Estate and Succession Planning Solutions for GCC's Wealth Market Clients

Which jurisdictions do GCC based clients prefer to utilise for their wealth planning and trust structures? Is the recent availability of common-law trust structuring through the DIFC resulting in a boost for business there? Are wealthy clients remediating older structures, with the arrival of the CRS, economic substance and soon Mandatory Disclosure Rules? How does life insurance fit into wealth and succession planning in the region these days? A panel of experts debated these matters at the Hubbis Middle East Wealth Management Forum in January 2020.

These were the topics discussed:

- *Which jurisdictions do GCC based clients prefer to utilise for their wealth planning / trust structures? Is there any evidence of movement from traditional centres to new locations?*
- *Is the availability of common-law trust structuring through the DIFC seeing traction?*
- *For older structures, with the development of economic substance / CRS etc. is there sufficient focus on reviewing and remediating these structures? What are the opportunities here?*
- *For non-Muslims the DIFC Wills process is relatively expensive, in particular for Mass Affluent and lower segment High Net Worth clients - what is the process and cost implications and what are the options and pitfalls for alternatives to the DIFC Will for onshore assets?*
- *For some GCC based clients Common-Law Trusts may not be a suitable solution for their wealth transfers needs - what alternative structures are being utilised by which client segments?*
- *What are the trends in the utilisation of life insurance by GCC based clients? Is there a move from single payment to multi-pay UL? What about indexed UL over traditional UL? What about PPLI and VUL?*

PANEL SPEAKERS

- **Ahmad Chahidi,** Wealth Planning, Advisory International, Bank Julius Baer
- **Karim Ghandour,** Founder & Chief Executive Officer, Legacy Line
- **Oliver Muggli,** Chief Executive Officer 1291 Private Office, 1291 Group
- **David Varley,** Chief High Net Worth Officer, Hong Kong, Sun Life Financial
- **Sunita Singh Dalal,** Of Counsel, Stephenson Harwood
- **Deepak Malhotra,** Chief Executive Officer, Mayfair Private

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THE KEY OBSERVATIONS

Life insurance a growing solution for estate and succession planning

Life insurance is growing in importance, as clients in the Middle East increasingly appreciate its role in liquidity and estate planning for individuals and their families. For private banks and other wealth management firms, it can also offer a significant and valuable extra source of revenue.

Newer insurance solutions on offer in the region gain traction

The buyers of the policies today have a wide range of choice, anything from the most basic term life insurance, to more interesting and tailored solutions such as Private Placement Life Insurance (PPLI), which offers policyholders more control of the assets during their lives, and also Whole of Life, while the Universal Life solution, popular since the global financial crisis, is less prevalent today due to such low crediting rates.

Plan ahead and get your house in order

The panel advised that well-devised wealth, business and broad-based succession planning averts a plethora of potential conflicts and problems within the families later on. These are increasingly valuable solutions in a market that is increasingly concerned with ageing patriarchs and estate transition to the younger generations.

Wealth management professionals must build the dialogue and trust

The private bankers and other professionals plying their trade in the region must build their relationships with their clients in order to develop a viable dialogue and the requisite trust to open the door to discussions that are often rather personal and delicate.

Tax planning to the fore in the region

The GCC's client base is now much more focused on taxation planning, as tax rules at home are changing and as global regulation tightens in its range and scope. As this takes place, and as more high-profile families in the region structure their wealth more assiduously, this also enhances the trend towards estate and succession planning.

Work with the gatekeepers, some of whom are preventing change

Many wealthy families have long had traditional advisers, in the form of lawyers, accountants, or local advisers who act as gatekeepers, often perhaps selfishly keeping other professionals at arm's length from these families. They often do not appreciate how much the global landscape has changed, so the wealth management market must work with them, and work through them.

Common Law appeals as solutions in the region diversify

As the region's financial centres develop their range of products, structures and solutions, Common Law is a facilitator that helps open the door ever wider, especially important as many of the second and third generations of the families live in London or in the US and need solutions and resolutions that straddle many borders.

Knowledge and expertise are vital

Professionals in the region must keep pace with the world of investments and the regulatory changes, in order to be able to offer their clients the first line of ideas. Conversations need to be maintained on a regular basis, to keep products, structures and even family governance up to date and relevant.

Many opportunities abound

The panel concluded the discussion by all agreeing just how much growth potential there is in the GCC today, reiterating that the professionals must enhance their expertise and their diligence to ensure that clients are serviced with as much quality as in some of the larger or more established international financial centres.

AHMAD CHAHIDI
Bank Julius Baer

THE PANEL MEMBERS FIRST FOCUSED THEIR ATTENTIONS ON THE GROWING ROLE OF LIFE INSURANCE, with an expert advising that in all situations, even for the very wealthy, who have plenty of assets and investments, insurance provides liquidity planning and a large chunk of liquidity exactly when the family might need it most. “And for the banks, it is an extra source of revenue that should not be missed out on,” he added.

Another panellist noted, for example, the UK inheritance tax obligations as one such reason for requiring liquidity. “A Middle Eastern investor might have a significant London property, and suddenly if he passes away, there is a 40% cheque to write to the government. Insurance for tax planning obligations is valuable, and in my world of estate planning and wealth planning I advise these families how to structure the insurance, and how to wrap assets in those structures to mitigate these concerns.”

More solutions

Insurance solutions are also increasingly prevalent, often in combination with trust and foundation structures, another expert noted. “Life insurance is a worldwide legal and robust way to manage and structure your wealth, and when the life insured passes away the proceeds paid to the beneficiaries chosen by the policy owner are paid out generally capital gains tax-free, income tax-free, withholding tax-free anywhere in the world, and the structure also helps avoid probate as well,” he explained.

KARIM GHANDOUR
Legacy Line

OLIVER MUGGLI
1291 Group

The buyers of the policies today have a wide range of choice, anything from the most basic term life insurance, to more interesting and tailored solutions such as PPLI and Whole of Life, both increasingly popular with wealthy investors, and the Universal Life solution, popular since the global financial crisis but less so now with such low crediting rates. And then there is the hybrid in the form of Variable Universal Life.

An expert explained that an excellent combination is to have a trust as a beneficiary of a Private Placement Life Insurance (PPLI) policy, which allows the principal during his or her life to have access to the assets, and even maintain control and then on their death, the trust is the beneficiary of the life insurance policy, and the principal can define in advance how the assets should be managed and distributed after their passing.

DAVID VARLEY
Sun Life Financial

"These concerns increasingly resonate with families in the GCC, as they contemplate how they want the body of their businesses and wealth managed and distributed as they face the inevitability of growing older"

Avoid problems

Another guest commented that well-devised wealth, business and broad-based succession planning averts a plethora of potential conflicts and problems within the family later on.

"These concerns increasingly resonate with families in the GCC, as they contemplate how they want the body of their businesses and wealth managed and distributed as they face the inevitability of growing older," he observed.

"It is up to the trusted advisers to bring these discussions to the fore, well in advance of any crises," he added. "So, it is not a question of what age to do this, it is a question of intent, and I see a lot more families in the region willing and able to talk about succession planning. This is also true in India, where traditionally these have been difficult issues to address. So first of all, as wealth management professionals, we must build the requisite trust. And it is worth noting that for the older generation to relinquish control, it helps to understand that they are actually thereby helping preserve their assets and businesses for the future."

Tax planning

The same guest added that tax planning is also ever more important. "A decade ago," he remarked, "the word 'taxation' was almost non-existent in the GCC until the VAT was introduced in 2018. Coupled with what's happening globally with the Common Reporting Standard (CRS), and then Economic Substance, there is ever greater focus on structures and planning out here, including the realisation that these offshore structures in exotic locations are not fit for purpose now, so we have seen many people moving those structures, mostly to Europe."

He expanded on this, noting that family governance is also in far greater focus than ever before. "Many simply do not understand the concept, but with some high-profile transformations taking place in the region. For example in Saudi Arabia, it is now easier to explain and for these families to grasp," he explained. "And it is also all about identifying the right family members within the younger generations to take control, well in advance. We can say that if you take a rock and you polish it, it will stay a rock, but take a diamond and polish it and it will shine ever brighter. Additionally, families are worried about the confidentiality of their information, and again governance and planning help greatly. All these issues will become ever more important in the decade ahead."

Gatekeepers

A stumbling block, said another guest, is sometimes the 'gatekeepers' that advise these wealthy, important families in the region. They often do not appreciate how much the global landscape has changed, and therefore getting them engaged and on board with all these issues is often the key to converting clients to the right decisions and structures.

A banker observed that the traditional, reputable trust centres such as in the Channel Islands, even Singapore, are less in favour, as clients are increasingly wanting to consolidate trust and booking centres in one location, partly due to privacy issues, not wanting to spread information too widely. "We are these days mainly booking our clients in Switzerland, and we have one trust company in Switzerland and most of our clients want to set up a trust because assets are booked in Switzerland, they want to book with the trust established by this trustee, not by another trustee in other jurisdictions, because they worry their information will be too widely spread. Nowadays, I think the name of the game is really to limit the exposures to one or very few jurisdictions."

Pricing issues

The discussion moved to how advisers and banks price their services with regard to wealth and succession planning, with a panellist noting that a fixed fee is most common as they are neither lawyers charging by the hour, nor bankers or brokers charging by the product or transaction.

"At the end of the day," said another guest, "we cannot put a clock on having these conversations with the family, and it takes considerable and often indeterminable time to sort out these matters properly for the core family members. From my experience, it could take one conversation of five hours, or it could take 10 conversations of five hours, it really depends, and we must all understand that in this business. If you really do have the best interests of your clients at the front of mind, then charging by the hour simply does not work."

SUNITA SINGH DALAL
Stephenson Harwood

Common Law works

The discussion shifted from motivations and the core challenges to the suite of solutions available today, with an expert noting that the DIFC and ADGM have more structures and solutions available today than ever before, including access to Common Law options.

"Common Law trust works well where the underlying assets are truly capable of being transferred into a trust structure, or if trusts are prohibited, into foundations."

"Common Law trust works well where the underlying assets are truly capable of being transferred into a trust structure," he said, "or if trusts are prohibited, into foundations. Many families want to ring-fence businesses and assets, and today you do have plenty of solutions for GCC families in the region, whether they want to be Sharia-compliant, or are driven by secrecy, or the quest for tax efficiency, or just from a wealth preservation perspective. There are many more options here on the ground now."

A guest remarked that in his experience, most families prefer trusts and for them to be located in a jurisdiction that provides them flexibility around

Sharia-compliance, so, for example, the Channel Islands where families from the region have had a long history. "And they like large-name players to act as trustees and also they are also increasingly keen on the separation of their onshore and offshore assets. As many of the second and third generations live in London or in the US and so forth, Common Law structures help handle the many tax complexities that usually arise."

Another guest noted that there have been changes in recent years to corporate law in the UAE and in Saudi Arabia, resulting in a shift from trusts to foundations, which are often better understood in the region than trusts. "And we see a shift mostly to continental Europe for the assets within Europe, due to relevant Economic Substance rules, and then using the new corporate entities here in the GCC to regulate the governance elements. And they are shifting structures from exotic locations such as the BVI and Caymans due to all the regulatory changes."

DEEPAK MALHOTRA
Mayfair Private

Adding value

"The most important factor for us as wealth management professionals," one guest commented, "is that if we really want to add value as a relationship manager or as an adviser, then we need to be having these conversations with your clients on a continual basis, and we need to be knowledgeable and relevant. Structures and even governance and family constitutions need reviewing regularly, so you need to keep up to date and keep on top of all these matters, rather than just arrive at your client seeking fees."

"We have a great opportunity ahead," another expert noted, drawing the discussion towards a close. "By 2040 in the GCC, there is an estimated USD2.1 trillion which will exchange hands between generations, and by some estimates, the vast bulk, perhaps even 90% plus, is unorganised in terms of governance, structures and so forth. So, helping organise these estates on the operating level and international level is paramount and there is a lot of value add, you can create a lot of value for the clients and for yourselves and your firms."

The final word went to a guest who said his key message is that there is an opportunity with every client, for all types of structuring and all types of insurance. "I want to share three things with you today," he said. "We have heard about the opportunities and challenges, we have heard about the solutions and structures, and we know that as we are in the wealth care business, we can take the best from around the world and help truly improve the clients' outcomes in the region." ■