GIVING THE RIGHT ADVICE TO WEALTHY INDONESIAN FAMILIES

As Indonesia's entrepreneurial first generation develops more complex needs relating to internationalisation of assets, business succession and inter-generational wealth transfer, getting the planning and structuring right is a priority,

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Anywhere with high rates of wealth accumulation and growing numbers of wealthy individuals will inevitably lead to requirements to plan for the future using the right structures.

This certainly applies to Indonesia, where entrepreneurs and business-owning families are increasingly facing tough questions about how they manage, preserve and pass on their business and personal wealth, said panellists at the 3rd annual Hubbis Indonesian Wealth Management Forum 2014 in Jakarta in late October.

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"Transition time is here," said Nigel Rivers, global head of private clients for TMF Group. "Business founders are coming to a stage where they need to engage the next generation in terms of the management and ownership of the family business." This common challenge for Asia is further compounded by the need in Indonesia to fill the gap between the more ad-hoc approach taken to date and the greater sophistication now needed, he added.

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LIVING IN A NEW REALITY

One of the first things that confronts families in today's more transparent world is the global trend in relation to disclosure requirements and developments around exchange of information. "That is from a global perspective, which shifts clients into more secure and legitimate structures that can be disclosed," said Michael Pfaar, partner, Asia Pacific leader - Deloitte Private, at Deloitte & Touche.

The next requirement for Indonesian families, based specifically on domestic rules, relates to the tax reporting obligations they are subject to on all foreign reporting subsidiaries, regardless if these have any substance.

"Many clients are exposed given they have structured wealth via offshore structures," explained Pfaar.

The key, therefore, is to help clients move assets from those structures into something which considers the issues relating to a combination of the local reporting obligations and the global disclosure requirements, he added.

This depends on the right professional advisers being able to assess the extent to which various structures will be sustainable over the next five years, given they will be audited at some point. "They need to live up to this scrutiny," said Pfaar.

NIGEL RIVERS
TMF Group

PROVIDING THE RIGHT ADVICE

One of the main considerations with structuring for wealthy families in emerging markets is the fact that if what gets put in place is not the right option, or not robust enough, it could thrust the family into a more complicated scenario than they had before.

This is also related to understanding the needs of each client, said Marcus Hinkley, group partner, private client, Singapore office at Collas Crill. He pointed to a recent example where he was advising a wealthy Malaysian business owner in his 60s, about an IPO for his business and also the pre-IPO succession planning.

Key to providing the right advice in this instance, said Hinkley, was the passion in the way the solution was positioned – in the same way as the client had shown so much passion about his business.
After all, he explained, getting it wrong would mean significant implications for him and his family, he added. "This highlights the difference between offering products and advisory services."

CREATING TRUST

Another aspect of advising wealthy families in markets like Indonesia is the prospect of alternative citizenship.
Even though many wealthy clients in Asia generally don't like to move and think they are untouchable in their home markets, the last 20 years in Europe has shown what can happen to many entrepreneurs.

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The problem, said Juerg Steffen, managing partner, Singapore at Henley & Partners, is that a lot of first-generation entrepreneurs are simply not aware of worldwide developments. Plus, they tend to want to deal with such issues at some point in the future. The main difficulty, especially for advisers recommending that the client changes everything about their structures to put them in a better position, is to build up the required trust, said Steffen. The

MARCUS HINKLEY
Collas Crill Indonesia

closest contacts to the client are typically locally-based advisers, who also generally lack the global perspective.

However, the most successful advisers in this space are those individuals prepared to ask difficult questions, he explained – not those who are the most knowledgeable.

No client wants to be confronted by challenging questions about whether they have given much consideration about the structure over the long term, or about succession planning.

"Building trust is essential," added Robin Amacher, head of business development for Singapore at Swiss Life. "You have to show that you have the competency in the specific field. Getting access to clients and winning their trust is based on being an insider in the market."

At the same time, there is a requirement to be clear with clients in relation to which type of specialist or adviser is the right individual, or organisation, to fulfill a certain need and also has the necessary skill-set.

For example, Hinkley explained that clients need to use the right adviser so that they are not replicating any parts of the process, or speaking to people who are not relevant.

PREPARING FOR EXITS

One of the areas Indonesian clients need to pay more attention to is preparing for succession planning.

In other Asian countries, children are involved in the family business at a very early stage, and this is starting to happen more in Indonesia, said Pfaar.

Working with clients in this way involves an integrated approach for businesses and families, he explained. It starts with a decision-making matrix, from which it is important to cover off all areas and have a discussion with the relevant lawyers.

This is a difficult balancing act to get right, he added, in terms of not coming across too much like an outsider who wants to change everything.

But without such planning, there will be some instances where the authorities will likely want to make an example out of at least one family via the enforcement of rules which brought structures into non-compliance in 2009 – but for which there hasn't been any enforcement to date.

"Everyone is waiting to see the test cases, after which I expect a lot of people to come to us at the same time for advice," said Pfaar.

AVOIDING WEALTH-DESTROYING MISTAKES

It is to be expected that some clients in newer markets make some initial structuring mistakes which can destroy wealth. Avoiding these, therefore, is essential.

"There is growing recognition that the world has changed significantly over the past five years, so planning ahead is critical," said Rivers. Essentially, he explained, it is about reviewing what there is, where you have it, and how it is held.

The next generation, for example, might find it hard – or very costly – to repatriate wealth to their home market at a later stage, added Rivers.

"If the transfer of wealth is well organised before the patriarch dies, disagreements within a family about how to run the business can be avoided," said Amacher. "That is one of the main concerns, especially in markets like Indonesia where many individuals are asset rich and have less bankable wealth."

There is also a need to think about estate equalisation, he added, so that if a business goes to one family member, the other children are also getting some type of financial means. ■

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