Avoiding Common Pitfalls Faced during Multi-Generational Wealth Planning

Mark Nelligan, CEO of BNY Mellon's Pershing Securities Singapore, believes wealth management advisers must help open the eyes of their Asian high-net-worth (HNW) clients to the pitfalls of unstructured wealth transition planning and the dangers of poor thought and communication. In particular, he highlighted four common pitfalls to avoid.

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PERSHING IN SINGAPORE IS AN AFFILIATE of Pershing LLC, a BNY Mellon company. Aside from leading the business development in Asia, Nelligan is also a member of BNY Mellon's Asia Pacific Leadership Council and has over 25 years of financial services experience. He joined Pershing in October 2002 from ING Barings, Singapore, where he was the chief operating officer with responsibility for the bank's commercial and investment banking operational support platform in South East Asia.

As way of background, Asia's founding generation of patriarchs and matriarchs has already been transitioning wealth to their children and their offspring, and the process is accelerating rapidly. As family wealth grows and as time

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goes on, families become ever more diverse and often more disparate.

His advice to delegates at the Hubbis Asian Wealth Solutions event was to work closely with the various generations within wealthy families and to work in harmony with an estate planning professional with deep experience in wealth transfer, a delicate complex subject.

"If families want to succeed in transitioning wealth between generations, they must think carefully about the required steps, strategise and structure, communicate and make every effort to be transparent," he explained. "An estimated 85 per cent of Asia's billionaires are first-generation. This will create an abundance of wealth transfer opportunities over the decades ahead."

These statistics demonstrate the importance of working with high-net-worth (HNW) families to develop their investment portfolios and long-term estate plans, with strategies that will continue to serve the next generation.

"The aim for wealth managers," continued Nelligan, "must be to guide wealthy families with thoughtful, professional plans for wealth preservation and growth across generations."

The odds of retaining family wealth are not so great

His long experience in Asia has underscored to Nelligan just how many pitfalls there are along the way towards wealth transitioning within families. "Unfortunately," Nelligan stated, "many inter-generational wealth transfers fail for two main reasons - a lack of communication between the generations, and a disagreement regarding goals.

Nelligan highlighted how research that the firm has been involved in from the US has shown that 60% of family fortunes are squandered due to a lack of communication and trust. "While this statistic has its origin in the US it was based on a sample of our Pershing clients worldwide and I am sure some of these principles will resonate with you out here in Asia, where many similar wealth transitioning challenges are faced. Our research also showed that only 7% of families think wealth is squandered due to bad communication, whereas a resounding 80% think it is due to poor investment advice or execution."*

Looting the Legacy

Under the first of four sub-headings for his talk - Looting the Legacy – Nelligan explained that the first generation consider themselves wealth creators who view their roles as safe-keepers of the legacy. The second generation maintains the wealth and honours the values of the first generation.

But by the time wealth is given to the third generation, it is often just viewed as money to be spent.

Monarch to mentor

Under his second sub-heading - Monarch to Mentor - Nelligan then highlighted how in order to avoid these mistakes family members should communicate and collaborate regularly and clearly to discuss and define the legacy. They should delegate some of the wealth planning decision-making to heirs. And they should be prepared for mistakes and have a clear strategy for how to handle them.

Transactional Traps

The third category he covered was what he termed 'Transactional Traps', which would include not thinking long-term or considering the steps required as well as distributing the wealth without a sound strategy in place. "To overcome these, we recommend that family wealth holders carefully consider who is receiving the money and how it might be used during the inheritor's lifetime," Nelligan explained. "And we aim to help clients understand that dividing the pie into equal shares is not always the best strategy; they should view family members as individuals with different strengths or weaknesses."

Death and Divorce

The fourth and last sub-heading for this topic was the ominous 'Death and Divorce', both always difficult subjects to discuss with families and for families to discuss internally. "We remind clients planning is crucial, because with divorce - which as well all know is increasingly commonplace - comes an increase in blended families and opportunities for accidental disinheritance."

Nelligan noted that mementoes such as art, jewellery and other items, even if they do not have a realisable monetary value, can matter to family members just as much as investable assets. "Work with your clients to build a plan for these items as well," he advised delegates. And encourage the families to select an independent estate consultant, one who can work with them and you to bring an unbiased approach to wealth planning, transfer and distribution."

The opportunities for advisers

Nelligan advised delegates to think carefully and proactively about these matters when dealing with their individual and family high net worth clients in the region.

"This is a challenge and an opportunity," he observed. "We aim to steer clients to connect across generations to build deep relationships beyond the patriarch or matriarch. We want to help them build a plan to educate future generations on nurturing the legacy."

To do so Nelligan provides advice and strategies to involve future generations in money management decisions, as well as guiding the founding generation on how to respond to mistakes future generations may make with their money management decisions.

In brief, it is all about building a thoughtful and actionable strategy to avoid the four pitfalls he had earlier shared in his talk. And the whole process, he noted, might even include touching on highly delicate, very personal subjects that a trusted, external adviser can more easily raise than family members themselves. "The whole process must be well considered, transparent and conducted with open communication throughout," he concluded. ■