Trends in Wealth Structuring and Legacy Planning in Asia

Set against the ongoing troubles in Hong Kong, which means major implications for wealthy families there, a panel of experts assembled for a timely discussion on estate and succession planning in Hong Kong and more broadly across the wider landscape of Asia, as wealth expands apace and as the older generations are beginning to pass literally trillions of dollars of wealth to the second and third generations.

These were the topics discussed:

- *Is the turmoil in Hong Kong a game changer in the Hong Kong vs Singapore debate? Will it have different impacts on fiduciary services providers (trustees etc.) relative to asset management services?*
- *Are clients 'stress testing' existing trust structures with a particular focus on protecting against external risk: political instability, divorce, bankruptcy etc?*
- *What role does investment migration play in wealth structuring?*
- *What is the key driver today for structures in Asia today?*
- *Are clients seeking to make their structures simpler or more complex?*
- *How well prepared are Asian clients for wealth transition?*
- *In which jurisdictions do Asia's wealthy prefer to house their structures?*
- *Why is Asia witnessing a proliferation of single-family offices (SFOs) and multi-family offices (MFOs)?*
- *Are more Mainland Chinese investors seeking to keep or to move assets offshore?*
- *What motivates a client today to have a 'structure' in an IFC?*
- *What new structures are in favour, and how are clients simplifying their existing structures?*
- *What are the most important factors in selecting an IFC? Are your Asian clients sufficiently inquisitive about the quality and integrity of the IFCs they use?*

PANEL SPEAKERS

- **Clifford Ng,** Partner (Hong Kong), Zhong Lun Law Firm
- **James Russell,** Managing Director - Hong Kong, Equiom Group
- **Jeffrey Lee,** Partner, Charles Russell Speechlys
- **Tim George,** Partner, Withers
- **John Ashwood,** Managing Director, ZEDRA
- **Kevin Lee,** Partner, Stephenson Harwood
- **Howard Bilton,** Chairman, Sovereign Group
- **Peter Golovsky,** Managing Director, Global Head of Fiduciary Services and Head of Asia, Cone Marshall

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THE KEY TAKEAWAYS

Every cloud has a silver lining

Despite the recent political and social unrest in Hong Kong, panellists advised an entrepreneurial approach from the wealth management community as there are great opportunities to be found in estate and successional planning and solutions, and Hong Kong is still a safe, stable investment centre that is in fact becoming easier to navigate as new and better regulations are introduced.

We are not ready for wealth transfer

The panel warned that the older generations must do far more to plan and structure their estates, while also warning delegates that the next generations are too often dissatisfied with their parents' wealth management advisory firm. This all means a lot of work required across the generations to construct solutions and then to gain the trust of those who will make or inherit Asia's wealth.

Great opportunities working with wealthy Chinese clients

Whether they wish to move money out of China or invest within the country, advisers are urged to educate their mainland China clients in the best ways to consolidate and grow their wealth. There is a possibility that China will loosen regulations on overseas assets, which of course would release a tidal wave of money globally.

Keep it simple and transparent

There is a clear and consistent trend towards simplicity when structuring wealth, in response to ever-increasing regulations and compliance demands. Panellists reported more single-jurisdiction structuring and urged advisers to add value rather than reduce fees associated with increased simplification. Focus on the best, most reputable jurisdictions, they advised.

Start early with legacy and succession-planning

The experts agreed that for wealth transmission to be successful from one generation to the next, the HNW and ultra-HNW families and the family offices must be laying the groundwork many years before. Asking family members what they want, playing to their strengths and keeping unfairness to a minimum reduces risk of litigation from squabbling, dissatisfied family member.

CLIFFORD NG
Zhong Lun Law Firm

THE PANEL BEGAN BY OFFERING SOME INSIGHT INTO HOW THE RECENT UNREST IN HONG KONG has affected clients and coloured their decisions in the last few months. "We have got to try and convince them that Hong Kong is still safe and stable as an investment centre despite what is happening on the streets," a guest offered. "There has definitely been an impact upon the attractiveness of Hong Kong, with clients being advised to consider other jurisdictions."

This has all quite naturally led to Jersey, Singapore and other offshore jurisdictions coming further to the forefront as viable and appealing alternatives to those clients who had traditionally worked through Hong Kong.

"We are still seeing clients setting up asset protection and succession-planning structures here in Hong Kong," a panellist argued, "so our view is that a bit of instability actually creates estate planning focus and therefore opportunities. It's not all doom and gloom."

Hop on board the wealth transfer train

"Are we well prepared for the transfer of wealth from one generation to the next in Asia?" asked a guest. "The short answer is no," an expert warned. "It is the job of everyone here to encourage preparation."

"Wealth transfer represents an amazing opportunity for consolidation and growth," an attendee elucidated. "However, a recent survey of the next generation suggests that 95% of

JAMES RUSSELL
Equiom Group

JEFFREY LEE
Charles Russell Speechlys

them would not choose to use the same wealth management institution their parents did." This means that, clearly, some groundwork must be done to win this new generation over.

Attendees argued that to secure the business of the next generation, becoming a trusted adviser that is also able to move with trends, as well as involving the whole family and getting to know the younger generation prior to wealth transfer are all critical steps.

"We find that very often, the next generation does not want to continue the family business," a guest elucidated. But what does that mean for succession? "We must look for ways they can be brought in to roles that they are interested in, ways in which they can become involved in governance and stewardship, in order to continue their focus and to garner loyalty," he added.

TIM GEORGE
Withers

JOHN ASHWOOD
ZEDRA

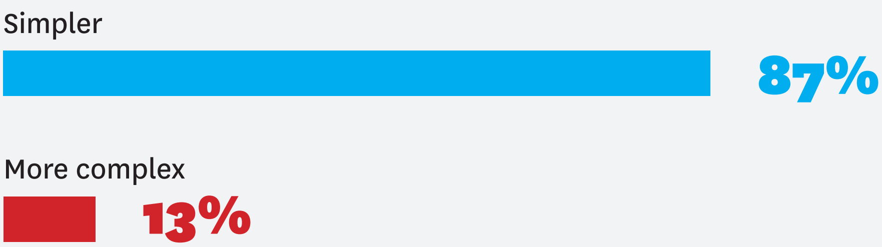
The onshore-offshore dilemma

"Is there any evidence that Chinese investors want to keep their money in China, or do they want to move their money offshore?" a guest wondered.

"There are many wealthy people in China who want to move money offshore, but it continues to be difficult to do so," a delegate answered. Wealth management advisers need to advise their clients how to achieve their goals in a compliant way, while also hoping that there is greater liberalisation, which would release a flood of money to the global asset markets, given China's vast and rapidly expanding private wealth.

Moreover, in response to the trade conflicts with the US, it seems logical that China may loosen

ARE CLIENTS SEEKING TO MAKE THEIRSTRUCTURES?



Source: Independent Wealth Management Forum 2019 regulations to allow more Chinese companies to expand overseas, a guest predicted.

Other opportunities for advisers working with wealthy Chinese families include wealth structuring for inheritance tax. "Inheritance tax planning needs to be considered by clients as an opportunity not a chore," a panellist suggested.

"What are the biggest problems Chinese clients are facing?" asked a delegate. "Without a doubt, it is multi-jurisdiction succession-planning," an expert offered. "However, more Chinese clients are willing to consider issues they may face when the children move outside China and do not want to move back to handle family business operations on the ground."

While the recent focus has been on the political unrest in Hong Kong, a guest implored the attendees to concede that Hong Kong had already lost the leadership position to Singapore in wealth planning, funds, and trust dealings in the last few years. "Singapore laws on funds, their tax exemptions and their trust infrastructure are miles ahead of Hong Kong," they explained

Simple, transparent, compliant

Moving on to the structuring of wealth through vehicles both onshore and offshore, an attendee asked whether clients are seeking to make their structures simpler, or more complex. "The trend is certainly towards simplicity," an expert replied, "as a direct response to the ever-increasing mesh of international laws, tax laws, regulations and reporting obligations."

Indeed, a popular trend is towards jurisdictional consolidation in one or two selected locations.

KEVIN LEE
Stephenson Harwood

HOWARD BILTON
Sovereign Group

IS THERE ANY PRIVACY ANYMORE FOR UHNW CLIENTS?

Source: Independent Wealth Management Forum 2019

"Before, families tended to have multi-jurisdictional structures, and we are now seeing those stripped back because of the reporting obligations and compliance burden," a speaker revealed.

A panel member then pondered whether simplicity was bad news for those who charge fees. Is there a risk that fees get compressed, he wondered, as the drive towards simplification continues?

"The question here is how to add value," a delegate responded. "We have to be able to explain the reason behind every decision, to the client as well as when reporting and complying, and also be active rather than passive when advising and managing wealth." And all of that can enhance the value the client sees in the advisers and therefore open the door to incremental and ongoing fees.

"Is there any privacy for ultra-high net worth clients?" asked a guest to the audience, shifting the discussion somewhat. "No," a delegate responded, "the Common Reporting Standard has seen to that." He explained that various jurisdictions are now introducing public registers of beneficial ownership and trust. "While the authorities need certain information to tax the correct amount and chase down fraud, there is an argument against a public register which is for little more than to satisfy curiosity," he argued.

The family can be its own worst enemy

A guest then recounted an anecdote where a patriarch began planning his succession and legacy at the ripe old age of 92. But it was all rather late - amongst all the many members of the family, only three were deemed competent to continue the family business, and none of them had any interest in doing so. "How do we solve this conundrum?" this panellist asked.

PETER GOLOVSKY
Cone Marshall

"When the next generation begin squabbling over scraps, wealth can get destroyed quickly," an expert warned. "It is our job as family office advisers to put our psychologist hats on and find out what everybody wants to achieve as a family."

The last question posed by an attendee focussed upon how to manage challenging family issues such as squabbling, divorce, and challenges of ownership. "Will we be seeing a dramatic increase in litigation in the next few years?"

"This is already happening," a delegate replied, "as the heads of families age, their families may take umbrage at perceived injustice, uneven allocation of responsibilities and whether the Will has been unfairly influenced."

Indeed, as more data is reported, hacked, stolen and sold, there are more cases of litigation from tax authorities and unhappy family members, which is most certainly something to keep in mind when wealth advisers reach out to the next generations. ■