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The art and science of wealth solutions

The third panel discussion at the Hubbis Asian Wealth Management Forum of February 27 addressed the current 'state-of-the-art' for wealth management solutions in Asia. The wide-ranging debate unearthed some subtle changes taking place and some key challenges.

These were the topics discussed:

- *What are the trends we are seeing in wealth solutions globally?*
- *The challenges for family succession*
- *What are the specific challenges that wealthy Chinese families face?*
- *How is the concept of wealth solutions developing in China?*
- *How can RMs have a proactive, sensible and sensitive conversation around wealth solutions with clients?*
- *What's the role of insurance?*
- *How will clients diversify their assets?*
- *How will clients approach their legacy planning?*
- *How can you participate in the increasing offshoring of Chinese wealth?*
- *How can local and offshore firms collaborate?*
- *Are confidentiality and asset protection the main reasons clients use a trust?*

PANEL SPEAKERS

- **John Wong**, Partner, China and Hong Kong, Private Client Services Leader Tax Services, PwC
- **Kevin Lee,** Partner, Zhong Lun Law Firm
- **Michael Olesnicky,** Partner, Senior Advisor, KPMG
- **Howard Bilton,** Chairman, Sovereign Group
- **David Varley**, Chief High Net Worth Officer, Sun Life Hong Kong, Sun Life Financial
- **Patricia Woo**, Partner, Squire Patten Boggs

"**A HUGE ISSUE TODAY IS TRANSPARENCY** and the death of privacy," opined one expert on the panel. "We have to assume that any structuring is going to be visible to every relevant tax authority that is one the CRS [Common Reporting Standard] and everything should be structured and conducted with that in mind."

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He explained further that most of the offshore jurisdictions frequently used require registers and beneficial owners to be maintained. Although not in most cases a public document, any tax authority or interested party can get access to it.

"The result," he declared, "is that people need to be prepared to withstand scrutiny from any relevant revenue authority or even media if they delve into your structures. People can no longer rely on confidentiality."

Returning home to safety?

He added: "We see more bank accounts, for example, move bac here to Hong Kong, because the structures that people had for purposes of privacy, hiding assets are no longer relevant or effective. So, why have these convoluted structures?"

He also pointed out that the abolition of estate taxes and duties in Hong Kong led people to use trusts again for the more traditional reasons like the family succession services and wealth preservation. "Due to global compliance requirements these days, I suspect we are going to see a shift back to the trust being used for the traditional purposes."

China's evolving wealth planning needs

Another panel member turned the focus to China. "Families, especially in China with the new emergence of the second generation who are better educated, more exposed to different types of structures and investments ideas, are reviewing what they already have in place and seeing how they work, especially with global asset allocation."

Succession planning is essential, as is the growth of insurance solutions, exceptionally adjustable insurance products, according to the same panellist. "And people have a keen eye on the possibility of estate taxes in China, although there is still more consultation required before a decision is made by the authorities there."

JOHN WONG
PwC

PATRICIA WOO
Squire Patten Boggs

IS IT LIKELY THAT OFFSHORE JURISDICTIONS WILLBE LESS RELEVANT AND POPULAR GOING FORWARD?

Source: Hubbis Asian Wealth Management Forum 2018

One expert noted that Chinese families have some concerns over how to move their wealth outside China. “Some clients are becoming more interested in hybrid ideas of onshore-offshore structures because that does give them a legitimate way of distributing wealth outside of China, but in a transparent way.”

Wealth in China – young in a global context

Another panel member noted that many very wealthy Chinese families do not appreciate that there is any sense of urgency. “Education is a vital first step,” he said. “The average age according to statistical data in different reports of the first-generation wealthy in China is about 52 or 53. These people never inherited their wealth. That is why for succession planning there is a considerable need for education.”

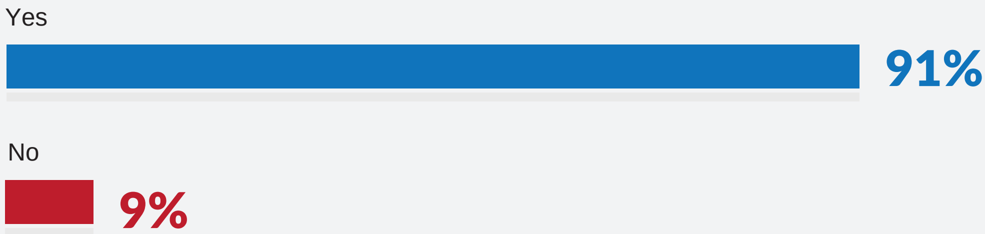
The same expert noted that there is nothing simple in the new regulations. For example, there is already widespread disagreement about who should report for CRS and what constitutes duplicated reporting. “There is a shortage of independent professional advisors out there in Asia generally who can hand hold a client through issues like this,” he said.

Leveraging RMs’ skills

Another said that RMs should make as great an effort as possible to learn more about their clients, help the client identify what all the issues are and work out solutions based on facts.

KEVIN LEE
Zhong Lun Law Firm

DO YOU THINK THE NEXT GENERATION IS MUCH MORE WILLING TO EMBRACE TRANSPARENCY?



Source: Hubbis Asian Wealth Management Forum 2018

"It does not mean the RMs must know everything themselves; they can connect their client with a professional advisor who can take charge of that process," he said. "If as an RM, you can develop that kind of 'stickiness' with your client, it brings you into what we call the exalted trusted adviser status, which in turn means that that client is yours for life."

He added: "Actually, this is a great opportunity for relationship managers who are prepared to go outside of the normal asset management role and start looking at these other issues. The challenge is there. I think the opportunity is theirs to take."

But, let caution prevail

Another panel member said there are limitations on what RMs can do because they are tied to large institutions.

"RMs might indeed have a great influence in attracting clients and attracting wealth for the banks," he stated. "But from a pure family office perspective, I wonder if RMs are the best people to handle their needs, especially for families thinking of having a family office to be independent."

According to him, a lot of wealth planning professionals of big banks have been turned into glorified insurance service people. "What can you do to convince me that buying insurance is a proper part of the legacy planning and wealth solutions, and not just an elaborate scam to make as much money as possible?"

MICHAEL OLESNICKY
KPMG

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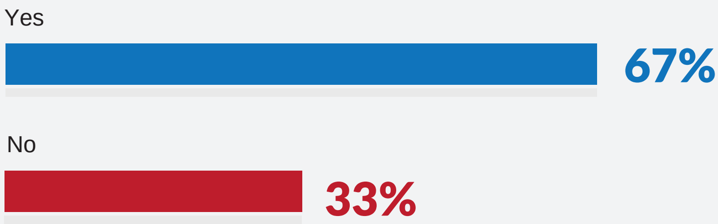
ARE THE STRUCTURES CLIENTS HAD USED IN THE PAST NOW OBSOLETE?



Source: Hubbis Asian Wealth Management Forum 2018

Insurance favoured by authorities

"Well," answered another expert, "the days of dodgy structures is over, transparency and CRS are here to stay." According to him, life insurance is in a golden age as nobody can say they have complete and total protection, there is always a protection gap, which in turn means there is always an opportunity for a wealth planner to give good advice. He elucidated that in the past five to 10 years, there has been a considerable uptick in universal life and that we are starting to see movement into other types of structures.

"Yes, we have got an issue in the market over the last ten years that, sometimes, insurance is seen as a high-commission product, and the banks do have commission targets," he said. "But they should be selling it as life insurance is a great way of structuring and planning wealth."

Tax efficient insurance and pension structures

Another expert concurred, saying that all countries with developed tax systems will always gear the tax breaks towards life insurance. Because if they do not, the state will have to look after the family of the deceased breadwinner, he opined.

"To pensions, on the same reason, because some people do not save adequately for their retirement, the state has to pick up the tab," he said. "Accordingly, the pensions and the life insurance sectors can be very useful in a tax environment."

He noted that legislators around the world seek to erode the benefits of virtually all standard corporate trust structuring products and services–the remaining options. "As long as you can strip out the, sometimes, very large commissions by using tailor-made products, then that is increasingly going to be the way to go," he said. "But we must deliver and develop flexible insurance products with appropriate fees and commissions as it will bring prices down as well."

To conclude the discussion, one-panel member advised HNW and ultra HNW families to be 100% compliant. "Always take a holistic approach to planning. Take a longer-term approach to wealth and family wealth succession planning." ■

HOWARD BILTON
Sovereign Group

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DAVID VARLEY
Sun Life Financial