

MEETING CHANGING CLIENT REQUIREMENTS FOR STRUCTURING

Identifying appropriate solutions to help private clients facilitate inter-generational wealth transfer in today's changing environment requires careful and methodical planning, said panellists at the Hubbis Asian Family Wealth Forum 2014 in Singapore in November.

PANEL MEMBERS

LEE WONG

Coutts

JOHN HODGSON

The Sovereign Group

ROBIN AMACHER

Swiss Life

CONNIE LEUNG

Amicorp Group

JOSEPH MCBURNEY

Heritage Trust Group

The changing regulatory and tax landscape is leading to demands from clients for more technical advice in terms of the sophistication of the structures required, according to panel speakers at the Hubbis Asian Family Wealth Forum 2014 in Singapore in November.

This is driven by various factors, including the fact that many clients have more

jurisdictional touch-points as a result of them living in multiple locations, explains Lee Wong, head of wealth planning for Coutts in South-east Asia.

"The current issues are different from the ones [clients faced] before," she explains, "bringing with them different complexities." For example, the demands to report and do proper tax filings are higher.

In addition, Wong says clients no longer just look at their financial assets when it comes to structuring, but also business assets, holding companies and commercial



LEE WONG

Coutts



real estate, for instance, as part of the wealth they want to pass on to the next generation.

Hodgson, adding that in his experience, many people prefer to return to their home country to retire.

“ Because of the internationalisation and acquisition of assets overseas, there is more of a need for jurisdiction-specific tax advice ”

“The movement towards onshore and mid-shore planning is gathering momentum,” she adds. “We need to take that into account as part of our planning.”

According to John Hodgson, group legal director at The Sovereign Group, it all comes down to location, location, location.

“Because of the internationalisation and acquisition of assets overseas, there is more of a need for jurisdiction-specific tax advice,” he explains.

But it isn't all about the choice of jurisdiction in terms of where to locate the structure – it is also in relation to where they want to end up living.

“Clients must genuinely consider where they want to reside long term,” says

in Singapore, rather than as individual solutions.

WEALTH TRANSFER STEPPING STONES

To make the wealth transfer process as smooth as possible, the starting point should be detailed planning.

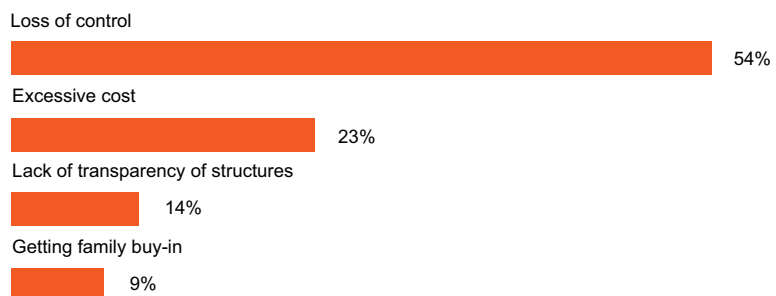
This is made more challenging by the common first reaction of many clients that it is too early for them to plan, says Wong. For instance, they might think their kids are too young, or they might not be sure what role there might be for the children.

“But the reality is that if clients have dependents to provide for, and there is something to leave behind, then there is some kind of structuring required,” she explains.

Planning is also vital because it is common for clients to be unaware of what they own, adds Wong, and in which capacity or structure they own it within.

“Getting organised and the ball rolling with a few steps can make it smoother in the future,” she says.

That might be as simple as putting a will in place. Even putting assets into a sensible structure can mean a client can avoid probate, she adds.

WHAT IS THE MAIN MISCONCEPTION FAMILIES HAVE WITH STRUCTURING?

Source: Hubbis Asian Family Wealth Forum 2014

PANEL DISCUSSION

It is then a more appropriate time to consider governance issues and develop a family constitution, for example, to express family values and regulate how families behave.

When it comes to corporate succession, this is a theme which Hodgson says is being raised more and more frequently. And as part of this, he says that most people look to set up trusts to protect the family business.

ADDRESSING MISCONCEPTIONS

However, one of the biggest pitfalls advisers and institutions face when it comes to trying to guide clients through the minefield of issues relates to misconceptions they have about wealth planning in general.

Loss of control is often at the top of the list. This was also reflected in audience sentiment, with 55% of those polled citing this as the main misunderstanding families have when it comes to structuring.

“Families which run a business have a reluctance to hand over their wealth to independent trustees,” adds Joseph McBurney, general manager, head of trust, Heritage Trust Group. “They see it as a leap

**JOHN HODGSON**

The Sovereign Group

“ Families which run a business have a reluctance to hand over their wealth to independent trustees. They see it as a leap of faith ”

of faith, so there is an education process which needs to happen with these clients.”

For example, he says, there are a lot of vehicles which allow clients to retain control, such as reserved powers trusts, VISTRA trusts and others. Further, clients should be made aware that having too

much control can also pose issues which might mean a structure is not in their best interests.

If the main objective is succession planning, for instance, then control and a revocable structure can work fine.

However, says Wong, if asset protection is important to a client, then there is a need to find a balance.

“[If a client has] consent to all sorts of decisions that a trustee is required to make, it might compromise the structure,” she explains.

Another thing which would help resolve this issue going forward is further proof of the credibility of service providers.

This is particularly important for those clients who might have received bad advice in the past, yet need to be willing to take professional advice in the future.

WHAT IS MOST LIKELY TO GO WRONG WITH ESTATE / SUCCESSION PLANNING?

Inheritance tax implications

0%

Family disputes

36%

Wrong / unnecessary structures used

55%

Wrong advice about what clients need

9%

Source: Hubbis Asian Family Wealth Forum 2014

PANEL DISCUSSION

“In Singapore we are a licensed and regulated trust provider,” says McBurney, “so we are accountable and we have professional staff.”

In China, too, professionalising the advice is an important requirement to move the concepts of estate and succession planning forward.

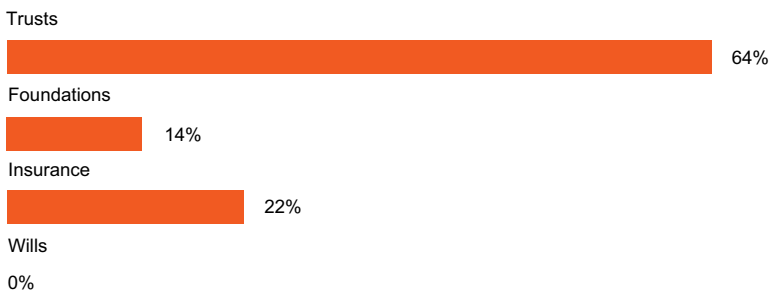
According to Connie Leung, head of private clients at Amicorp Group in North Asia, this isn't solely the responsibility of service providers; there is also a need for

ROBIN AMACHER

Swiss Life



WHICH STRUCTURE / SOLUTION HAS SEEN MOST INTEREST OVER THE PAST YEAR?



Source: Hubbis Asian Family Wealth Forum 2014

more government promotion and policies to encourage this.

In the meantime, the generational shift is helping in the education process.

While the first-generation has had all the control, it is now starting to pass to the second generation, many of whom are highly educated, adds Leung.

“This makes it is easier for us to take the trust concept to the next level.”

There is also a growing need to help these clients in other ways, she says, such as how to deal with other assets, including property, and incorporate them into various structures.

AVOIDING PITFALLS

According to an audience poll, one of the most likely aspects of .estate and

succession planning to go wrong is the use of incorrect, or unnecessary, structures.

A typical example of this relates to inheritance tax, where people who live in countries which don't impose such taxes don't consider whether they might be affected by assets held elsewhere in the world.

Yet if they own real estate in the UK, they are impacted by UK inheritance tax, says Hodgson.

This also creates some specific opportunities in places like Singapore, he adds, where people from high-tax jurisdictions have been striving to remove themselves from the inheritance tax net.

CONNIE LEUNG

Amicorp Group



JOSEPH MCBURNEY

Heritage Trust Group



Charitable or philanthropic giving, confidentiality and tax planning are among some of the other attributes.

Further, adds McBurney, the more familiar that clients become with trusts and get coached through the process, and also understand the relationship between the trustee and client, then the higher the chances that they will use them more frequently.

There has also been growing interest in insurance policies as part of wealth

“They have a window of opportunity to do proper tax planning,” he explains, “and they need to make the most of it.”

On an annual basis, there is also a need to review the structures which clients have, to ensure there are no additional entities involved, adds Leung.

In particular, issues might have also emerged in terms of family disputes, which she says are often the main source when it comes to what is most likely to go wrong, especially in Hong Kong and China.

“ The reality is that if clients have dependents to provide for, and there is something to leave behind, then there is some kind of thinking and planning required ”

might want to protect their wealth and exclude someone from the trust. “There are ways to do this using a trust,” says McBurney, “to protect wealth from outsiders and creditors.”

planning, says McBurney, as a way to provide a bit more liquidity for families when the patriarch passes away.

This also highlights the importance of using a combination of tools to form a complete wealth plan, says Wong.

“ The right solution very much depends on the client’s individual situation. It also varies according to the jurisdiction ”

USING THE RIGHT TOOLS

When looking at the tools which clients are steering towards, almost two-thirds of the audience polled said trusts are the structure which has seen most interest from clients over the past year.

They are certainly flexible as a solution, especially in situations where a patriarch

Some of the many other beneficial features of trusts which speakers highlighted included: the ability to stagger distributions at certain times to younger family members, such as when they hit appropriate maturity levels; and the possibility of splitting legal and beneficial titles, which can be helpful whenever there is a need to share assets.

In some cases, for example, depending on which assets a client wants to transfer, this might be best achieved – and potentially be more cost-effective – if they use a will, she explains.

And other objectives might be best met by other structures.

The right solution very much depends on the client’s individual situation, adds Amacher. It also varies according to the jurisdiction.

“In China, where they don’t have a common law system, we need to consider what makes most sense,” he says. ■