Wealth Planning & Structuring - an Evolving Priority in Asian Wealth Management

Hubbis assembled an impressive group of experts for our November 12 Digital Dialogue for a fascinating discussion into the latest trends in, and outlook for, the world of wealth structuring and planning for Asia's wealthy. The overriding theme is that the world of wealth structuring has seldom been more dynamic, and certainly never as focused on transparency and legitimacy. At the same time, the pandemic has highlighted mortality in the starkest of lights, boosting the already-growing drive in Asia towards professionalised wealth and legacy planning. What are the key trends in wealth structuring & planning worldwide and has the Asian private client market embracing these latest concepts and practices? What does proper structuring mean and how must the Asian private client mindset evolve on the road to optimised wealth structuring & planning? Are Asia's founder generations driving this forward, or the second generation? What levels of multi-generational involvement should we see and is this happening in Asia? Which key structures and jurisdictions are in favour and why? How do the private banks, IAMs, and MFOs position themselves for wealth structuring & planning, is this a profit centre, or is this a means to expanding client relationships across the generations? How do the different strands - the bankers, the IAMs, family offices, lawyers, trustees, jurisdictions fit together, and can they work effectively together? Our eminent panel discussed many of these key questions and identified how the Asian wealth management community and their private clients can collectively help resolve many of the challenges of today and those that lie ahead.

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There are numerous drivers behind the institutionalisation and professionalisation of the management of the private wealth of Asia's HNWI and UHNWI families. These include the immense proliferation of global regulations, as well as the associated tax revenue maximisation and information sharing, and cooperation between national governments and their authorities, and of course the tighter supervision of the financial advisory community and their clients.

As the founder generations of Asia's wealthy and uber-wealthy families and family dynasties increasingly seek guidance for wealth and estate transfer to the younger family generations, it is important for the banks and other advisory firms in Asia 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.

Finding the optimal solutions

It is vital for Asia's wealth families to create the right wealth structures, to accept the need to distance themselves from those structures, and to work with those bankers, advisors and experts who will truly help devise and revise the optimal structures, bearing also in mind the need to align those structures with the best practices and jurisdictions, as reputation is not to be considered lightly these days.

Expert Opinion

RUBEN SINHA, Senior Associate, Family Asset Protection, Bryan Cave Leighton Paisner

"The global pandemic has really shone a spotlight on mortality, risk and an understanding that things can go wrong. Now, more than ever, wealthy families appreciate that they need to plan carefully and ensure structures are fit for purpose. As a result, families are now more willing to engage in and have some of the difficult and sometimes sensitive discussions around wealth planning and structuring."

Consolidation and centralisation

The consolidation of the management of family wealth through a single-family or even a multiple family office can help ensure a professional approach to the management of the investments, the management of the professionals and jurisdictions with which the family works, and also help with estate and succession processes. There is consequently a major trend towards concentration of structures and relationships to the best-reputed and best managed IFCs.

If Asia's wealth management industry wants to best serve its clients, and also to retain the younger generations of wealthy for the future, they should also be helping encourage families to embrace inclusiveness in their business and estate and succession planning for the future, especially as the family business is so central to Asia's private wealth.

Expert Opinion

RUBEN SINHA, Senior Associate, Family Asset Protection, Bryan Cave Leighton Paisner

"While more still needs to be done, asset protection is moving up the agenda for wealthy families. There is an inherent tension between, on the one hand, succession planning and transfer or gifting of wealth to the next generation and, on the other hand, then ensuring that wealth is properly and robustly protected. Family litigation, in particular divorce, has become a serious issue for the super-rich. The financial risk this poses cannot be overlooked and should be considered a key part of both wealth structuring and family governance."

Asia follows the world

The discussion opened with an expert highlighting how Asia's challenges in this whole area are no different in essence to the rest of the world. He explained that his hope is always to get to the table early enough in the process before any serious problems have come to the fore, especially around family dynamics and family challenges. He reported that asset protection is a very broad challenge, especially with highly international families with businesses worldwide.

"Asset protection from both the businesses and from the personal perspectives is vital," he said. "It could be centred on a concern around wives and husbands, worries about who their children might marry, that large slices of their family assets might be lost or compromised in potential litigation at business level or family level, these kind of issues. So, we spend an awful lot of time with clients, looking through structures, looking through plans in terms of how they can really protect themselves from those pitfalls."

Business and investment assets

He added that asset protection is not a negative or tainted concept. "It is not driven most of the time by trying to squirrel away assets away from potential creditors, it is simply the smart way to go. In Asia this is especially important as the dynamic is that the family businesses and the family themselves, culturally, they are both almost indivisible from each other, so both need to be fully included and protected. Accordingly, we spend a lot of time around these areas, constructing structures, discussing family constitutions, there is really no end to where these conversations can go. And I think it doesn't matter which discipline you're in whether you're on the legal side, whether you're a trust practitioner, whether you're a wealth planner, these are essential discussions to be involved in."

Another guest highlighted the immense changes taking place. "These are unprecedented times we are in when it comes to the level of change, whether geopolitical, political, regulatory, economic, and obviously, relating to health," he observed. "From our perspective, we see a lot more emphasis around international wealth, with a far greater need to plan for that, especially as we can all see the direction of travel in tax changes around the globe. Look at the UK, for example, which overnight seems poised to perhaps double capital gains tax. In short, these are the times to look at plans, see if they are future fit, see if the plans work across the generations. Certainly, this all creates a major opportunity because the value and the need for advice right now is greater than ever."

Expert Opinion

MARK CHRISTAL, Head of Region (NE Asia) & CEO Hong Kong, Quilter International

"Insurance has always played an important part from a risk and liquidity management perspective. It is a foundation of wealth planning, however away from traditional life products we are seeing a growing trend in Asia of utilising Private Placement Life Insurance as the key component of an overall wealth planning structure."

Life insurance solutions

He also highlighted the need for simplification, which is where the power of insurance structures shines. Insurance he indicted is understood around the world, it is recognised, it can be both a robust and portable structure, which then can deliver some really significant benefits, particularly around international wealth. Most of wealth structured over the years has perhaps moved more away from tax optimisation, but with insurance it is a key component, with the ability to defer tax and the compounding impact very important.

He added that private placement life insurance or PPLI is becoming more popular in Asia and is very commonplace in Europe and the US. "People here are really standing up and recognising the benefits of that insurance wrapper structure, and with PPLI you get control of the assets, you can run a discretionary portfolio, you've got open architecture investing potential, so you can generate

Expert Opinion

MARK CHRISTAL, Head of Region (NE Asia) & CEO Hong Kong, Quilter International

"We are seeing a trend towards simplification by removing redundant layers and costs, whilst meeting clients desire to retain control of underlying assets. As a result there is a growing interest in robust, flexible and portable personalised wealth structing solutions such as Private Placement Life Insurance or Variable Universal Life."

that additional growth, while also achieving the asset protection side of things as well. So, PPLI is very much is the go-to.

PPLI and VUL in vogue

But he added that Variable Universal Life, or VUL, can deliver high death benefit protection as well. In simple terms, he explained that PPLI is an investment-linked open architecture insurance wrapper with limited life cover, usually. But in the high death benefit VUL you can obviously have significant life cover. A PPLI structure is purely a wrapper, insurance wrapper, it's a structure, you can have control of the underlying assets. In Asia, this is a key challenge sometimes, particularly with trusts that clients want to retain control. And you can achieve that with a life wrapper. And avoid probate, while achieving asset protection.

He also said that it is essential for the life industry to evolve and be entirely needs and expectations based, and highly transparent. "Transparency, when it comes to revenues, that is very different in certain markets as well, that direction of travel, I would hope would start to come through more and more into Asia," he stated.

Out of the shadows

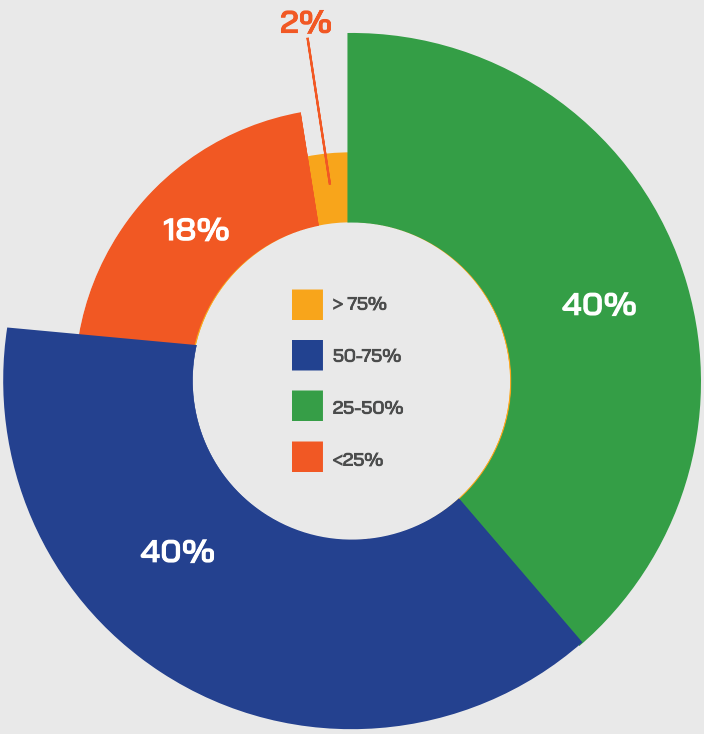
A lawyer then observed that in talking regularly with wealthy Asian families, the patriarchs and founders are in recent years increasingly willing to talk about succession planning and transfer of wealth. "This is not a taboo topic anymore," he remarked.

The next step is then to create what he termed future-fit models that take into account the objectives and also offer

The Post-event Survey

In our Hubbis post-event Survey, we asked delegates for their short insights into the state of the evolution of wealth and legacy structuring in Asia. Some 42% of replies only indicated their clients have properly organised wealth and estate planning in place. We found that at least 45% of respondents believe those structures need remediation. We heard that global private banks and the independent wealth community are likely to be most on top of this whole topic, although to be fair many of the replies came from those parties. But we also learned that 65% of respondents believe that much more work must be done by the wealth industry to reach out to the next generations, who after all will either make or inherit the vast trillions of dollars of Asian private wealth. And encouragingly for the incumbent players, we learned that 83% of respondents either consider these clients now willing to pay appropriate fees for professional advice on these matters, or at least are already grasping the need to do so, albeit only gradually.

APPROXIMATELY WHAT PERCENTAGE OF YOUR PRIVATE CLIENTS IN ASIA TODAY HAVE ORGANISED WEALTH AND ESTATE PLANNING IN PLACE



some good degree of flexibility to adjust or compound structures in the future. "The structures need to be more compliant, more sustainable, and more future ready, future proof," he explained. "It is not that we need to always dismantle what was done in the past, but in reality, many need to be dismantled or untangled at least. We do not have a fixed solution, it might be the trust, perhaps a family office, maybe a fund, or maybe it's a combination of everything."

Younger than you might think…

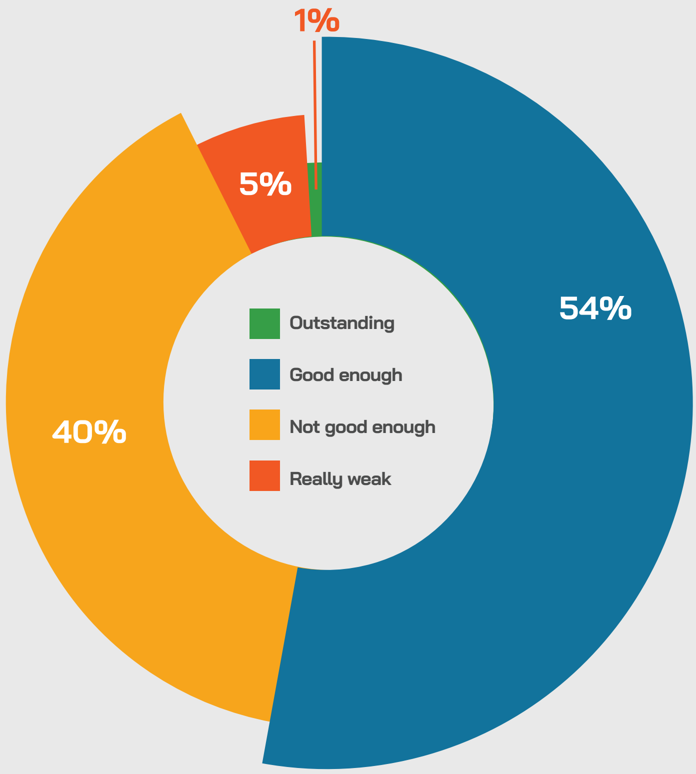
A guest then spoke who focuses some 90% of his work on North Asia, driven by wealthy Chinese individuals listing their companies in Asia and in the US. "And one key trend," he reported, "is that these people are a lot younger than what we expect them to be, certainly not in their 60s or 70s, and mostly in the 30s and 40s. They are really willing to get professional advice, they have the money, so, they have teams of lawyers, accountants, tax advisors, everybody involved." In the past, he indicated, clients might have wanted the cheapest fees but today they want the best advice and solutions and will pay for that.

"And with the globalisation of these families and their wealth," he said, that's where I think as professionals, private bankers, lawyers, tax advisors, or trustees like us, we all have a big role to play, and a very lucrative role to play in the future."

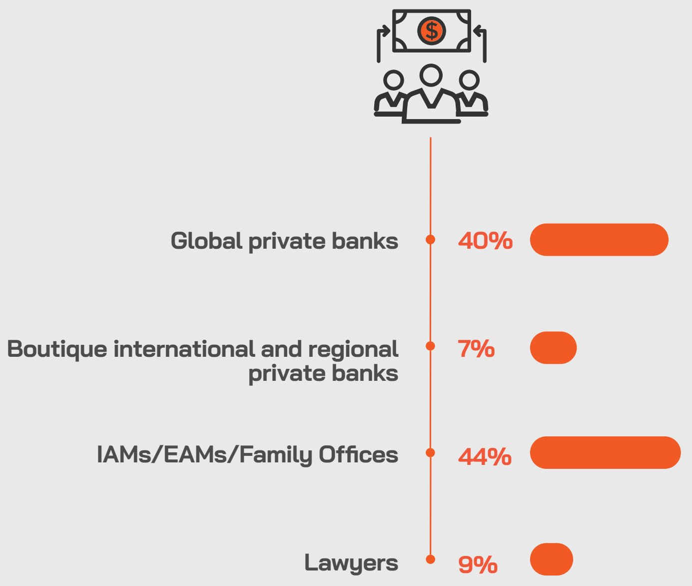
Avoid the crises

Another expert added that at the same time, families across Asia need to and increasingly want to

HOW WOULD YOU DESCRIBE THE QUALITY & PRACTICALITY OF THEIR STRUCTURES & PLANNING?



IN YOUR VIEW WHICH BANKS, FIRMS OR ADVISORS ARE ASIAN PRIVATE CLIENTS WORKING WITH TO ACHIEVE THEIR WEALTH & LEGACY STRUCTURING?



avoid the pitfalls of their wealth, namely family or other disputes and confrontations. "These families are certainly more willing to have open discussions, on more personal and highly sensitive concerns, and I am spending a lot of my time these days working with families across the region, particularly in relation to trust, across the full range of asset holding structures to really ensure that they are being established, operated and managed in a way that ensures they are as robust as possible. I only see that trend set to continue."

Heard on the street

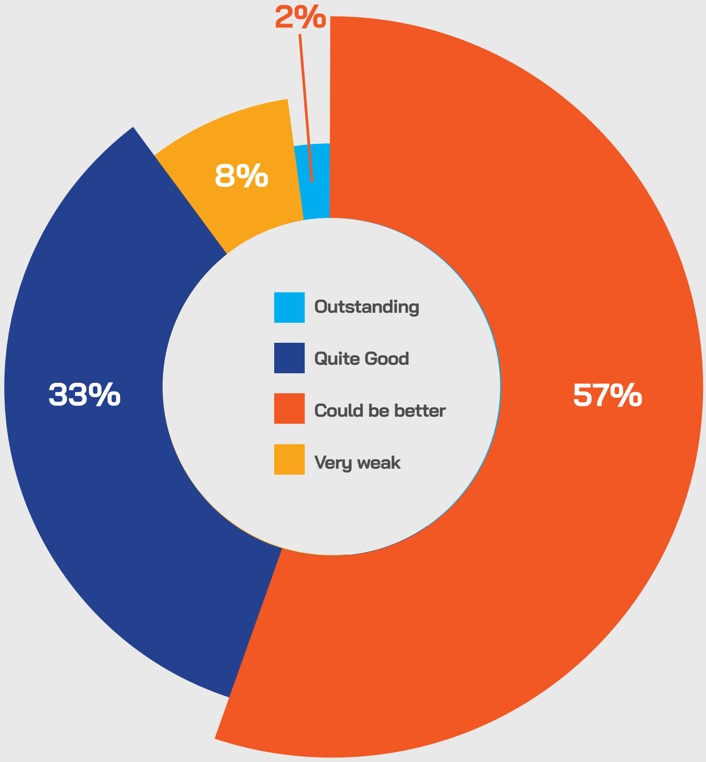
He added that very often it will be the private banker or the wealth planner who becomes aware first that there are problems within a family or that perhaps litigation or divorce is on the horizon.

"When those within the wealth management industry are discussing plans, structures, and so forth," he advised, "they need to make these clients aware of the substantial risks out there. I spend a lot of my time to make it as easily digestible for families as possible, so people start to think about it all seriously. These risks of litigation, divorce, family breakdown, all these factors really need to be looked at as part of any planning in the same way that one or a family will be looking at tax, investment, growth, philanthropy, whatever the case may be. And timing is key, get this done as early as possible, and well before anything has gone wrong."

Careful shepherding

Another panel member added that the smarter private bankers he works with can identify when

HOW EFFECTIVE IS THE WEALTH MANAGEMENT INDUSTRY IN ASIA IN REACHING OUT TO THE NEXT GENERATIONS, BEYOND THE FIRST/ FOUNDER GENERATION?



IN YOUR VIEW ARE ASIAN PRIVATE CLIENTS WILLING TO PAY THE NECESSARY FEES TO BUILD REALLY THOROUGH WEALTH AND LEGACY PLANNING?

these conversations are going into a sphere in which they're uncomfortable, and they find and bring in the right people to have that conversation with these private clients for them.

These highly sensitive and personal areas are not, other than in very general terms, what a private banker or investment manager wants to be discussing with a client. But if these bankers can then identify the right parties to have these discussions and take it ahead, he remarked, that is far preferable. "And they can be in the room, or they can opt out," he said, "it really depends where your comfort level and your level of relationship with the client is."

Another guest agreed, adding that collaboration is key. "The banker or asset manager might have worries about losing control of the client but the actual outcome of working together with external experts, other professionals from different disciplines, can actually have the alternative effect and actually build a greater trust, achieving a better outcome for everyone long term."

Trusting your trusted advisor

A fellow panellist concurred with all the comments thus far, adding that Asian clients do need more handholding, so having someone close to them, for example wealth planners, whom they trust and who understands them very well and who knows the key players who can help them, these are vital elements in the whole process. "They can really help pull everything together for the clients, help them see the risks and help organise the right advisors at the right time. One of the key

Post-Event Perspectives from the Delegates

In our short post-event Survey, Hubbis posed several open-ended questions with the aim if mining down into industry sentiment on these vital matters of wealth, legacy and succession planning. We have selected the following observations from the audience.

DO YOU THINK THERE IS A MUCH MORE ACTIVE DRIVE NOWADAYS TOWARDS PROFESSIONAL WEALTH, LEGACY AND SUCCESSION PLANNING AMONGST PRIVATE CLIENTS IN ASIA? WHY, OR WHY NOT?

- "Without doubt. HNWIs are more aware of need of asset protection and succession planning."
- "Yes, there is a larger and more open discussion around this simply as Covid-19 has brought health and mortality more into focus."
- "Yes. Uncertainties over quite a number of factors have led to more families thinking more carefully about all this."
- "Yes, and the private clients in Asia are now more knowledgeable and aware that good advice is usually not for free."
- "Yes. Private clients are more aware of the needs for succession planning and they are also more receptive to ideas."
- "Yes, because the fast growing of wealth in the region has created massive opportunities for wealth planning. And as the panellists mentioned, Asian clients needs more handholding, so there are plenty of opportunities for the industry to lead the way forward and for their businesses."
- "Yes, and there are constant changes in legislation and tax laws."
- "Yes, but it is slow, as openness trust and confidence in wealth management providers seems to be still quite low."
- "Yes, especially as most people now have global assets they need to protect, it is no ,longer only local assets today."
- "Yes, and we see this particularly in markets like Hong Kong and China where succession planning is occurring between the first and second generations."
- "Yes, and the drive is being led by clients as well as the greater access to information and a demand for more transparency."

challenges for Asian families is in identifying that go-to person."

A panel member agreed and added that the wealth planner within a private bank can actually often have these personal levels of discussions and spot the situations that need addressing, and then serve as the hub for expediting structures and solutions.

Tough for the banks to monetise directly

He said: "The question often comes up whether this is an area the bank can then monetise in itself, charging for wealth planning effectively, but I think that remains tough, these wealth planners, at this moment in time, particularly in Asia, are more hand-holding clients and introducing them to the right people to then produce structures and produce services. Charging for that whether it'd be a sort of fixed fees or hourly rates or anything, I think it's quite difficult at the moment, but I think they can draw revenue, they can draw assets under management through just having that conversation anyway. Perhaps for the IAMs and EAMs it is easier to add this as a paid service you expected to be remunerated for. But whichever route, it is vital to be transparent, so the client understands the dynamics of which they're working with."

Know your clients

A lawyer remarked that when clients are referred to them, they are obligated to run the full background identity and AML checks, as per regulatory needs and standard common-sense practice. He said in this regard his firm had actually turned away some potentially huge fees, but

- "Yes, as more and more of the first and founder generation have realised the importance of asset preservation and succession planning in a more professionalised manner."
- "Yes, and much is driven by the second and younger generations who prefer to delegate these matters to professional, whereas more often the patriarchs preferred simple solutions."
- "Yes. I really do believe the concept of professional wealth, legacy and succession planning are getting more and more popular. Due to the fact that the economic volume increased rapidly in Asian countries, especially China, people are now more inclined to receiving professional services regarding these matters."
- "Yes, and this is growing phenomenally. Holistic planning is the only way forward."
- "Yes, but it is vital that the professional advisors behave like professionals and charge only fees for their advice and services instead of making money primarily from the financial products they sell."
- "Yes, and the Asian private clients realise the importance of succession planning to safeguard the long-term family wealth created and to ensure the distribution is fair to the wills of the patron."
- "Yes, the needs for wealth management clients are not limited to investment advisory only nowadays; a full package of wealth planning and succession advisory service in the wealth management industry become relative more important to meet clients' requirements."
- "Yes, and we see Asian clients becoming more open minded to discuss their vision of the family legacy and open the dialogue between family members to discuss the succession of their family business and assets."

WHICH JURISDICTIONS IN ASIA ARE BENEFITING MOST FROM THESE TRENDS, AND BRIEFLY WHY?

- The answers here were split rather evenly between Hong Kong and Singapore, both benefitting from the emergence of these key trends across the region, and both from the remarkable expansion of private wealth in China and Greater China. Some respondents argued that Singapore is winning the plaudits, whereas Hong Kong has lost some of its shine in recent years because of the social unrest and questions over its independence. Some commented on the excellent infrastructure, advisory expertise, and tax and other incentives in Singapore, politithat as a reputable law firm, they need to be sure who they are dealing with and make sure that the coterie of professionals and advisors and clients represent integrity as well.

A guest offered an example of the type of work he is often involved in, in this case a wealthy Asian matriarch who came to him via her tax advisor, looking to set up restructure a number of trusts, across various jurisdictions, with the potential beneficiaries of the trust all located across Asia and the UK.

"In a fairly classic scenario, she's concerned about the potential impact a divorce of one of the beneficiaries could have on the family wealth, and the assets held within the trust," he reported, "so, I've been working with the family, also the family office, the tax advisor, to ensure that the trusts are settled, operated, and managed moving forward in a way that that will ensure that if a beneficiary ends up in litigation, or a third-party claims, those structures are as robust as possible. To do so, and I won't go into detail here, I need to look closely into the structure itself, the letters of wishes, how the wealth is going to be distributed, the long-term purpose, how pre- and post-nuptial agreements feed into all that."

Know your skills…and limitations

The first piece of advice for those seeking to help their clients is to fully understand their own and other parties' limitations and not stray into areas about which they do not have the right professional expertise.

cal stability and supportive government policies. China, replies noted, is driving much activity as a well-structured family trust can provide legitimate tax efficiency, especially for Chinese clients' offshore assets.

HUBBIS: WHICH JURISDICTIONS GLOBALLY ARE BENEFITING MOST FROM THESE TRENDS, AND BRIEFLY WHY?

» We asked the same question regarding the worldwide jurisdictions that are benefitting from these trends in Asia. The names that kept recurring throughout were, quite understandably, Hong Kong, Singapore, London, the Caymans, the Channel Islands (Jersey and Guernsey), the Isle of Man, Liechtenstein and selected cantons of Switzerland, with some people also mentioning the development of far better structuring infrastructure in the Middle East.

A fellow panel member agreed, remarking that a client coming in with no banker, with no lawyer, with no accountant, with no fiduciary, no contacts whatsoever, he would find it pretty tough to work out who can help and who might hinder in reality. "This is where it is vital to really identifying the person who gels with the client and has the right background, has the right experience to sort of handhold them through whatever they're looking to do. But in reality, it is a bit of a minefield, with different rules and practices in each country and people claiming they can help. Ultimately, I think it is very important to find that one person who can help guide such clients through this maze."

Empathy is vital

An expert added that most of those established players have plenty of horror stories. "It is very important to bring it back to that point where you are sort of putting yourself in a client's shoes so they can understand what you're really trying to convey to them," he said. "And I think if you do that,

Expert Opinion

MARK CHRISTAL, Head of Region (NE Asia) & CEO Hong Kong, Quilter International

"Wealth structuring & planning represents a significant potential long-term profit centre by creating sticky assets across different generations and building up AUM through consolidation. These outcomes are not however a given and will only be a result of taking a long-term view and getting client value propositions and plans aligned across generations."

you are being fully transparent with them. I'm just a big believer in advising clients to be as open and transparent with their own families as possible. And I think they end up appreciating that because certainly in my career, most of the clients have done this and done this well have open lines of communication with their advisors and their families across multiple generations. This way, you tend to avoid the sort of nasty surprises coming along and I think any advisor who recognises that is putting themselves in a good place."

Stories from life...

A guest advised opening conversations with anonymous examples, or even publicly-known figures who have suffered from crises either while alive, or their families upon their deaths, especially if sudden and full of intrigue. "Use some interesting stories to start the conversation and get them concerned, get them to focus on what's important," he advised. "And speak with their children. Most of these wealthy families, the patriarch or matriarch are very good at making money, but they may or may not be in tune with what the children want, or if they want to or could take over the family business, or have other aspirations. That leads in well to succession planning discussions. "

Expert Opinion

RUBEN SINHA, Senior Associate, Family Asset Protection, Bryan Cave Leighton Paisner

"Timing is key. If problems have already arisen and litigation is on the horizon, it is too late to start thinking about these issues and any last-minute structuring or restructuring is likely to be in vain. Families and their advisors need to anticipate, consider and prepare for these risks from the outset."

Don't delay

Talk about these issues as early as possible was another piece of advice. "And look at these issues from all angles," he proposed, "to review and assess all the risks. The sooner these conversations start, the better, and get the difficult discussions done, and alert them to concerns early on, otherwise the families could point their fingers later on. Assess all of the risks early on, then plan and structure accordingly."

A panellist advised that these conversations are not static as businesses, lives and families are fluid and so too regulation. "Remember that discussions about succession, asset protection should be an ongoing process. It's not a one-off discussion that they should have with the families. Like people, you should grow as you grow with the families. As the family circumstances change, the structures need to be reviewed at the same time."

See the big picture

And the final word came from a guest who remarked how life insurance professionals and indeed bankers or others who might refer their clients to such life experts must build and keep building their trusted relationships and continue to demonstrate their value proposition.

"If clients really fully understand your value proposition, they're going to be willing to pay for it and they understand what you bring to the table. The key point is from any advisory point of view, you want to build that ongoing relationship. That's what clients need. They need to have an adaptable plan to deal with all of life's changes, and for that they need a holistic picture and plan, with the right solutions sorted objectively from the market to best suit those clients. The key is then identifying those needs to find the right solutions to fit them." ■