessary," she says.

ENCOMPASSING PLANS

Families that are comfortable with ensuring assets to trust structures and have disparate assets or potential beneficiaries, can consider more complex plans.

"If the private client is educated and sophisticated, he may take a longer term view and embark on a more complex succession plan with multiple tools and trust structures, prescribing principles and conditions for the transition of business control and wealth," says Tan.

Nick Jacob, a partner at Wragge Lawrence Graham, says his firm is helping HNW families create succession plans to meet their business and family needs, to minimise potential disputes.

"We are working with clients to put together a governance structure for their business and family succession planning, to try and avoid family disputes and ensure their various assets are held together for the benefit of future generations," he says.

"It is important to ensure that the family is well coordinated and tied together, that its members understand the structures so assets can pass seamlessly from one generation to the next."

However, he cautions that this approach does not suit all families. Marcus Hinkley, a partner and head of the Singapore office at Collas Crill, agrees. He notes there has been a growing trend for many advisers to recommend family governance structures, which can be extremely complex.

It's also often preferable for Asian HNW families to employ relatively straightforward reserved powers trust structures to protect and pass on their assets, rather than attempting to conduct overly complex wealth structures.

"In a region where trust knowledge is relatively low, often simplicity is best," he says.

UNDERSTANDING THE OPTIONS

The most important factor in succession planning is that family members fully understand the available wealth structuring options, which requires independent legal advice.

Additionally, the family should agree upon the objectives of family succession, and induct younger members into the process at an early stage so they understand and agree with these goals. This process of induction can be as early as when the children are aiming to pursue higher education, for example.

By bringing the younger members of the family in early, family elders have the best chance of ensuring that the values and family aims that they wish to instill are embraced by these younger family members, rather than them opting to either dilute or to entirely abandon them as soon as the family patriarch or matriarch has passed on.

"Younger generation members who are interested in finding out more about the patriarch, his legacy and philosophies, investments and wealth succession [should] be inducted into the investment

"Fundamentally trusts are still a good means to protect family wealth, and to protect people from themselves."

STEPHANIE JARRETT
Baker & McKenzie

"Daughters can often offer important insights into decision-making processes that have traditionally been dominated by male family members, and the gender diversity in this decision making process is an excellent form of corporate governance in itself."

committee or sub-committees and be sent for relevant formal training conducted at universities or private banks," suggests Tan.

"It is always important to get the next generations involved early, so they can learn and become part of the system."

It can also mean breaking family conventions. "Today many daughters of HNW families are well educated, financially independent and professional. They are much more involved with the family business and legacy matters and have often earned the confidence and trust of the patriarchs, their other siblings and professional advisers," says Noor Quek, the founder and managing director of NQ International.

She notes the life knowledge of these female family members means they often bring new views. "They can often offer important insights into decision-making processes that have traditionally been dominated by male family members, and the gender diversity in this decision making process is an excellent form of corporate governance in itself."

Families wishing to ensure their enduring success need to plan ahead, bring successive generations into well-structured goals and family processes, and decide on the best structures to support their succession plans.

Only through such procedures can today's wealthy ensure they remain the same tomorrow. ■

Wealth succession to breed broader investment offerings

As families engage in succession planning, their investment needs will have to evolve to encompass new options. This could lead more clients to see the value in paying fixed fees to gain high quality advice, predicts Jason Lai of Thirdrock Group.

The need for more Asian families to do succession planning will lead them to consider new approaches to investing.

This could help advance concepts such as discretionary portfolio investment management and fixed fee advisory work, believes Jason Lai, the founder and chief executive officer of independent investment management firm Thirdrock Group.

Lai thinks there are a "vast" number of opportunities for succession planning. Unlike the US or Europe, Asia's HNW population is heavily skewed towards first generation entrepreneurs, many of whom founded businesses between the 1950s and 1980s and are now in their 70s or 80s.

Few have considered succession plans. The JP Morgan *Asia Family Enterprise Study,* published this year, reports that 88% of families were completely or somewhat unprepared for succession.

To date this has translated into limited opportunities for private banks and family offices. "Most [HNW families] are still reluctant to bring in external advisers to formalise successions, whether through a contract or lasting structures such as a trust or foundation," Lai says.

However, he is confident that the concept of succession planning is slowly gaining ground. "More Asian entrepreneurs see an increasing need to lay out clear long-term legacy strategies for their family businesses and wealth."

This in turn should increasingly encourage families to shift their investment management preferences.

"[HNW business owners'] preferred approach has been to make all the investment decisions themselves.

But with generational shifts taking place in the region, we're observing a marked change in the openness towards outsourcing some of their portfolio management and an increasing appetite for discretionary services,

JASON LAI
Thirdrock Group

ranging from real estate and private equity to hedge funds," says Lai.

The transfer of wealth to new generations is also adding momentum to this trend. Second-generation family members are generally more willing to accept outside advice when it comes to investing and conducting succession planning.

OFFERING INVESTMENT

Lai has evolved Thirdrock to help take advantage of this incipient trend.

In recent years the company has grown from a multi-family office to a fully integrated investment management firm that now offers several different investment services.

These vary from traditional capital market instruments to corporate advisory services – which include private equity and M&A advice – courtesy of Thirdrock's partnership as of last year with Thirdrock ISSEA Advisers. The company also intends to add a multi-strategy quantitative fund and an Asian ex-Japan absolute return equity strategy to its funds platform.

That isn't all. "This year, we are continuing to build on our fund management capabilities and will introduce an Asian-focused absolute return strategy in the coming months," Lai says.

He hopes this new fund will help to increase Thirdrock's AUM by at least US$100 million. Lai is a passionate advocate of using technology to support these investment management efforts.

"We see technology as one of the key game-changers," he says. "Industry players who can ride on technological innovations to augment response times, access different products and services and facilitate more active portfolio management will increase profitability, performance and productivity."

He also believes that the inheritance of family assets by younger generations will support fixed fee investment advice. It is a market development that is also liked by financial regulators.

"More clients are becoming more receptive to and benefit from the true alignment of interests in a fixed fee model," he says. "Fee-based models provide stability in the profit of firms and there is increasing regulatory pressure to move towards that model."

However, the concept of paying a fixed annual fee for advice remains alien to many family leaders used to only paying as they sought investment advice. "It is a long educational process; we had no clients on the fixed fee model when we first started," Lai says.

"But we invested time and resources to educate our clients and have found success."

Over half of Thirdrock's revenues come from fixed fees today.

INVESTMENT UNDERSTANDING

Do clients want to take advantage of all these investment options? Lai is confident, arguing that they will if they get good enough advice.

That requires advisers who better understand the investment instruments at their disposal. "As clients' investment needs get more complex and sophisticated, their advisers need to have a comprehensive and solid understanding of the industry as a whole," he says.

Lai believes advisers must possess "a broad-based understanding and macro view of trends, the investment landscape and the regulatory framework".

Using this foundation advisers can offer more tailored investment options for better investment solutions, he adds.

Advisers also need to relay their knowledge in an insightful and interesting manner, to engage the families.

"Client advisers must be able to explain in detail the [investment] risks and help clients construct the most suitable portfolios," says Lai.

"As clients' investment needs get more complex and sophisticated, client advisers need to have a comprehensive and solid understanding of the industry as a whole so they can effectively come up with solutions that are reflective of these needs."

He notes that good advisers should use their product knowledge to consider the suitability of the instruments for clients, especially given their investment aims and succession planning needs.

Modern HNW client investment advice requires much more than an idea about which way equity markets and currencies move. For companies willing to understand the evolving needs of HNW families, the rewards could be large. ■

The importance of planning pre-nups

Broaching the subject of pre-nuptial agreements can be a difficult topic. But it's a conversation worth having, if HNW or UHNW families are to avoid major potential complications in the future, says Marcus Dearle of Withers Hong Kong.

RAISE THE SUBJECT

"Many HNW or UHNW family members are very concerned about how to broach the subject of a pre-marital agreement with their son or daughter," says Marcus Dearle, a partner and the managing director Asia at Withers Hong Kong. It's wise for relationship managers to raise the concept of pre-nups with clients early.

"When a banker hears that the child of a HNW or UHNW client is getting married they should advise the client to consider getting professional legal advice to discuss whether a pre-marital agreement is appropriate for the child'," says Dearle.

He adds: "I often have meetings with the patriarch or matriarch and usually volunteer to speak initially to the person who is marrying, as well as their partner, about the proposed arrangements. Sometimes, I'm instructed to raise it for the very first time."

TRUSTS CAN BE VULNERABLE TO ATTACK IN A DIVORCE CONTEXT

Getting a trust correctly structured is the key to prevent it being vulnerable in a divorce. "Trusts can be very effective asset protection vehicles, even in a divorce context. But they do not always protect your wealth in the event of a divorce," says Dearle.

"If a trust has a husband and wife listed in the class of beneficiaries, for example, it is likely that all or part of the trust fund will be treated as a resource in a divorce for example. In those circumstances it is even more important that you have a pre-marital agreement. Trusts that are genuinely dynastic are more likely to be effective from attack, but to be truly dynastic is likely to involve the settlor not being a beneficiary."

DIFFERENT COUNTRIES, DIFFERENT RULES

Different jurisdictions in Asia have varying levels of sympathy for the financially weaker partner in a divorce. "The Hong Kong courts are likely to be far more generous than any other courts in Asia for the financially weaker party," says Dearle. "Many people are worried they could be affected by the jurisdictional hook of 'special connection' that enables the weaker party to file divorce proceedings in Hong Kong, even if they are not based in Hong Kong.

"Another often ignored but crucial fact is that the Hong Kong divorce court also has power to vary the terms of some trusts, and if there are Hong Kong-based assets in circumstances where there is a variable settlement, the fact the trust is based offshore might not make any difference," says Dearle.

"The upshot is that wealthy families are increasingly looking at entering into international pre-marital agreements. Thinking outside the box, thinking internationally and planning sensibly and responsibly, is vital," he says. ■

Succession planning weighs on the minds of Asia's families

Wealthy families are becoming more interested in the concept of succession planning, particularly following more regulatory efforts to make their assets more transparent. Kevin Tay of Bank Julius Baer explains how he is advising them.

The rising importance of succession planning to families in Asia means they will become increasingly willing to consider trusts and taxation advice.

Kevin Tay, co-head of wealth and tax planning advisory for Asia at Bank Julius Baer, thinks private banks with trust divisions may re-assess the value of such services. He believes the desire of bankers to suggest wealth planning discussions to their clients underscores a rising emphasis on fiduciary advice.

"When relationship managers and advisers bring us in to advise the client it clearly shows [the relationship] is no longer just a matter of dollars and cents, but looking after the interests of the family and its succession," he shares.

He believes the value of this advice is only being underlined by new regulations such as the OECD's Common Reporting Standards (CRS), which are set to force transparency upon the assets of HNW individuals.

"I think clients who observe the changes that CRS is bringing particularly recognise the value-add that particular advisers can bring to the table," he says.

For clients and banks alike, the increase in regulation looks set to change the way private banks function. The institutions are having to spend more on their compliance functions, to ensure their client information is accurate and sufficient. Tay says more is to come.

"Compliance costs have already risen and they will go up more for the whole of private banking," he says. "The offerings of the banks will have to change as a result. They will have to look at the overall [wealth planning and investment advisory] business."

KEVIN TAY
Bank Julius Baer

For wealth planning in particular, it could have sizeable consequences. Not least will be the fact that banks choosing to continue offering such services may have to start attaching a genuine cost to it.

"As trust companies become more closely regulated it will further raise our costs. I think this will force [private banks into] a compromise in which their trust businesses at least break even. I doubt the banks are going to continue giving them away for free."

FAMILY PLANNING

The good news for trusts is that HNW families are beginning to appreciate the value they offer. This appreciation is likely to grow further as they realise they can no longer rely on confidentiality alone to protect their assets.

Succession planning is of particular concern to these families because it pertains to the businesses that typically make up most their wealth.

"In Asia the timing and the circumstances in which a [family-owned] business is transferred from one generation to another is of high concern," says Tay. "[Ownership of the business] amounts to up to 80% of the overall wealth of the [average HNW] family."

He adds: "There are many more issues to consider, including family circumstances and politics. It's not just a question of who might be the best person to take over the business; it might come down to who in the family wants to be in the business at all."

Studies show that the vast majority of wealthy families in Asia intend to keep their business within the family. Yet most of them have not truly prepared for succession.

"A key issue is to discuss the ability to split [business] ownership from control," says Tay.

"It's important that families realise that everyone can share the fruits of the family business, while day-to-day control can be placed with an individual or group of individuals."

For families whose younger members don't want to take over the running of the business, this structure allows them to transition to a professional management structure, yet still allows them to own the business.

if they don't resolve these issues [before the assets have to be passed on]."

While these family members understand this issue, the entire topic remains highly sensitive – particularly as it involves discussing death, however indirectly, which is often a taboo subject in Asian societies.

Wealth planning bankers can act as a conduit for these sort of difficult conversations with clients.

"We are often brought in by these [second or third generation] individuals to talk to the patriarch about possible

"A key issue is to discuss the ability to split [business] ownership from control. It's important that families realise that everyone can share the fruits of the family business, while day-to-day control can be placed with an individual or group of individuals."

"A lot of [the wealth planning] we discuss centres around this as an initial theme," says Tay.

SUCCESSION DISCUSSIONS

The most fruitful succession planning discussions often begin with the second generation of families.

"The second or third generation [of HNW families] tend to be more open to the idea of wealth structures [than the older, business-founding first generation]," says Tay.

"They realise they will be the ones who could end up embroiled in legal tussles

succession planning," says Tay. "You have the highest chance of creating an overall succession plan with their approval. If you wait until the assets pass to the second generation you need many more people's consent, which makes negotiations much more likely to fail."

Encouragingly, more family patriarchs are open to having such discussions.

"More of the patriarchs we talk to say 'I need to look into it'," says Tay. "It's not a guarantee they will agree with all of our arguments, but the recognition that something needs to be done is becoming quite prevalent." ■

Failing to plan; planning to fail

Wealthy families should conduct succession planning well in advance of the death or mental deterioration of the family leader if they wish to minimise the chances of disputes, says Richard Norridge of Herbert Smith Freehills.

The most common reason wealthy families fall out over assets is because they don't conduct enough succession planning in advance.

Sometimes, even plans that have been put into in place can prove to be insufficient, particularly if assets are being distributed among several family members. Richard Norridge of Herbert Smith Freehills offers an example of one such family situation.

"A wealthy entrepreneur transferred his shareholding in his company equally to his three sons during his lifetime," Norridge says. "This situation was fine while he was alive, with the brothers all happy to get on and work in the family business. His presence alone papered over a lot of cracks, because the sons wanted to give him face."

FAMILY FALL-OUT

It transpired that one of the three brothers had been desperate to retire from the family business for a long time. After the father passed away, he saw his opportunity to do so. But no flexibility exited in the shareholding structure to let him divest his one-third stake. Tensions quickly rose.

"Within a few months this brother brought proceedings against the other two, in which he effectively said 'either you buy me out or you need to close the company'," says Norridge.

The brother got his way, and ended up selling his stake to the older brother. However, that meant there was no longer an equal balance of power between the remaining two brothers. "That had further consequences, and the younger brother ended up being fired from various boards in the company," says Norridge.

NO WINNERS

The biggest problem was that no mechanism existed to cope with a situation in which any of the brothers decided to divest some of their shares.

"There are obvious ways to avoid such a situation," says Norridge. "For example, the stakes could have been given to a trustee to oversee, or there could have been a clear mechanism put into place for one brother to buy shares from another at an appropriate valuation."

However, because none of that existed and the brothers couldn't resolve it amicably, the disagreement between them ran for two years.

"Ultimately the brothers ended up settling the dispute before it went to court, but the ultimate result was that they agreed to wind up the family company," Norridge says.

"The father would never have countenanced such a decision during his lifetime, but due to a lack of preparation it was the ultimate result." ■

Minimising family frictions

There is a lot of potential for wealthy families to fall into acrimony, particularly when patriarchs often decide how to hand over their wealth without consulting the family. Family facilitator Barbara Hauser suggests ways to prevent family misunderstandings.

CREATE A DECISION-MAKING SYSTEM

Barbara Hauser, author of 'International Family Governance', says there is one key requirement to minimise HNW family disputes.

"The most critical element is to help a family create their own decision-making system," she says. "If they create it (with the help of a good facilitator) then they will use it, and have their own family 'rule of law' which includes a smooth way to handle difficult issues."

Hauser suggests conducting individual confidential family interviews before beginning any group meetings. "This ensures that everyone has a chance to be heard," she says.

In addition, large families often need to create a family council, which represents the entire family. "The family can agree on which decisions the family council can make, and which are so important that the entire family must approve them," Hauser suggests.

ADVISE OPEN DISCUSSION

One of the biggest reasons wealthy families require outside advice is because they are often not entirely honest with each other.

"I was advising a family from South-east Asia where the patriarch announced to me that it should not take me long to prepare a family constitution with his family because, as he said, 'there are no issues in my family'. This was a big red flag," Hauser recounts.

She says the patriarch of a family often prefers to believe everything is fine, while family members often hide issues.

A good way for advisers to overcome this is to suggest a few family meetings to discuss future plans. "One suggestion would be to say "good – it sounds like a good time to have some family meetings, so everything is kept together for future generations, with your guidance'."

ENCOURAGE HONESTY

Family meetings, if conducted with a good facilitator, are a good way for members to air unspoken issues or resentments for constructive discussion.

"In my earlier example, a specific issue was the father's assumption that the oldest son would take over the role of 'head of the family,'" says Hauser. "It turned out that not only did the children disagree with the choice; they disagreed with the whole idea.

"They did not want one of themselves to be the 'head'. Instead they thoughtfully broke down the role and assigned rotating responsibilities to each function." The family members were willing to confide these views in Hauser, as an independent outsider, which allowed for a positive and productive conversation about resolving their issues. ■

Preventing families from falling into dispute

A rising number of families in Asia are becoming wealthy, but the majority of them are likely to fritter away these assets over successive generations, through indolence or disagreements. However, there are ways to minimise these risks.

There is a reason so many cultures share a variation of the expression 'paddy fields to paddy fields in three generations' – a lack of planning and process.

Families typically owe their initial success to an entrepreneurial individual who becomes wealthy through a successful business or investments. However, once the wealth is handed over to successive generations it needs to be carefully structured in order to support an expanding number of people.

"It can be difficult with Chinese patriarchs in particular to give up control to the younger generation, yet this is important to ensure the succession line and wealth stay intact."

PATRICIA BEE KUEN THOMAS
FACT Family Office

Unless all main family members agree to common goals, processes and decisions it can be easy for some to become disenchanted or resentful of other family members. Alternatively, without a good structure some feckless family members risk squandering assets.

These problems are common to HNW families around the world, no matter what culture they originate from. "I have worked with ethnic Chinese families, Arab families, European families and US families," says Barbara Hauser, author of International Family Governance. "Despite their many cultural differences, the underlying human needs of each are quite similar."

KEEPING IT CLOSE

One of the most common origins of family frustration in Asia in particular is the centralisation of power and decision-making with the first generation patriarch or matriarch.

In many Asian cultures, senior men tend to make the decisions on behalf of the family. Added into this dynamic is the fact that the first generation wealth creators today are patriarchs who are becoming increasingly elderly, but con-

"Hong Kong is the divorce capital of Asia, by which I mean the Hong Kong courts are likely to be far more generous than any other court in Asia for the financially weaker party."

MARCUS DEARLE
Withers

"I have worked with ethnic Chinese families, Arab families, European families and US families. Despite their many cultural differences, the underlying human needs of each are quite similar."

tinue to control most aspects of the business that created and constitutes the bulk of the family's wealth.

The problem arises when such a patriarch provides his sons, daughters and grandchildren with very little information about the status of the family assets, while also making assumptions about how the assets and family company will be passed down and managed after they pass away.

"It can sometimes be difficult with Chinese patriarchs in particular to give up control to the younger generation, yet this is important to ensure that the succession line and the wealth stays intact," says Patricia Bee Kuen Thomas, the chief executive officer of FACT Family Office.

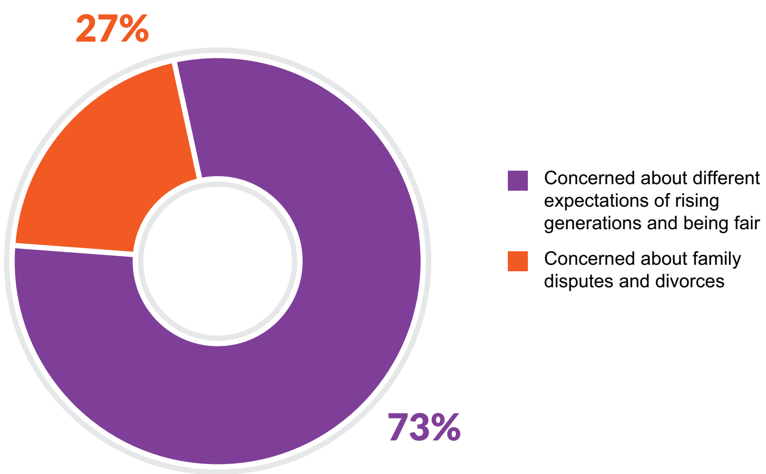
This attitude can leave succeeding generations in a bind, particularly if the patriarch experiences a sudden deterioration in his mental capacities or dies unexpectedly. They can find themselves having to deal with a business, and wealth structures and trustees, with which they are entirely unfamiliar.

"A common mistake is for the patriarch to continue as the sole influencing party during their lifetime, with the next generation having little or no contact with the trustees," says Julie Collins, head of business development at EFG Wealth Solutions. "The opportunity is therefore missed for a trusted relationship to grow and take root."

The transfer of assets also means advisers have to be careful about who to pay the most heed to, particularly when generations may have different and conflicting priorities.

"I serve a second generation person who is in his 60s, while the children are in their 30s and 40s, and sometimes there is a conflict between the needs of the third generation and the second generation," says Carol Seah, founder and

THE TOP CONCERNS ABOUT ASIAN FAMILY WEALTH TRANSITION



Source: JP Morgan Private Bank

chief executive of Wynnes Family Group. "I have to know who is really calling the shots, which in this instance is the second generation person."

INSTALLING A CULTURE

One way to ensure families remain facing the same direction and committed to the common good is to create a set of goals and priorities that are fixed enough for everyone to understand, yet flexible enough to provide for individuals seeking fulfilment outside the family's business.

"The most critical element in minimising family disputes is to help a family create their own decision-making system," says Hauser. "If they create it (with the help of a good facilitator) then they will use it. If they use it, they will have their own family 'rule of law', which includes a smooth way to handle difficult issues."

A common way to do this is via a family constitution, or a living document that all family members have a hand in drafting, which shares their views, objectives, and decision-making process.

The idea is that the family constitution becomes the basis by which all major decisions are made, particularly involving wealth. The constitution should be re-discussed by a meeting of senior family members at least once a year, to reaffirm their commitment to it and discuss various issues that have arisen or might do so in the coming year.

"Family constitutions and family councils are increasingly popular; through them you almost institutionalise a forum to have family conversations," says Richard Norridge, head of the Asia private wealth practice at Herbert Smith Freehills.

"You can diarise meetings and get family members together, and then broach

"Despite their many cultural differences, the underlying human needs of Chinese, Arab, European and US families are quite similar."

BARBARA HAUSER
Barbara R Hauser LLC

"The most critical element in minimising family disputes is to help a family create their own decision-making system. If they create it then they will use it. If they use it, they will have their own family 'rule of law'."

potentially difficult decisions while they are happy and getting along."

Gaining the agreement of all family members on a set of ground rules that lay out how to resolve individual family member's plans and aspirations reduces the potential for antagonism and unnecessary disruption.

COOPERATION AND COMPETITION

Experts say this is an excellent starting point, but that it needs to be treated as a foundation to be built upon.

"A lot of wealth management firms offer a family constitution, interview family members and introduce a family will," says Christopher Marquis, global head of wealth planning solutions at HSBC Private Bank.

"These steps are a good starting point, but you need to work with families to embed these concepts into the ownership structure so that they are binding on the family."

He notes that HSBC Private Bank conducts special forums and seminars for younger family members to learn many of the skills of business management and understanding wealth. The bank invites other HNW individuals and expert advisers to educate them about potential issues and how best to resolve them.

Hauser adds that there are other, innovative means for family members to both cooperate and compete in such structures, while gaining a shared sense of goals and identity.

"One family included in their family constitution that every year they would make an award (some money and a leather/gold plaque) to someone outside the family who made an important contribution to the field that their family business was in," she says.

"This was a very creative idea, and one that came up from the family members."

ENCOURAGING ENTREPRENEURSHIP

Families can also seek to secure their financial health and maintain harmonious relations by encouraging ambitious and goal-minded members of the second, third and fourth generations to become spirited entrepreneurs, with the backing of agreed amounts of family wealth.

By doing so, they invest some of their capital into family members who have a chance of growing it further.

"Entrepreneurs began the family businesses, but as they grow do they lose that entrepreneurial spirit and drive? What can the families do to infuse the business with that drive and energy?" says Hauser.

Not all will be guaranteed to add to the family's wealth. However, by encouraging them to strive towards their own business ventures the family can accumulate shared knowledge and increase the possibility of adding to its overall asset health.

Hauser notes that some HNW families have sought structured ways that they can promote professional dynamism in their companies.

"Trustees who have established strong links to both the family and their advisers are able to work with all parties and provide solutions that meet their needs."

MELANIE ISON
Nerine Trust

"A lot of wealth management firms offer a family constitution, interview family members and introduce a family will. These are a good starting point, but you need to embed these concepts into the ownership structure."

"Several families have formed a 'family venture fund'," she says. "The details are tailored to each family, but the basic idea is that the family will contribute a certain fund to encourage entrepreneurship. They will have to make a business plan to present to the fund.

"The committee that makes decisions may also include relevant outside experts. Funded projects are closely watched by the family, with encouragement of a reasonable pay-back period."

PRE-NUPTIAL PREPARATIONS

As families expand and encompass more members, the chances that some members will end up marry and then divorce inevitably rise. Such disputes risk swiftly fracturing the assets of a family, as disgruntled former spouses demand sizeable sums of money.

Marcus Dearle, a partner and Asia office managing director at Withers Hong Kong, says family members living in, or with links to Hong Kong should be particularly cautious.

"Hong Kong is the divorce capital of Asia, by which I mean the Hong Kong courts are likely to be far more generous than any other court in Asia for the financially weaker party," he says. "Many people are worried they could be affected by the jurisdictional hook of 'special connection' that enables the weaker party to file divorce proceedings in Hong Kong, even if they are not based in Hong Kong."

The risk of this potential exposure has many HNW families in Asia concerned, and seeking his advice.

"I am involved in quite a number of cases involving HNW and UHNW families throughout South-east Asia who are very concerned about the risk of a special connection divorce and therefore involved in complex pre- and post-marital agreements and responsible wealth planning – including advice concerning international trusts and international corporate structures," he says.

The easiest way to avoid this risk is for couples about to marry to introduce a pre-nuptial agreement on the division of assets in the event of a divorce.

It can be difficult to raise this topic however, particularly if it is initiated by a family patriarch concerned that his son or daughter risks fracturing the family's wealth through a marriage.

Yet Dearle believes it is worth facing these emotional risks, when multiple millions of dollars could be at stake. And sometimes a pre-nuptial agreement can help a relationship.

"The wealthy party often considers that the fact the other party is prepared to sign an agreement demonstrates he or she is marrying for love and not the money. He or she is then less likely to be looking over his or her shoulder worrying that a divorce is just around the corner. It can actually take the pressure off a relationship."

However, any agreement should also be realistic and fair.

"A pre-marital agreement which provides the weaker party with nothing in the event of a divorce is far worse than having no pre-marital agreement at all" he says.

"In a HNW or UHNW case the provision is highly unlikely to be less than a couple of million US dollars for the financially weaker party," he says.

"And the trick is to make sure the provision is regularly reviewed and updated."

EARLY CONVERSATIONS

Perhaps the best way to prevent family disputes is the simplest – establishing good lines of communication.

"You need to get people's buy-in [over a succession plan] and to explain and give them a non-financial reason to engage in the process," she says. "This could be as simple as 'this is what mum and dad wanted and we have enough respect to follow it'."

These lines of communication should also extend to advisers. "Often, when the relationship is close, trustees will flag issues before they become problems, saving client's money and time," says Melanie Ison, managing director for Hong Kong at Nerine Trust.

"I asked one father what his son would be studying at a US university, and he said 'business and law'. I asked the son, and he said 'English and media'. That is going to end up in a difficult situation if they don't discuss their differences."

Joanna Caen, a senior associate at Herbert Smith Freehills in Hong Kong, notes that patriarchs or senior family members should seek to discuss succession plans and the plans of family members as soon as possible.

"I asked one father what his son would be studying at [a US] university, and he said 'business and law'," she recounts.

"I asked the son, and he said 'English and media'. That is going to end up in a difficult situation if they don't discuss their differences in outlook."

Caen notes that conducting succession planning can be as simple as everybody agreeing to the parent's wishes.

"Trustees who have established strong links to both the family and their advisers are able to work with all parties and provide solutions that fully meet their wealth needs."

Although there is no way to entirely eliminate the danger of family feuding and poor decision-making by individuals, there are ways in which to minimise these possibilities.

A good place to start is having open dialogue and common objectives.

Both these steps should help improve wealthy family relations, as well as smoothing the way for making and retaining family wealth. ■

It's good to talk, and expensive not to

Wealthy families often fall into disputes due to relatively small perceived slights. It is best to solve these arguments as early as possible through professional mediation, say Richard Norridge and Joanna Caen of Herbert Smith Freehills.

The death of a family patriarch and matriarch is an upsetting time for any family. But when a large amount of wealth is at stake in the inheritance, it can also cause jealousy, anger and outright paranoia.

Richard Norridge, a partner at Herbert Smith Freehills, says a poorly structured or communicated will or succession plan can often cause resentment among some individuals. At that point it's wise for the family to turn to mediation before seeking redress in the courts.

"We have done mediations using third-party professionals who are experienced in bringing parties together to find common ground," Norridge says. "The courts are also keen to get them to do that to avoid costly law suits."

FINDING COMMON GROUND

This can be an uphill struggle for the mediator, particularly when arguments over inheritance cause lingering resentments to resurface.

"One older brother starting a mediation, in which everyone set out their position and said they wanted the talk to be constructive and to find a resolution," says Norridge. "Then the older brother said 'I hate you and I want you to die' to his younger brother. That didn't leave much common ground."

It's important that families and their advisers address any feelings of upset or resentment as early as possible.

"You need the family to admit there is a problem, then try to create an environment where they are happy to talk to each other," Norridge says. "It often helps to have third-party people come up with constructive solutions, and afterwards create formal proceedings in which the third party can create a decision they can all agree to."

COSTLY PRIDE

Joanna Caen, a senior associate and registered foreign lawyer at Herbert Smith, advises families not underestimate how fast relations can deteriorate.

"We have seen situations in which the family ran their business brilliantly for 40 to 50 years and then something happens, and the relationships broke down in a matter of weeks," she says.

Some family arguments can stem from members feeling aggrieved over relatively inexpensive items.

"Some individuals spend vast sums on legal fees over relatively small amounts, due to a principle they feel is worth fighting for or regarding something that is dear to their hearts," says Caen.

"For most disputes it's really not about the number zeros at the end [of the amount in dispute]." ■

Tips for keeping trusts secure

Families can use trusts to protect assets from inheritance tax and pass assets to the next generation. But they should beware of seeking to retain too much control of the trusts, as doing so could undermine their advantages.

There is a broad variety of trust types available to HNW families. Some cater to the preference of many Asian families to retain more direct control over the assets within them.

"Many clients are really hands-on when it comes to asset management, which is why some trusts here in Singapore are good ways to let them maintain some control of the investments being made," says Philipp Schmid, a member of the management board at First Advisory (Singapore). "Similarly they can use VISTA trusts or PTCs (private trust companies) to control the assets."

However, such trusts are not a one-size-fits-all solution, according to Richard Grasby, the head of trusts and private wealth at Maples & Calder.

"If a PTC is to be used, the ownership and control of this is also likely to be a separate exercise – an off-the-peg PTC is unlikely to be exactly what the client wants," he says. "The additional work at the outset to ensure that the structure works for the settlor and is what the settlor wants is essential and should more than justify the extra cost."

However, Michelle Le Herissier, head of Asia for Barclays Wealth Trustees (Singapore), notes that misunderstandings over PTCs can still prevail.

"Families use them when they want more control over their assets, but they can be tremendously time-consuming," she says. "While the risk for us is lessened by holding assets such as shares in a trading or listed company, if the family doesn't understand the requirements and responsibilities of being on the board and running a PTC, it can take a lot of time to explain it to them and to educate the family."

OWNERSHIP ISSUES

Clients should also beware of seeking too much control of trusts.

"Many clients suggest to us they set up a trust, with a PTC as the trustee of that trust, and the client settlor as sole director – and sometimes also shareholder – of that PTC," says Lara Mardell, a senior associate at Ogier, an offshore jurisdictional legal advisory firm. "This structure is permitted by many jurisdictions, but it is rarely advisable, as it can give rise to a number of problems."

One is that the trust's validity can be challenged on the basis the settlor never intended to create a trust, plus it can create complications if the client dies. Solutions include adding directors to the PTC aside from the settlor, or having the PTC shares held by a purpose trust or a Guernsey or Jersey foundation.

Other important steps include the trust settlors not having the sole power to revoke a trust, appoint capital or replace the trustee. A common solution is for a committee to make such decisions, of which the settlor is a member. ■

Judging the correct jurisdiction for families

The number of offshore jurisdictions that families can choose between when it comes to domiciling their offshore wealth structures has never been broader. Andrew Miller of Walkers offers some tips on how best to choose between them.

KNOW THE DIFFERENCES BETWEEN JURISDICTIONS

"The RM needs to understand the fundamental differences between the various offshore jurisdictions," says Andrew Miller, head of the global trusts group at Walkers.

He believes that Bermuda, the British Virgin Islands, the Cayman Islands and Jersey comprise the top tier of offshore jurisdictions for wealth planning.

"Each of these jurisdictions offer a deep level of sophistication, a broad number of law firms and trust companies, plus the availability of an appropriate court system in case anything in the structure goes wrong," says Miller.

He believes there are several questions to ask to ascertain a good jurisdiction.

"For example, does the jurisdiction [the client is considering] have tried and tested cutting edge legislation in place? How sophisticated is the jurisdiction in general; is it a sophisticated financial centre, or does it lack longevity, strength and depth? What's the physical and service infrastructure in the place like? How many quality law firms are there on island? What range of financial institutions have a presence there?"

PAYING FOR QUALITY

'Top-tier' jurisdictions are generally more expensive when it comes to establishing trusts or foundations.

"I would say a client may be looking at price differential of 20%-30% between similar structures available in a top tier versus a bottom tier jurisdiction," says Miller. This can become a hurdle with Asian families in particular, who tend to be quite price-focused. However, Miller argues that the extra cost is worth it.

"The top tier jurisdictions are more expensive because of the experience and well-founded services they offer. That reduces the risk of anything going wrong in a structure based within them."

SAFETY FIRST

The extra cost required to get a structure in a top jurisdiction is typically *de minimis* compared to the value of the assets being placed within them. "I have seen USD1 billion structures being arranged in jurisdictions that frankly I wouldn't recommend someone to place a US$1 million trust within," says Miller. "Many clients have assets of hundreds of millions if not billions of US dollars, yet they can become focused on trust charges that vary from USD5,000 to USD20,000 a year.

"If the clients are concerned enough about the safe keeping of their assets that they are prepared to set up a trust, I believe it is worth spending a little more to ensure the structure they've picked is as safe, well considered, structured and robust as possible." ■

Greater regulatory clarity to have large planning consequences

Plans to implement higher levels of information disclosure are set to force changes onto the once-private world of wealth planning. This could cause families to shift their wealth away from some jurisdictions and keep more onshore.

After years of operating in privacy, global wealth planning is becoming a very public place.

The imposition of a slew of new regulatory schemes is now forcing private banks, trustees, lawyers and jurisdictions to adapt to a wealth planning world without privacy.

"A new regulatory language is being developed ... and the translation is clear – transparency, by way of automatic exchange of information, is here to stay."

JULIE COLLINS
EFG Wealth Solutions

"A new language is being developed – FATCA, Common Reporting Standard (CRS), Foreign Financial Institutions, Trustee Documented Trusts; the translation is clear – transparency, by way of automatic exchange of information, is here to stay," explains Julie Collins, the head of business development at EFG Wealth Solutions.

Regulators have been demanding greater transparency ever since the global financial crisis of 2008.

The implementation of FATCA in 2013 marked a major increase in compliance, with banks and trustees having to report whether any client or structure had links to the US.

Tax authorities in the G20 and beyond will require even more information on the introduction of CRS in 2017/18.

Soaring information requirements will likely stamp out most tax avoidance trusts. Instead, wealth planners and jurisdictions will need to be able to demonstrate that they can offer genuine asset protection and succession planning value to wealthy families.

At the very least, the constant demands for information are going to make the need for truly professional advice substantially more urgent.

> **"CRS is going to change the very nature of jurisdictions. It could lead to an exit of trusts from many popular jurisdictions."**
>
> **MICHELLE LE HERISSIER**
> Barclays Wealth Trustees (Singapore)

> **"The implications of the new Automatic Exchange of Information regime are huge. I don't think most clients yet recognise the important of this. In an increasingly transparent world, clients need proper advice."**

"The implications for the new Automatic Exchange of Information regime are huge. I don't think most clients yet recognise the importance of this," says Clifford Ng, a partner at Zhong Lun. "In an increasingly transparent and compliant world, clients need proper advice now more than ever before."

The rising level of enforced transparency could force many companies out of business. Yet it could ultimately leave behind a healthy, robust industry, with players and jurisdictions that offer definite value to wealthy families within the glare of the world's financial regulators.

CRS CONSEQUENCES

The coming introduction of CRS has particular heft because of the extensiveness of its information demands.

Pioneered by the OECD, the regulations will allow the tax authority of one country to receive information on private clients, structures or beneficiaries that have links to the country but are based in other jurisdictions. The purpose is to ensure wealthy families or individuals do not evade taxes. Jurisdictions signing up to CRS are meant to commit to exchanging information by 2017 or 2018.

These automatic exchange of information requirements mean that banks and trust companies have to submit personal and asset information about bank and fund account holders, trustees, protectors and trust beneficiaries to the local regulator.

CRS will, in effect, strip away most of the confidentiality from the wealth planning industry.

"CRS is going to affect every single structure that anybody has set up anywhere in the world except the US," says Nick Jacob, a partner at Wragge Lawrence Graham. "I think it will take a while to filter though to some countries, but the impact will be huge."

Andri Manatschal, a partner covering international private clients at PWC in Zurich, agrees.

"People need to first learn about these changes and accept that these new rules

> **"The rise in regulation will force clients to comply with their taxes and consider their structures from this viewpoint. This should reduce reputational risk for advisers."**
>
> **WILLIAM AHERN**
> Family Capital Conservation

are designed to offer no escape," he says. "We spend a lot of time and energy educating clients to make them fully aware of what this means. To be clear, not all countries will begin participating in the global exchange of tax information immediately; in fact it could take decades for more remote countries to do so. But trying to avoid these measures will become increasingly risky."

The drive for transparency offers some positives for market practitioners. For a start, it will mean banks can be much more certain their clients' money is legally obtained and tax-compliant.

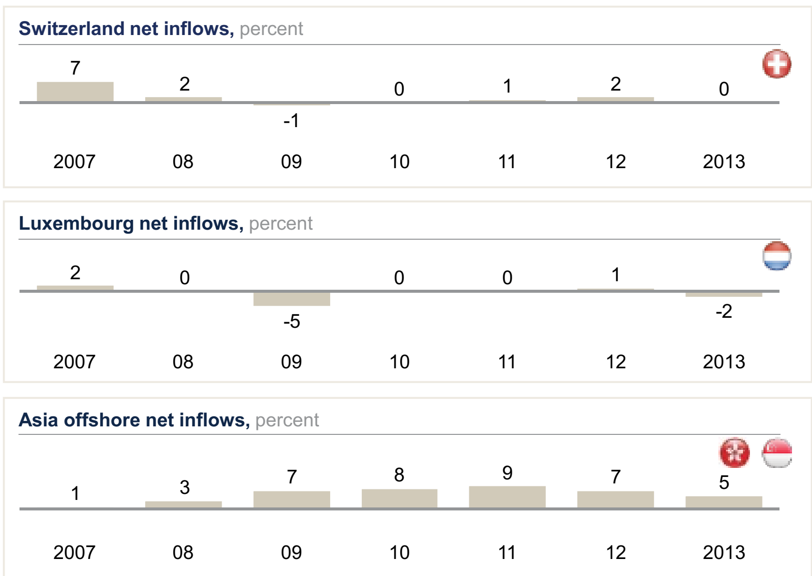
"The rise in regulation has some good elements," says William Ahern, the principal of Family Capital Conservation. "It will force clients to comply with their taxes and consider their structures from this viewpoint. This is good for advisers, because it should reduce reputational risk and there will be a real need for sophisticated advice to design structures that are compliant with tax laws around the world."

"The BVI has been working with Asian businesses and families since the 1980s and has deep experience and a mature infrastructure in the region."

ELISE DONOVAN
BVI House Asia

"The increasing regulation is creating a huge amount of paperwork. I think governments are taking a sledgehammer to the nut, and industry practitioners have to deal with these vast demands for compliance."

OFFSHORE ASIA GAINS AUM AS EUROPE WALLOWS IN FLAT INFLOWS



Source: McKinsey Wealth Management Survey 2014

REGULATION SURGE

However, the constantly rising regulatory demands are also onerous, and costly to comply with.

"It is creating a huge amount of paperwork," says Ahern. "I think governments are taking a sledge hammer to the nut, and the industry practitioners are the ones that have to deal with these vast demands for compliance. It remains an open question as to how much of the cost of this increased compliance can be passed onto the clients."

Bankers and trustees alike admit the need to meet all the new regulations has

"In the Cayman Islands we see a move, in residency and citizenship planning, towards the wealthier end of the market thinking more about moving genuinely offshore."

ANDREW MILLER
Walkers

"Globally we have brought at least 10 to 15 new people in on six-month contracts to help us meet the information disclosure requirements. And it really is a tick-box exercise."

forced them to hire more staff to handle the increased information demands, raising their cost bases.

"Globally we have brought at least 10 to 15 new people in on six-month contracts to help us meet the information disclosure requirements," says the head of Asia for an international trustee. "And it really is a tick-box exercise."

The new rules are already stymieing new trust creation. Michael Shue, executive director for trust services of Vistra Hong Kong, and the chairman of the Hong Kong Trustees' Association, notes that some banks have interpreted guidance from the Hong Kong Monetary Authority in the strictest way possible, often refusing to open bank accounts for trust and corporate structures without extensive customer histories.

"Some bank compliance departments equate any level of complexity to tax evasion or money laundering, despite the fact that the trusts are strictly legitimate. The problem lies with a lack of understanding about trusts."

"We believe the problem stems from the compliance departments equating any level of complexity to tax evasion or money laundering, despite the fact that the trusts are strictly legitimate," he says. "The problems lie in part with a lack of understanding about trusts by bank compliance departments."

It is ironic, because Hong Kong only introduced a new trusts law in December 2013 to encourage more of the structures to be established in the territory.

Meanwhile, more customers may decide against secreting assets in geographically-remote locales.

"There is less point in families establishing and maintaining [cross border structures] without getting any tax benefit or privacy," says Ahern. "There need to be some very good commercial reasons for the pain and cost of [a HNW family] maintaining a foreign structure."

Traditional cross-border trust patterns could also diminish. Singapore, for example, is known to be a wealth centre for many families in South-east Asia, particularly from Indonesia and Malaysia.

"When CRS comes into effect between Singapore and Indonesia, for example, there will be an exchange of information between Singapore and Indonesia in respect of most assets, income and gains," says Jacob. "That will mean sensitive information has to be disclosed from Singapore to Indonesia."

This information sharing could shed light on some individuals' failure to plan effectively for tax compliance.

However, many honest HNW individuals are concerned they will become vulnerable to extortion or worse once public sector departments gain information about their assets.

Corruption exists in many governments and bureaucracies, particularly in emerging nations, and there is a real concern about the security of information.

"There are lots of legitimate reasons for why people want [to ensure their financial information is kept] private," says Marnin Michaels, a partner focusing on tax and international private banking at Baker & McKenzie in Zurich. "Two weeks ago, for example, I received a call related to a kidnapping [of one of my client's family members]."

HNW MIGRATION

While offshore wealth planning struggles, onshore services could start to gain more interest.

"We are seeing a big trend towards clients looking onshore in terms of their wealth planning needs," says Christopher Marquis, global head of wealth planning solutions at HSBC Private Bank.

"With all clients having to become fully compliant, it is likely that more will decide to be regulated locally."

Another possible outcome is that an increasing number of HNW families could relocate to low tax countries.

Experts say 'midshore' jurisdictions like Hong Kong and Singapore might appeal, as they offer world-class infrastructure, a sophisticated wealth planning industry and relatively low income and capital gains tax rates.

Jurisdictions like Jersey and the Cayman Islands have also seen interest from small numbers of HNW individuals.

"In the Cayman Islands we see a move, in residency and citizenship planning, towards the wealthier end of the market thinking more about moving genuinely offshore," says Andrew Miller, head of the global trusts group at Walkers.

"For example, we are increasingly receiving enquiries about locating family offices in places like Cayman."

Ahern, who is based in Hong Kong, notes several of his clients based in countries such as the UK, US, Canada and Australia have discussed migrating to less tax-onerous places.

"I think many people will want to come to places like this and Singapore," he says. "Individuals will vote with their feet – in huge numbers, I suspect."

FLIGHT TO QUALITY

Offshore jurisdictions may have to go to greater efforts to underline the value they offer wealth planning.

In particular, they will need to ensure they have the necessary information infrastructure to collect client and trust information, along with possessing local structuring experts and lawyers who can interpret the impact of the new requirements on wealth structures. This could cause some difficulties for less established jurisdictions.

"CRS is going to change the very nature of jurisdictions," says Michelle Le Herissier, the head of Barclays Wealth Trustees (Singapore). "Once the demands for information on registered offices, agents, and other providers come in, it could lead to an exit of trusts from many of the popular jurisdictions."

> **"I think many people will want to come to place likes Hong Kong and Singapore. Individuals will vote with their feet - in huge numbers, I suspect."**

Several observers state that few quality jurisdictions possess strong infrastructure and a critical mass of wealth structuring experts.

These are most likely to weather the onset of CRS relatively well.

"The Bahamas, Jersey, Guernsey, Singapore and Delaware are all examples of quality jurisdictions," says Michaels.

"However, I don't work with B-level or lower jurisdictions at all."

Melanie Ison, managing director for Hong Kong at Nerine Trust, notes that the British Virgin Islands and Cayman

Islands have been the historical default homes for wealth structuring for many Asian clients.

Elise Donovan, director of BVI House Asia, believes this historical popularity will stand it in good stead.

"The BVI has been working with Asian businesses and families since the 1980s and has deep experience and a mature infrastructure in the region," she says.

"Families looking for advice, a legal opinion or how to set up a structure will find that the BVI is most equipped to handle those needs because of its vast infrastructure, experience and creating success for clients in the region."

But there are signs other jurisdictions in addition to the BVI and Cayman will gain appeal with Asia's HNW clients, as they re-weigh their options.

"In the last few years I have seen a shift where Asian clients…focus more on where they will receive high levels of service and expertise," says Ison.

Richard Corrigan, deputy chief executive officer for Jersey Finance, which represents the finance companies in the offshore UK jurisdiction, seems optimistic.

He notes that global HNW families are keen to protect assets and pass them on safely "in the face of instability, volatility and political corruption in certain countries, and a much more widely spread family diaspora".

In his view, jurisdictions "that understand the specific needs of families and can handle cross-border transactions securely and efficiently are going to be able to differentiate themselves more effectively in a competitive market".

TOUGHER TIMES

CRS looks set to force change onto the world's wealth planning industry.

Private banks and trustees will have to spend even more on compliance, and much of the confidentiality HNW families once took for granted is set to be stripped away.

This is likely to lead wealthy families to keep more of their money onshore, and could mean more clients opt to physically move to lower tax jurisdictions.

Meanwhile, offshore jurisdictions will have to handle the information disclosure implications of these onerous new rules, and demonstrate they have the resources to offer structures that make sense in this new regulatory paradigm.

This will place more pressure upon all of these jurisdictions.

However, it is likely to particularly raise question marks about offshore wealth destinations that lack decades of experience, large and established bases of experienced wealth advisers and professionals, or tested regulatory systems and information gathering capabilities.

Jurisdictions may well need to possess all of these advantages of they are to quickly meet all of the increasingly onerous requirements of new rules.

ASIAN AMBIVALENCE

Perhaps the biggest challenge facing the industry is the conundrum offered by Asia itself.

The region is well-known for enjoying the best overall level of growth in wealth, at a time that many other geographies have seen the demand among HNW individuals for wealth structures in particular fall to very low levels of growth.

Yet despite the undoubted potential that the region offers wealth planners, the concept of trusts has not become ingrained in the thinking of regional wealthy families in the same way it has in Europe or in the US. And calls for transparency may only increase the ambivalence with which Asia's HNW families view wealth structuring.

"We are selling our services to a population who don't see that what we offer is needed by them, let alone valued. I honestly don't think that the trust industry will survive in its present form. It must adapt to remain relevant."

"We are selling our services to a population who don't see that what we offer is needed by them, let alone valued," says Marcus Hinkley, a partner and head of the Singapore office at Collas Crill.

"I honestly don't think that the trust industry will survive in its present form. It must adapt to remain relevant." ■

Balancing transparency with confidentiality

Jersey intends to remain a leading international financial centre by leading the way on information disclosure, respecting client confidentiality, and clearly explaining its rules, says Richard Corrigan of Jersey Finance.

Debates around raising standards of tax information exchange and regulation are having a profound impact on the world's international finance centres (IFCs).

Richard Corrigan, the deputy chief executive of Jersey Finance, the representative body of the island's finance community, believes these discussions will force IFCs to hold themselves to a higher standard. It's a move he says he welcomes.

"The momentum for greater transparency in financial services is undoubtedly gathering steam, both onshore and offshore, and this is something Jersey fully supports," says Corrigan.

As one of the world's leading IFCs, Jersey's future will rest heavily upon the outcome of these discussions.

The UK crown dependency is a small place, by almost any measure. The island is only 119.5 square kilometres, and can be driven around in two to three hours.

Its population stood at around 99,500 as of 2014, about a third of which is based in the capital of Saint Helier. Most of its 12,700-strong financial practitioners work from there too.

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Jersey Finance

This close-knit community supports one of the most sophisticated locations from which HNW individuals can arrange international wealth structuring.

"The downsides of [the island's] size are more than compensated for by … a concentrated, close and committed community of expert practitioners," says Corrigan. "[They] represent a powerful resource, keen to innovate and highly sensitive to market needs."

The Jersey Financial Services Commission (JFSC), the island's financial regulator, well understands the drive for greater transparency. It has increasingly strived to be in the vanguard of information disclosure (see box).

As the island's finance industry association, Jersey Finance has a lot of input into legislation too. In 2014 it responded to 21 industry consultations and had input into 27 pieces of international regulation and legislation.

OPEN DIALOGUE

As part of its desire to meet higher transparency standards, the JFSC actively speaks with market practitioners.

Heads of trust operations for Asia tell Hubbis the JFSC is happy to engage in constructive conversations and offer prescriptive advice over new rules.

"They are always very willing to have a conversation about how certain rules are interpreted, so there isn't any confusion about implementation," says a leading trustee for Asia at one international private bank. "More financial regulators of wealth planning could learn from this sort of open dialogue."

Jersey is also keen to innovate. For example, in 2014 the JFSC won a leading award for its recently-introduced Security Interests Register.

Corrigan notes that the JFSC regularly consults financial practitioners on changes of laws, policy and practice, while there are regular liaisons between the heads of the island's government, the JFSC and Jersey Finance. The JFSC also frequently meets Jersey's financial industry trade associations.

"As with most relationships, communication is key, and the manifold routes available to communicate disruptive points of practice or problematic issues – in both directions - are a key ingredient to maintaining the most productive of relationships between the regulator and the regulated," he says.

UNIVERSAL APPROACH

Although Corrigan welcomes greater information disclosure, he believes the world's financial regulators should balance their desire for greater transparency "with a legitimate right [of private individuals to have] an appropriate level of confidentiality through the adoption of sensible, workable, global standards".

He thinks it is important for all financial regulators and jurisdictions to implement rules surrounding the disclosure of information in a similar manner. Otherwise their effectiveness in preventing tax evasion, money laundering and other financial crimes will be less effective, and the regulations might be prone to abuse by some countries.

With increasing amounts of confidential data being exchanged across borders, IFCs must balance transparency with a legitimate need for confidentiality. Meanwhile, trust practitioners have to decide which jurisdictions can most easily meet rising disclosure standards.

Jurisdictions that offer responsive regulatory oversight and high levels of data security are likely to do best, and Jersey appears well-placed. ■

Jersey's transparency drive

Richard Corrigan of Jersey Finance says the Jersey Financial Services Commission (JFSC) and Jersey Finance are both dedicated to promoting better financial transparency.

"[The JFSC] is working hard to obtain the credit it deserves for its response to the shifting regulatory agenda – which in many cases is more advanced than in larger countries," he says.

In 1999 Jersey's regulator began capturing corporate beneficial ownership information on a centrally-held registry, granting access to law enforcement agencies under internationally-agreed information exchange mechanisms – an approach the G20 endorsed at its most recent annual meeting in November 2014.

Jersey has also signed over 40 tax agreements with other countries – including China and Hong Kong, while the UK's ratification of the OECD Multilateral Convention on Mutual Assistance in Tax Matters has been extended to Jersey. Additionally, the island is a signatory to US FATCA and has signed an intergovernmental agreement with the UK and the European Savings Tax Directive for automatic exchange of information within the European Union. In October 2014 it was one of the 51 jurisdictions to commit to the OECD's incoming Common Reporting Standards as part of the 'Early Adopters Group'.

Corrigan notes that Pierre Moscovici, the European Commissioner for Economic and Financial Affairs, met the chief ministers of Jersey and neighbouring Guernsey, and afterwards said Jersey's work to combat tax evasion, fraud and abusive tax avoidance had been "very much welcome".

Considering the taxing issue of client migration

Increasing numbers of wealthy families are migrating to new jurisdictions, but some fail to gain rigorous advice on the taxation implications of doing this. Failing to do so can be very costly, warn Andri Manatschal and Sergey Bezborodov of PwC.

Wealthy families across the world are becoming more internationalised, as their businesses make money from increasingly far-flung places, and as more immediate relatives opt to relocate to new countries.

Add into the mix the pressure from regulators for greater tax information disclosure, and many families are considering moving to new countries, where they may feel more secure or be able to enjoy better wealth services.

MIGRATION CHALLENGES

Migrating to new countries can have sizeable financial ramifications, especially when it comes to taxation.

However, a lot of families – and some of their structuring advisers – don't fully consider this.

"Many service providers offer private clients relocation services, and typically they focus mostly on the legal aspects [of this process] to get the necessary migration permits and possibly new passports, and then [look to buy] real estate [in the country they are migrating to]," says Andri Manatschal, a partner who covers international private clients at PwC in Zurich.

"What many people forget to think about is [the impact of their change in location on] taxation, which increasingly has a cross border element.

"When a [private client] leaves a jurisdiction and takes up residence in another, there will always be at least two jurisdictions involved. As the adviser you need to make sure that you are not creating huge tax risks and costs [for the client] when advising them about the migration."

"As the adviser you need to make sure that you are not creating huge tax risks and costs [for the client] when advising them about the migration."

Sergey Bezborodov, a director of tax and legal services for international private clients at PwC, says private clients can end up exposing themselves to large and costly problems if they don't sufficiently considering their issues.

"If, for example, a Chinese client is moving to a new country, the worst case scenario [of not getting advice on his tax exposure when doing so] is that he remains based in China [according to the country's] tax purposes], yet thinks he no longer is," he says.

"As a result, he could fail to pay any taxes for a few years and get into trouble [with the Chinese government]."

Manatschal adds: "The worst danger is that the client ends up facing a criminal liability at home, for a problem he may not even be aware he was exposed to."

FINDING THE RIGHT STRUCTURES

Another risk for wealthy clients or families looking to migrate to a new jurisdiction is that doing so invalidates some or all of the structures they have previously established.

"If our Chinese client wanted to move to the UK but continued using structures he had set up while in China, he may discover these structures are completely useless [under the UK's laws]," says Bezborodov.

"At the very least, not getting the right advice can cause [a client] sizeable tax costs and liabilities, with fines and interest payments on top."

Manatschal says such wealth structures can become redundant because they are originally established to solve localised problems, which no longer apply after the client moves elsewhere.

"The Chinese client may have set up a complex offshore [wealth] structure with trust and foundations, which may help him defer some taxation based on the current tax rules in China," he says.

"But if he migrates to the UK, or Switzerland, this structure would not help him at all with the new local taxes he faces, and he could end up having to pay taxes on whatever income he generates from the structure.

"Again, the danger is that the client doesn't realise this is the case, meaning that he ends up accidentally evading taxes again and gets into trouble.

"Plus, he could end up facing [inadvertent exposure to] inheritance or gift taxes, especially if such taxes didn't exist in his previous country."

"At the very least, not getting the right advice can cause [a client] sizeable tax costs and liabilities, with fines and interest payments on top."

Bezborodov notes that even sending money to relatives in other countries can trigger such consequences.

"If the client has moved but wants to support some relatives in his home country by frequently sending money, many jurisdictions would consider this to be a gift," he says.

"If not structured properly such gifts can trigger taxes of up to 50%."

EFFECTIVE ADVICE

The best way to avoid such problems is for wealthy clients to get expert advice on the consequences of a relocation on their structures and selves from experts before committing to it, and then preparing for this.

It can be a complex process, as Manatschal reveals with one example.

"We were recently working for two months to help a Russian entrepreneur move first to Switzerland then to the US," he says. "Added to this, one of his sons lives in the UK. So it involved four effective jurisdictions, and working out a solution to his needs took time."

Manatschal says it can be quicker, more cost effective and create a better solution if a private client seeking to migrate employs one company with sufficiently international expertise to coordinate his tax structuring needs.

"It is particularly effective if the entrepreneur, his most trusted [wealth structuring] adviser and four [jurisdictional] specialists can get together in a room and develop the concepts and solutions," he says.

"You can then take a decision over which direction the structure should go, spend time elaborating the various details and then implement it, with the client's approval.

"This is a much more powerful and cheaper way [to solve taxation exposure] then spending millions of US dollars on coordination with multiple advisers across several jurisdictions."

Moving countries is a complex process. HNW clients thinking of doing so would be wise to seek expert advice. ■

Creating credible immigrant investment schemes

Due diligence is at the heart of a good immigration investment programme, to avoid tarnishing the reputation of the scheme and jurisdiction alike. With more and more programmes being established, Eric Major, chief executive officer of Henley & Partners, highlights the components which make them robust and sustainable.

Already around 20 countries globally offer immigration investment programmes in one form or another. And a number of others are contemplating creating such schemes of their own.

For governments, key to the appeal are the benefits to local economies from the foreign direct investments these programmes promise to bring. For the applicants, they eye increased international freedom of travel, tax and estate planning, and diversification – on both a business and personal level – via multiple residences or citizenships.

However, opportunities for wealthy, internationally-minded individuals and families to optimise personal and business planning also bring various risks which need careful attention.

One of the main – and growing – concerns, for example, stems from the identity and motives of the potential applicants themselves. This must be addressed at the outset, before applications are even considered. "If you want to create and frame a programme that will be sustainable, have longevity and can provide long-term economic benefits to the target country, you really have to understand three key things: due diligence, due diligence and due diligence," says Eric Major, chief executive officer of Henley & Partners.

While the vast majority of applicants have honest and worthy intentions in mind, he warns that anyone involved in working with these clients as part of the process needs to be alert to the fact that some of them may not be doing it for the "right" reasons.

PROTECTING REPUTATIONS

Creating a credible residence and/or citizenship-by-investment programme is not easy – and it shouldn't be underestimated. Governments of jurisdictions which offer these schemes often receive applications by the droves.

ERIC MAJOR
Henley & Partners

And their officers need to vet and confirm all of this information before the application is allowed to advance to the next stage.

"You're only as good as the last questionable character you let in," says Major. That is one of the main reasons why his firm has a dedicated part of its business advising governments about how they can implement robust due diligence processes, and also partner with specialist firms to deliver the right types of reports on residency and citizenship applicants.

Such due diligence specialists which are used to vet candidates generally are on the look-out for common red flags. "You need to first take a holistic view," explains Major. "That means asking questions like: who is this person? Where are they from?

"What business(es) are they in? What kind of money is involved? Are they politically exposed? Are there murmurs or noises linked to them? Are any negative rumours genuine, or just from competitors trying to paint a bad picture? And finally, and very importantly, why are they seeking alternative residency or citizenship?"

To find the necessary information, various tools now exist which make verification possible more readily and quickly than many people think possible. But being adept at knowing what these tools are, what they do and how to use them is what matters.

Plus, having enough competency in the target country is not a given.

"For example, some due diligence firms are more effective in Asia while others have more experience in Latin America," explains Major.

So it is vital to have the right level of local knowledge to be able to uncover information below the surface.

Henley & Partners' due diligence process involves initial fact-checking for each applicant, combing through the relevant business(es) and venture(s) to understand the individual or family from a holistic point of view. This objectifies the process and enables the firm to assign the applicant a score. The visa officers of the relevant jurisdiction's government can then use that value to determine whether they need more information from the applicant, or perhaps to invite the applicant for a face-to-face interview.

With a long track-record of offering such services, Henley & Partners has also been called on by many governments to work more closely with them to provide specific due diligence services processes. Among the most recent was Canada, which asked for advice on its Immigrant Investor Program.

"Various tools now exist which make verification possible more readily and quickly than many people think possible."

SUPPORTING ECONOMIES

Yet not all stakeholders understand the perils of failing to have a stringent and reliable due diligence process.

For instance, immigrant investment schemes, if not handled properly, can do more harm than good to the country and its people, explains Major.

Not only can negative publicity cause other applicants to be wary of the programme, but it can also tarnish the image of the country as a whole for letting in people of potentially questionable character.

In some cases, it can cause other countries to withdraw privileges extended to citizens of the country running the programme. For example, since November 2014, citizens of St. Kitts & Nevis have required a visa to travel to Canada.

On the flipside, a well-run immigration investment programme serves many positive purposes.

It can help governments raise money to develop and support the economy. Using the example of St. Kitts & Nevis, funds raised through the SIDF have helped many small businesses and supported many important social and infrastructure projects in the country.

Other countries might look to build hospitals or schools.

Key to ensuring the right image and reputation, however, is the need to prvide clear communication lines to the local population, adds Major.

Doing so ensures they won't then misunderstand the motives and where the funds are being deployed. ■

How to help families flourish in philanthropy

Wealthy families in Asia have long been willing to offer funds for charitable services, but they increasingly have more ability to target the funds towards causes or ideas they wish to champion.

The business of philanthropy is on the rise in Asia.

Giving to needy causes has always been popular in the region. But it was traditionally sporadic and unstructured.

Wealthy patriarchs would often cutting cheques for individual schools or hospitals, or putting money towards new schools in the village they grew up in.

> **"The younger generation of HNW individuals are increasingly open to doing things in a different way or testing new approaches to giving."**
>
> **EMMA HANLEY**
> ActionAid

However, philanthropy is becoming a great deal more organised, focused and professional, following similar trends in other regions. This is particularly taking place in Asia as younger generations rise into the decision-making process of HNW families.

"Often, the older generation of Asian philanthropists has been interested in supporting more tangible causes and projects, including infrastructure such as schools or hospitals, that leave a more visible legacy," says Emma Hanley, head of philanthropy and partnerships for Asia at ActionAid International.

"However, the younger generation are beginning to approach things differently and are increasingly open to doing things in a different way or testing new approaches to giving. They often want to use their own resources and the business skills and acumen they have developed to get involved, and are more open to talking about their giving publicly [than older generations]."

The philanthropic preferences of the younger generation are also changing, with an increased interest in tackling environmental issues and climate change. Hanley notes that the *World Wealth Report 2014* by Capgemini RBC

Wealth Management revealed that philanthropists consider environment and food security issues to be the most pertinent causes to support.

Reliable data about regional philanthropy in Asia is limited, due in part to the desire of many families to donate anonymously or privately.

However, indications are that philanthropy is on the rise across the region. For example, in China, which boasts the second-largest and fastest-growing number of HNW individuals in Asia Pacific, about 600 foundations are now being established each year, with over 4,000 already in place.

There is no single approach to conducting effective giving, and families should take time to understand how their philanthropy fits with their own goals and interests, and to learn from others in the sector engaging with similar issues.

"Many philanthropists who are starting out do not necessarily know how best to approach their giving at the outset," says Hanley. "We have seen a growing demand for philanthropy advisory services in Asia to support them in this." She notes that advisers can conduct interviews with families to explore their needs and the issues that most resonate with them, before proposing options and structures or mechanisms for giving that will be relevant to their needs, and they will often even support with carrying out due diligence processes.

"[The options] can vary, depending upon what legacy and issues matter to them as a family and a business, and what kinds of projects they want to focus on," says Hanley. "Are they interested in short-term projects that deliver tangible achievements, such as building a school or providing school equipment, or are they interested in engaging with the wider issues around education, such as improving governance in schools or tackling high departure rates amongst girls?

"The latter may take longer to see results but can have a more sustainable impact in the long-term."

Answering these questions will help the family gain a more positive experience from the philanthropy they conduct, both in terms of goodwill and family ties.

"Many philanthropists who are starting out do not necessarily know how best to approach their giving at the outset. We have seen a growing demand for philanthropy advisory services in Asia to support them in this."

PHILANTHROPY AND FAMILIES

Increasingly, HNW families are embracing the idea that not all members will be interested in becoming part of the family business, or stewarding its resources. Philanthropy provides another outlet for family talents.

"Providing leadership in philanthropic work is an opportunity for a family member to contribute to the family enterprise if they are not directly involved in the family business," says Cynthia D'Anjou-Brown, head of philanthropy advisory, North Asia, private wealth solutions, at HSBC Private Bank.

Organised giving can also tighten familial bonds and reduce friction.

"If you are arranging for wealth to be passed on to the next generation, it is important to work out your family's value system and design a distribution plan that reflects your values and philosophy about money," says Lee Wong, head of wealth planning for South Asia and global non-resident Indians at Coutts. "Philanthropy can be used as a neutral platform for family members to learn how to work

"In Asia, as in Europe, we tell our clients that they need a strategy anchored in values. We are propelled to act by our own personal history, experiences and values.

KARIN JESTIN
Lombard Odier

effectively and make decisions as a collective unit. It can also be way for the family to share common beliefs and build social capital together."

Younger family members in particular can gain useful decision-making and managerial experience from participating in organised philanthropy.

They can gain work experience, cooperate with philanthropy experts, and put together proposals of worthy causes for the family to invest in.

From a practical perspective, philanthropy is also a measurable sign of a family's willingness to put money into good causes and their communities. This is no bad thing at a time of increased regulatory scrutiny and cynicism about wealthy individuals.

FINDING A CAUSE

The first issue HNW families seeking to get involved in philanthropy must address is the target of their largesse. They need to find something that personally appeals to them, and compliments the family's beliefs.

Typically, philanthropy in Asia is quite locally-focused. The UBS-INSEAD Study on Family Philanthropy in Asia in 2011 said 70% of giving in Asia was focused on national causes, rather than international ones. It is also primarily education-focused (36%), followed by poverty alleviation and development (10%).

"Most families will begin by supporting a cause or issue that resonates with them and excites them," says Hanley.

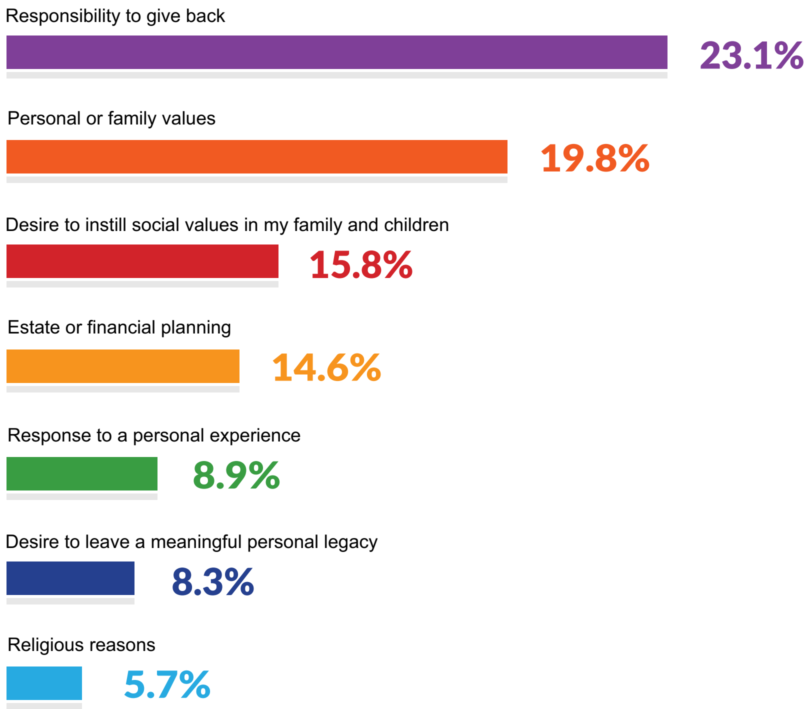
"Over time, how they choose to engage with that issue may change or evolve, as their understanding of the issues grows. "For example, a family interested in education might start by supporting a community school or providing scholarships. Over time, it may begin looking at the wider issues affecting education in that community, and begin investing in work that helps to improve community engagement in education, such as enabling communities to understand and track local education budgets or to establish school management committees." Wealthy families should approach philanthropy in a similarly structured manner, by considering which causes and forms of engagement best suit their beliefs and values.

"In Asia, as in Europe, we tell our clients that they need a strategy anchored in values," says Karin Jestin, head of philanthropy at Lombard Odier. "We are propelled to act by our own personal history, experiences and values. It is also a reflection of our sense of belonging to a community. However, philanthropic engagement shouldn't be guided solely by generosity and emotions. The strategy we adopt is critical."

It can be wise to start with something small. "It is often a good approach to have the family take the time to test an approach or pilot a project," says Hanley.

"In addition, if they have the opportunity to visit the work being done [with the money they have donated] on the ground, it can be a really powerful and rewarding experience that brings that work to life and enables them to see first-hand the impact of their gift. In this way, they can also speak to programme staff and country directors to better understand the issues and get an idea of how their participation can help on a longer journey."

THE KEY DRIVERS OF SOCIAL IMPACT FOR HNW INDIVIDUALS IN ASIA EX-JAPAN



Source: Capgemini, RBC Wealth Management, Scorpio Partnership Global HNW Insights Survey, 2014

A rising number of organisations are beginning to advise HNW families on philanthropy, including some private banks. Christopher Marquis, global head of private wealth solutions at HSBC Private Bank, thinks more will do so.

"With family dynamics and needs becoming more complex, philanthropy is a good way to bring families around to common values," he says. "We think more banks will look to invest into the business of philanthropy, instead of outsourcing it as many do today."

While such advisory services are welcome, it's a good idea for banks to consider how such services fit within their broader family wealth strategies.

"Financial institutions with an interest in philanthropy services have to consider the overall objective in providing such an offering and how it fits within their overall strategy," says Wong.

"The intent could be to build revenue, profile the organisation as one with a social conscience, or to provide clients with a platform for networking and information exchange based on best practice," she says. "If it is revenue-driven, the bank should consider what type of fee-based service to provide, and weigh the investment required to adequately deliver it against a realistic revenue projection, to determine viability."

ORGANISED GIVING

After deciding upon the right cause, with appropriate advice, the family will need to find a good grantee to effectively manage the donations they offer, and do so in a manner that fits in well with their aspirations.

"Success depends largely on the grantee's needs coinciding with the donor's aspirations," says Jestin. "To maximise impact, the context is also key. Is the grantee equipped to manage the donations and communicate openly with donors? Is the administrative, legal and fiscal framework favourable? These are the kinds of questions that we ask our clients when we help them on their philanthropic journeys in Asia or elsewhere."

HNW families and foundations are also becoming interested in new models and tools, including venture philanthropy and impact investing, which can deliver both social and financial returns.

"The younger generation in particular are attracted to new ways to combine business and philanthropy," says Hanley.

She adds that Asian 'giving circles' are also on the rise, which can enable philanthropists to combine their efforts with other like-minded philanthropists for even greater impact.

systematic grant-making and social investment process that leads to sustainable outcomes and social impact.

Hanley adds that 77% of donations in Singapore come from firms or corporate foundations or multinationals with regional headquarters there – many of which implement globally-aligned corporate social responsibility programmes.

Philanthropy conducted by a well-known business or business-owning families can help instigate broader political or societal change. "Business families can have a voice to initiate change that is distinct and are in a good position to experiment with different interventions in addressing social and environmental challenges," says D'Anjou-Brown.

"I often tell such business leaders 'you are the group that can initiate the greatest change'. They don't always see themselves playing such an inspirational role."

"Financial institutions with an interest in philanthropy services have to consider the overall objective in providing such an offering and how it fits within their overall strategy."

CORPORATE APPROACH

The business interests of families offer another avenue to make an impact.

Corporate philanthropy is increasing. D'Anjou-Brown is a member of a team managing over 130 charitable trusts in the region, mostly in Hong Kong and Singapore. She says private clients and their families often choose to 'institutionalise' their giving in order to cement their family legacy and to introduce a

Private companies and individuals can also conduct innovative forms of giving that governments and established charities might be reluctant to conduct.

Whether through personal interest or as part of a corporate strategy, philanthropy in Asia is rising. Families that take a thoughtful, structured approach to giving may make the biggest difference, adding both to their sense of purpose and their family values. ■

How charity foundations can help families monetise business

Business-owning families wanting to monetise these assets but reluctant to leave them exposed to restructuring have one appealing option: set up a charity. Marnin Michaels of Baker & McKenzie explains how one family did so.

Business-owning families in Asia may want to earn some value from the corporates they own, particularly when issues of succession. This can be difficult, especially if the family doesn't want to see the business greatly altered.

Marnin Michaels, a partner overseeing tax and international private banking at Baker & McKenzie in Zurich, says one particular solution has gained popularity among HNW families in the West: charity foundations.

"If you look at the foundations such as the Bill & Melinda Gates Foundation created by wealthy US entrepreneurs, they all have one thing in common: they monetised their asset and put the capital into a charity," he says. "The Bill & Melinda Gates Foundation for example put Microsoft shares into the foundation." It can be a relevant model for Asia too." Michaels is working with one of the largest families in Asia. It owns an industrial business that was operated through BVI companies and offshore structures for years.

"The problem was that the company's intellectual property was all owned in these offshore structures, and that sort of structure was becoming problematic when it came to working with China [where much of the company's industry is based]. Plus the family had members living in four different countries, and it had operations in 18 to 20 countries. To solve the problem we migrated the group to Switzerland."

CHARITABLE SOLUTION

However, the move raised new problems. "The family patriarch has 50,000 employees and he was concerned that if he took the company public or sold it he would be forced to get rid of many of these employees and reduce the quality of the company's products to increase profit," says Michaels. "This patriarch's view was, 'Yes, I can make a less expensive widget but it is not environmentally sound. I would much rather make a more expensive widget that lasts for 10 years and costs 30% more, and which many customers would ultimately prefer.'

"To get around these issues, we organised a new Swiss-based structure that would ensure a significant amount of funds [from the business] were distributed to charity annually."

Michaels and his colleagues had to get rulings and create a governance structure that made sense in view of a long term strategic vision. It helped that Switzerland is a global headquarters for charities.

"This had to be done in Switzerland because the country has an effective treaty network," says Michaels. "It is also one of the few placed to be recognised as having appropriately regulated charities [with credentials] that are globally accepted." ■

Helping the lives of Hong Kong's cardboard ladies

Aspiring philanthropists often gain satisfaction from giving money towards defined causes, which can offer measureable outcomes, says Cynthia D'Anjou-Brown of HSBC Private Bank. One such recent example took place in Hong Kong.

Wealthy families can raise the chances of success from philanthropic endeavours by focusing on a project that will demonstrate measurable impact. HSBC Private Bank believes it's best to start with a conversation on family values.

Cynthia D'Anjou-Brown, head of philanthropy advisory, North Asia, private wealth solutions at HSBC Private Bank says one such example in Hong Kong is related to a visible daily sign of the poverty that continues to trap many of the city's aging citizens: the city's cardboard-collecting elderly ladies.

"A few years ago a client family came to us. They had been touched by sightings of elderly women carrying cardboard in the streets [which they give to recycling companies for a few dollars], and wanted to help," she says.

HSBC Private Bank's philanthropy advisers began by assessing the size of this community of elderly women. "We didn't even know how many there were. So I worked with a professor to review the demographics, and we worked out that there were around 5,000.

"Of course, they collected the cardboard for money and needed help. So we began studying what would most positively affect their lives. We considered housing, income security, quality of life, recreational and health issues."

EXPERT ADVICE

The bank began by working with charities to understand their needs.

"We were happy to go to charity experts if we didn't know the answers to our questions. We would say 'this is our target group, and we want to help improve the quality of their lives', and ask their experts 'what do you think is the best way to approach this?'"

The philanthropy advisers generated several ideas through such research, towards which the philanthropist agreed to pledge money.

"One concept was a 'dream project'," says D'Anjou-Brown. "A lot of these women originally came from China and one thing they wanted to do was reconnect with family members there. Others wanted to have some experience they had not had before in their lives."

Alongside this were vital services such as better healthcare, particularly dental care and foot care. "You can't eat if your teeth are falling out and having healthy feet is important if you have to walk a lot," says D'Anjou-Brown.

The philanthropist ultimately provided an endowment that addressed the elderly women's physical and psychological needs.

"The family that endowed wanted to ensure the trust continues helping them. They were amazingly articulate about what they wanted to achieve, and they have made a difference in the lives of many of these women," D'Anjou-Brown concludes. ■

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