The Art of Effective Legacy Planning and Estate Transition in Asia

Estate planning and wealth transition for any wealthy or super-rich family is never easy. In fact, it is as much of an art as a science. A panel of erudite, experienced wealth management professionals assembled at the Asian Wealth Solutions forum to contemplate the key issues surrounding this vital topic, as Asia faces the transition of literally trillions of dollars of wealth in the coming few decades. The mission is that family wealth endures for the younger generations. But that, as wealth management folklore tells, is no easy task.

These were the topics discussed:

- *What kind of challenges are being created by CRS to the appointment of Enforcers and Protectors?*
- *Are Enforcers and Protectors aware of their roles and responsibilities and kept up to date with the core family situational developments?*
- *What are the key differences between the current and future generations of Asia's clients?*
- *How do private banks and wealth management firms build family-wide relationships?*
- *Are today's RMs building meaningful conversations with families about wealth and family business succession issues?*
- *Are bank RMs and others in this industry sufficiently knowledgeable and sensitive to service these clients?*
- *How do you steer family wealth planning towards a multi-generational vision?*
- *What role should robust family and family business governance play, and why?*

PANEL SPEAKERS

- **Mark Smallwood,** CEO, Rapier Consulting
- **Kimmis Pun,** Senior Managing Director, Head Greater China, EFG Bank
- **Naomi Rive,** Group Director and Head of Family Office, Highvern Trustees
- **Lee Wong,** Head of Family Services, Asia, Lombard Odier
- **Ee Lin Chan,** Director, Tax & Legal, Family Enterprise Consulting, Deloitte
- **Woon Hum Tan,** Partner, Head of Trust, Asset & Wealth Management Practice, Shook Lin & Bok
- **Guita Abidari,** Senior Executive Director, Crossbridge Capital

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THE KEY TAKEAWAYS

Estate planning and wealth transmission is difficult for any family

As the first or earlier generations of Asia's truly wealthy families and family dynasties increasingly seek guidance for wealth transference, it is important to understand how to deal with these clients. Some families bury their heads in the sand, ignoring the need for clearly defined decisions and roles, while others are keen to embrace the process and to put in place the right governance, structures and direction for the next generations.

Heads of Asian families still keep a tight hold of the reins

The patriarchs and matriarchs of Asia's wealthy and uber-wealthy families are notoriously controlling, preferring to make all decisions unilaterally. This can be difficult to handle, leading to the younger generations not feeling involved in the family businesses until they might suddenly be thrust into the limelight. But wealth management experts specialising in the field of estate planning and transitioning - a vital area with trillions of dollars of wealth due to change hands in the coming few decades - must carefully navigate these waters, as the early integration of family members into the business fosters feelings of ownership and pride, and the prudent assembly of plans and structures will help the family's wealth endure.

The younger wealthy are sometimes entitled and disconnected

If the wealth management industry wants to best serve its clients, and also to retain the younger generations of wealthy for the future, they should help encourage families to embrace inclusiveness in their business and asset planning for the future, and thereby engage the younger generations of family members, who can often either be, or appear to be, entitled, or disinterested. Being included from early on in the family decisions will help reverse this.

Education leads to a better understanding but casts wider nets

The next generations are usually highly educated, often in long-established Western institutions, which leads to a better understanding of worldly matters, of wealth management issues, and often serves to boost their entrepreneurial hunger. Somehow, wealthy families need to recognise this and include the visions of those younger generations in the family's future planning, or those more youthful elements will be deterred, not wishing to be bogged down by overseeing the logistics for the existing family businesses.

Risky decisions made, balanced by caveats

The younger generation's entrepreneurial spirit can be celebrated, showcased and bankrolled by the head of the family, while some degree of control can shrewdly be retained to prevent risk to reputation and capital. In be inclusive and responsive, the family is thereby protecting its wealth for the future.

Families are the same the world over

No matter if it is a wealthy family in Asia, the UK, the US, or elsewhere, all tend to share a similar dynamic - a top-down approach with a dominant head and a sometimes disconnected, dissatisfied, disorganised younger generation. It is therefore the differences between the generations that need to be addressed by the wealth management industry, to develop value, trust and a pull-together attitude.

Wealth transfer is not a one-size-fits-all business

Each family member has their own hopes and ambitions as well as their own skillset. Wealth managers must listen to their individual voices, as alienation breeds disconnection and the structure may become unstable. Moreover, wealth management firms are thereby enhancing the potential to retain and attract younger generations of clients.

Difficult choices to make

Clients, particularly in North Asia, are fickle and often overwhelmed when it comes to advice, said panellists. Keeping advice simple and guiding them to make the best decisions is important, as is understanding that the younger generation can flinch at some of the more traditional ideas of wealth transfer, and therefore advisers should gently guide families towards greater inclusion, and towards the values of fairness and also gender equality.

MARK SMALLWOOD
Rapier Consulting

PANELLISTS BEGAN THE DISCUSSION BY FOCUSSING UPON THE CURRENT VITAL NEED TO ADDRESS INTER-GENERATIONAL WEALTH TRANSITION IN ASIA, particularly from a cultural and demographic aspect. The psychology of the first generation - the founder patriarchs and matriarchs - compared with their offspring, as well as how they communicate with each other, is vitally important to understand if transitions have any hope of running smoothly, they explained.

The differing perspectives of these generations are evident in their pre-handover behaviour. "Some founders of large family enterprises are keen to embrace corporate and family governance," an expert clarified, "while others are in complete denial, in which case it is the next generation who perhaps then have to force the issue."

Time for the next generations...

Indeed, the younger generations are often anxious to gain clarity as estate transition approaches. "Some families have structures in place well in advance," a panel member explained, "but the head is still in control of all the decisions, and they are simply often not talking to their offspring or the younger generations."

This can be for 'peacekeeping' reasons as well as more esoteric motivations, but nevertheless creates distance and prevents the younger generations from practising and even making their own mistakes. Problems do not always travel top-down, however. A common complaint, explained

KIMMIS PUN
EFG Bank

NAOMI RIVE
Highvern Trustees

an expert, is that younger family members will push for dialogue, then arrive late for meetings, become distracted and not pay attention.

"The problem is that the next generation perceives their family wealth differently to those who built it," a panellist summarised. "They do not really have the pride in their family's achievement; instead they see it as a right, a consumable resource."

To counter this, it is important to bring the next generations into the family and estate structures as early as possible. "As trustees, we have an obligation to engage with the younger generation to help them to understand the benefits of those structures," explained one guest.

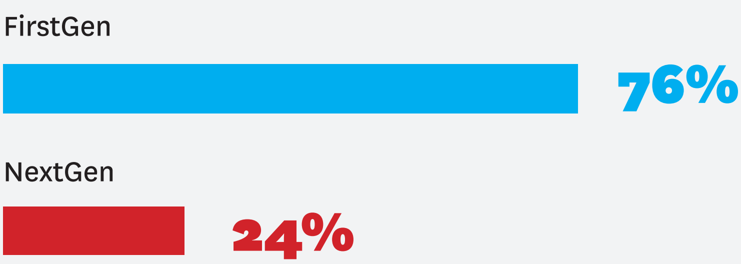
Education breeds competence, but also sometimes dissatisfaction

The panel then discussed the trends in wealth demographics. It seems that as the second and third generation become more highly educated, they are more able to understand the nuances of wealth management. "They are travelling to the UK and US, studying business and economics and learning how to sustain wealth, all of which is positive," an expert relayed.

"They often want the lifestyle, they are idealistic, strategic and surprisingly philanthropic," a panel member added. The trouble with this, is that they are also often not really interested in overseeing the more family businesses, or handling the day-to-day issues. This in turn has an impact

LEE WONG
Lombard Odier

IS IT THE FIRST GENERATION OR SECOND GENERATION DRIVING THE SUCCESSION PLANNING DISCUSSION?



Source: Asian Wealth Solutions Forum 2019 upon how those family businesses need to be structured and governed.

The third trend, say panellists, is that the next generation is looking towards using family money to invest in developing their own ideas and investing capital in their concepts for the future.

The older generations can often support these endeavours, as they can showcase their talented offspring. But the right caveats need to be in place to protect family money against failures, and also to protect family wealth from the miseries surrounding divorce and other eventualities that are common in almost every family.

Global similarities, generational variance

The discussion then focussed upon the similarities in wealth management in different jurisdictions. "It does not matter where the family resides - the Middle East, Asia, the US, the UK," a panellist explained, "but what matters is that the conflicts between the first and second generation are starkly similar."

While the first generation tends to be domineering, the second and younger generations are typically highly-educated, well-travelled, and if antagonistic towards the family business, and preferring instead to focus on other business or personal directions, the ensuing gap can be wide enough for family wealth to fall through and to be gradually destroyed.

These views led panellists to offer advice to wealth management advisers about supporting both the first- and second-generation clients when establishing family governance protocols.

EE LIN CHAN
Deloitte

TAN WOON HUM
Shook Lin & Bok

ARE BANK RMS SUFFICIENTLY EDUCATED IN WEALTH PLANNING (AS OPPOSED TO INVESTMENT PRODUCTS ETC)?

Source: Asian Wealth Solutions Forum 2019

It is important that the planned governance takes into account, and aligns with, the desires of all family members, and that all of them are onboard. To do this, all family members must feel heard and involved. "Everybody knows you must protect the golden eggs of family wealth, but it is even more important to take care of the golden goose," the expert quipped. "Family disputes are the downfall of that golden goose!"

Personalisation fosters congruence

A panellist then clarified that family wealth transfer is not a paint-by-numbers process with easy tick-sheets and off-the-shelf products.

"Each family must be treated as a collection of individuals, and clear communication is vital," he reiterated. "We must take an advisory approach with the family at the centre, with an aim to map out and plan a route to the goals of each family member, able to adapt as conditions change." As each family member matures, they will want to focus upon different issues, from building capital and consolidation to providing for dependents and leaving a legacy.

The discussion then turned to the differences in the wealth management industry around the world. The Asian market is still seen as embryonic compared to those in Europe and the UK. A guest speaker explained that the older jurisdictions such as Switzerland had more experience in the trust sector and that trusts are now typically used to protect the wealth of future family generations, as opposed to tax planning.

The traditional concept of trust is of vital importance in family wealth management, said panellists. "Family members cannot simply pay a set fee and receive a generic product," an expert explained. "Banks are transaction-orientated and product-centric, whereas in reality wealth planning is longer-term and when establishing a family trust it must take into account the clients' needs and family requirements over many decades."

GUITA ABIDARI
Crossbridge Capital

"The most challenging clients today in this region are the North Asian clients," a panellist noted, "largely because China is a civil law country that is in the early wealth creation phase, and control remains hugely important to them."

A wealth of choices, some difficult decisions

The typical wealth management professional tries to take a professional and fiduciary attitude towards clients but a panel member explained that private bankers can sometimes benefit from being more pragmatic. "We need to get the customer on board, explain the legal requirements of compliance but we must not talk until the cows come home," they quipped. "In China, for example, customers make decisions in the morning and change their minds by the afternoon. Speed is of the essence."

The panel offered a final takeaway to the assembly that by operating as a team, managing time effectively and ensuring that the clients' individual needs are met the wealth management industry can indeed provide a first-class family wealth management and estate transition service. ■