MAXIMISING ASIA'S WEALTH STRUCTURING OPPORTUNITY

Clients and wealth managers alike have no choice in today's environment but to find appropriate long-term planning solutions. To capitalise on this large – and growing – opportunity, banks and advisory firms need to clearly understand what advice is required and team up with the right professional services firms to implement it, said panellists at the Hubbis Asian Family Wealth Forum 2014 in Singapore in November.

PANEL MEMBERS

MICHELLE LAU
HSBC Trustee

DAWN QUEK
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ERIC BOES
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MYKOLAS RAMBUS
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The scale and scope of the inter-generational transfer of wealth already underway in Asia, and expected to continue for years to come, is unprecedented. This shift is bringing with it significant opportunities for the wealth management industry. For example, there is an urgent need for more professional, targeted and bespoke advice to deal with today's more regulated and transparent environment.

As a result, it is more important than ever before that advisers are themselves sufficiently knowledgeable about the issues – and can also build relationships with third-party specialist firms to deliver the required local technical advice.

This was according to panellists at the Hubbis Asian Family Wealth Forum 2014.

DELIVERING WHAT CLIENTS NEED

The evolution of advice in relation to wealth structuring is already apparent, in conjunction with a notable shift in Asia towards more sophisticated trust planning over the last 10 to 15 years.

"In the past, a lot of private banks were just looking at simple trust structures to plan for offshore assets," says Michelle Lau, senior director and head of wealth planning, private wealth solutions, at HSBC Trustee. "Now, they need to talk about what they do with the assets they have onshore."

As business owners, this means taking a much closer look at what their succession planning will look like. "The key for them is to look at the governance aspects," says Lau. That doesn't just mean from a personal wealth perspective, but also in terms of their business, to address questions relating to, for example, who will take over and how the process of succession will actually happen.

Further, in the rapidly-changing landscape over the past few years, the focus has narrowed significantly on tax compliance.

In line with this, Asian clients are being forced to get advice on aspects of their wealth which they previously didn't think they needed to. In turn, opportunities are emerging to advise them on areas which previously weren't addressed.

MICHELLE LAU

HSBC Trustee

> **" I doubt most advisers know how to advise their clients in the best way. Mistakes can therefore get made, and these can be costly "**

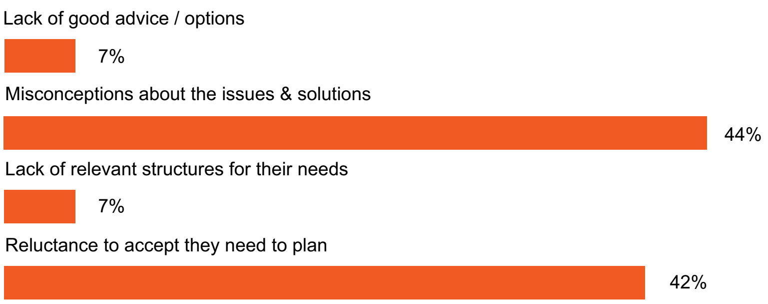
"One of the most interesting implications of this [new landscape] is the fact that it is creating broader conversations with clients, who are more open to talking about their business and personal matters," says Dawn Quek, principal of Baker & McKenzie. Wong & Leow.

For example, she explains, it leads to questions relating to a client's estate and succession planning needs, such as: how they create incentive provisions for heirs; how they deal with asset protection considerations; and how they address issues such as potentially not wanting their first family to benefit, but to ensure their second family does.

"[In the previous non-transparent world] clients didn't have conversations about these issues and they were hidden," explains Quek.

Getting to this point, however, is still more the exception rather than the rule, at least for the time being. For example, it tends to take many years for clients to recognise and accept the kind of sweeping changes that FATCA and the various tax-

WHAT'S HOLDING SOME CLIENTS BACK WITH WEALTH TRANSITION?



Source: Hubbis Asian Family Wealth Forum 2014

DAWN QUEK

Baker & McKenzie. Wong & Leow

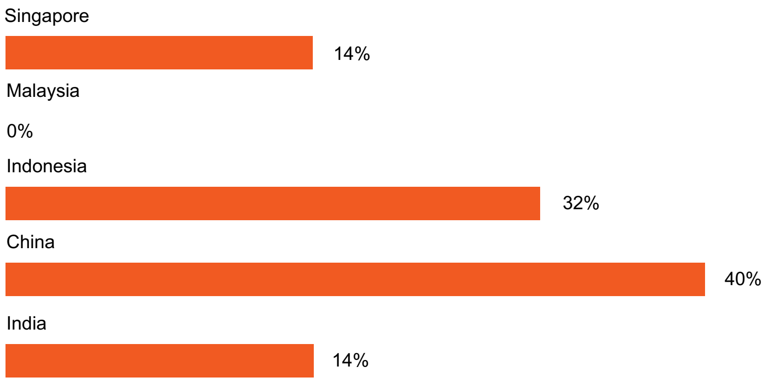
Indeed, holding some clients back from putting more time and effort into the process of wealth transition from one generation to the next is a combination of misconceptions about the issues and solutions, and a reluctance to accept that they need to plan. That was according to the results of a sentiment poll of the audience of wealth management practitioners.

Further, many of their advisers are often not on top of the seemingly daily changes, therefore limiting the access to driven transparency measures are bringing in. Plus, many of the new rules and regulations are very complex.

There is also an element of psychology to blame for the general reluctance or lack of awareness among the client base.

With Asian entrepreneurs who have privately-held businesses, and who tend to be younger and work for longer than their global counterparts, Mykolas Rambus, chief executive officer of Wealth-X, says they don't tend to focus on longer term planning as much. "They take the view that they will get around to this after they have expanded the business."

WHICH MARKET REPRESENTS THE BIGGEST WEALTH PLANNING OPPORTUNITY?



Source: Hubbis Asian Family Wealth Forum 2014

ERIC BOES

Amicorp Group

the required education and knowledge-sharing. "I doubt most advisers know how to advise their clients in the best way," says Juerg Steffen, managing partner, Singapore, at Henley & Partners.

"Mistakes can therefore get made, and these can be costly," he adds.

Yet despite the myriad regulatory and tax issues, it is imperative that relationship managers (RMs) and financial planners to understand, at least at a high level, what the issues are.

"They need to get acquainted with these to be able to do the right thing for a client," says Quek. "The last thing an adviser wants to do is set up a structure which doesn't work from a FATCA perspective."

In particular, adds Eric Boes, global head of FATCA solutions at Amicorp Group, advisers need to have a better understanding about the developments relating to transparency.

This would be a starting point, but to be able to provide the right type of advice, Steffen adds that it is more realistic for advisers to work in partnership with third-party professional services firms which have global knowledge.

GETTING STRUCTURES RIGHT

It is important to note, however, that not all clients are setting up structures for tax reasons; many of them have specific estate planning goals they are trying to achieve.

Yet, advises Boes, they still need to check the impact of these structures on their tax positions.

And for those clients who have created structures for tax savings, or are looking to do so, they have to reshape the structures to ensure their compliance. "This is becoming a more professional market, with a need to get the right advice," says Boes.

JUERG STEFFEN

Henley & Partners

"Advisers must listen very carefully to what the needs of each client are, whether these relate to estate planning or tax savings, for example, before they look at what is the right structure."

> **"People shouldn't be able to sleep at night if they have a structure which hasn't been declared"**

Not taking the time or seeking the right advice to put in place a structure which has been declared for tax purposes has increasingly serious consequences in today's environment. "People shouldn't be able to sleep at night if they have a structure which hasn't been declared," adds Boes. "For people to make sure they can enjoy the businesses and wealth they have built, they need to be compliant."

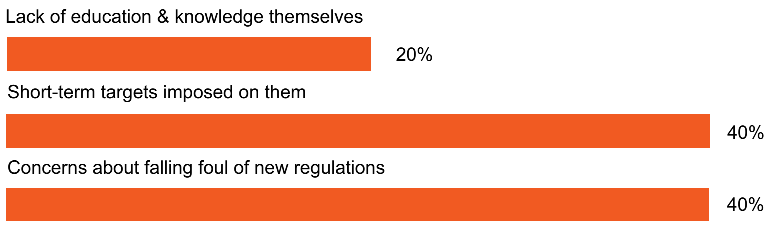
The implications are equally severe for trustees, adds Lau at HSBC Trustee, specifically in terms of reputational risk.

Trustees need to be concerned about the location of beneficiaries, for example, among other issues.

Adds Quek: "The days where trustees can simply rely on clients making a declaration that they are tax compliant are over.... They really need to bring in the right advisers."

In line with this, she says that a lot of work has to be done to assess the relevance and appropriateness of some of the structures

WHAT IS THE BIGGEST HURDLE TO ADVISERS DRIVING THIS BUSINESS?



Source: Hubbis Asian Family Wealth Forum 2014

MYKOLAS S. RAMBUS

Wealth-X

set up 10 to 15 years ago – at a time when it was common to have multi-layered structures.

"There is nothing wrong with these per se," she explains, "but the layers look bad, and can limit the ability to set up bank accounts or deal with certain advisers."

MAKING THE MOST OF THE OPPORTUNITY

Part of the way for RMs and advisers to get up the learning curve – and therefore be in a better position to provide relevant advice to clients on wealth structuring matters – will come from them working with those third-party specialist firms which can advise locally.

For example, says Quek, while RMs don't need to know the details of FATCA rules, they need to find who to work with on specific issues.

"While the trends are global, implementation is local," adds Boes. "Every country has a different system and solutions will vary."

And for those practitioners who can show clients the value they can provide by clearly spelling out all the issues from the start, and coordinating proper legal and tax advice for them, there is a greater chance of convincing them of paying fees.

"While many clients [in Asia] don't want to pay fees, the way to approach that is to look at value," says Quek.

And in most cases, she says once they understand the purpose of the advice and the issues it is helping to address, then they don't have objections to fees.

AN EYE ON THE KEY ASIAN MARKETS

According to a poll of the audience, Indonesia and China are two of the more exciting markets for wealth structuring.

There is often a lot to be done with Chinese clients, in particular, says Lau, since a number of them have some type of US connection.

However, a lot of Chinese clients are a lot younger than clients in other Asian countries, plus tend to have smaller families.

In Indonesia, meanwhile, while the wealth held by many families has typically been controlled by the first generation, a lot of the second and even third generation are now getting more involved, adds Lau.

"Clients in Indonesia are getting more and more advanced in terms of the way they think. They also consider offshore planning."

Also notable in Indonesia is the use of insurance as a planning tool, she says, for example key-man coverage.

"The question remains," she says, "is who will call the shots next, even if the patriarch is still alive?"

Rather than just focusing on these two markets, however, Quek says there is good potential for wealth structuring solutions across the region.

"All Asian markets have huge potential because there is so much wealth," she says.

"They all also have very different tax and legal systems, and are at different stages of development."

In relation also to specific wealth structuring opportunities going forward, the key question in today's tax-transparent and economically-challenged environment is where families think about investing for the long term, says Rambus.

Many of them, he explains, are looking at private equity as the next great opportunity.

This might either mean focusing on smaller firms or on the units of larger organisations.

"This is where we see the real macro trend emerging," says Rambus.

"It is in terms of how families, including some of the second generation, are trying to access private equity in the Asian region." ■