THE FUTURE OF
ASIAN TRUST AND
ESTATE PRACTICE

10 Key Predictions

Regulatory initiatives to improve tax compliance in Asia will increase
Tax is not the major driver of demand for trusts
Asian clients will remain very sensitive to fees
Clients' awareness of the need for tax compliance is growing
Asian clients will remain unique in seeking strong control over assets
New wealth planning business in Asia will be private banker driven
The perception of Asia as a low-cost centre is inaccurate
The lack of fiduciary and legal talent is constraining industry growth
Hong Kong and Singapore to remain offshore focused
Trusts will continue to be used mostly for asset protection
The Future of Asian Trust and Estate Practice is the latest in a series of STEP reports considering the outlook for practitioners in different areas around the world. Other STEP reports in the series include Offshore Evolution (examining offshore business), Trusted Advisor – The Future (examining UK business), and The Future of Canadian Trust and Estate Practice.

All STEP reports and policy briefings are available to view at http://www.step.org/publications/reports.aspx
David Harvey, CEO, STEP Worldwide

In the fourth of STEP’s ‘Five Futures’ series of reports, we take a look at the South East Asian market for trust and estate planning services. The picture that emerges from this research is of an industry confidently taking its own path of development into a future that is both similar to, and quite different from, the route followed by more established International Financial Centres. The methodology follows the original ‘Offshore Evolution’ report, modified in subsequent studies for UK and Canadian practitioners. In each case, the format consists of conducting individual telephone interviews with a group of thought leaders who seeded themes with their personal views on the future. STEP East Asia members subsequently validated these themes in an online survey.

Among the themes that emerged, 19 predictions were made under four headings: regulation and macro-impacts; clients; business management; and products and services. Each of the predictions is accompanied by a selection of unattributed comments made by the leadership group.

The findings that emerge both confirm and contradict many of our perceptions about trust and estate practice in East Asia. As the newest and fastest growing region in the world for wealth planning, we get useful insight into differences with more established IFCs as well as fresh input into the long running debate on Hong Kong vs Singapore as rival centres of private client wealth management. The impact of China as a force for change remains hotly debated.

In terms of similarities, trust practitioners from around the world will no doubt sympathise with the STEP East Asian prediction that increasing regulatory initiatives – especially tax compliance – will make their lives more difficult. East Asia also suffers from the same lack of fiduciary and legal talent that threatens growth across the wider STEP universe. Finally, and perhaps most importantly, the findings contradict the perception that East Asia is the low cost centre that many in Europe believe it to be.

Where differences emerge, these are to be found in client and provider behaviour. For example, the Asian cultural background means that wealthy families are often reluctant to relinquish control over their assets to third parties. At the same time, they are particularly sensitive to fees for wealth planning services. This combination is one of the main drivers behind the popularity of private trust companies, the future of which practitioners in East Asia are overwhelmingly positive about.

In terms of providers, the big difference is the dominance of banks in the wealth planning industry. Their importance across the spectrum of services – from advice to administration – is unlikely to diminish so long as the absence of onerous tax legislation keeps the need for advice relatively simple. However, there is one bright ray of hope for asset managers in terms of the prediction that independent boutiques will increase their share of the market.

This collaboration between STEP Hong Kong & Singapore and STEP Worldwide is part of the on-going STEP Worldwide Council ‘Five Futures’ initiative for the continual development of the Society’s knowledge base about members and private client markets around the globe.
Conclusions

10 key predictions: agreed by over 50% of respondents

Regulation and Macro-Impacts
Our members strongly support the prediction that the number of regulatory initiatives to increase tax compliance in Asia will rise. However, it was accepted by the membership that tax is not the major driver of demand for trust structures in Asia.

Members are less certain that Hong Kong and Singapore will continue to take divergent paths in wealth planning and that their regulatory regimes will converge.

The prediction that China is several decades away from making an impact on the wealth planning industry prompted strong disagreement, however this was inconsistent with most of the comments about China’s immediate impact from the thought leaders.

Clients
Our predictions in the Clients section of the report are among the most highly supported predictions in our survey.

Members in Asia overwhelmingly concur that their clients will both remain very sensitive to fees, and are unique in seeking very strong control over their assets.

There is also firm acknowledgement that clients are becoming increasingly aware of the need for tax compliance.
Business Management
While practitioners agreed that new wealth planning business in Asia will continue to be private banker driven they also said that external perceptions of Asia as a low cost financial centre are inaccurate.

Our members feel that the lack of fiduciary and legal talent is, and will continue to be, a major constraint on the growth of the trust and estate industry in Asia.

It is agreed that banks will continue to be the primary providers of investment services and will continue to have major competitive advantages in Asian wealth planning.

Independent asset management boutiques are predicted to increase their share of the investment services market.

Products and Services
It is predicted that both Hong Kong and Singapore will remain primarily offshore focused in wealth planning and that trusts in Asia will continue to be used primarily for asset protection purposes.

The prediction that Singapore will be the dominant centre for private client trust services in Asia was supported overall, but there was a big difference in support when the answers were filtered for the jurisdiction the respondent practised in. Perhaps not surprisingly, those from Singapore agreed strongly whereas those from Hong Kong disagreed strongly.

A similar jurisdictional split occurred with the prediction that private wealth management in Hong Kong will remain focused on corporate structures.

There was generally positive support for the notion that the widespread use of private trust companies is consistent with a healthy wealth planning industry.
Regulation and Macro-Impacts

PREDICTION: Hong Kong and Singapore will continue to take divergent paths in wealth planning

“Singapore is really no match to Hong Kong on the investment banking side and capital markets.”

“Singapore is perceived to be more of a private wealth market but Hong Kong has a lot too - it’s only different.”

“Hong Kong is not an administrative centre as much as Singapore. In Hong Kong it’s more sales and middle office; file keeping and resolution making.”
REGULATORY INITIATIVES TO INCREASE TAX COMPLIANCE IN ASIA WILL INCREASE

"The development of the industry is going to follow a very predictable and conservative path towards a more tax compliant way of offering the structures."

"People are more in tune with this whole compliance environment. People scrutinise clients much more so than ten years ago."

"Smaller competitors are having a hard time dealing with this absolute burden of compliance that is becoming prohibitive."

"It’s tough on the trust companies to be compliant with so many things."
**PREDICTION:** The regulatory regimes of Hong Kong and Singapore will converge

“The new trust law in Hong Kong will put it on a par with Singapore but unfortunately not ahead of the game.”

“Whilst the Singapore and Hong Kong monetary authorities on paper tell everyone what to do, the actual perception is that the enforcement in Hong Kong is not so strict.”

“The money laundering legislation in Singapore is starting to be tightened up in response to hot money flows.”

“There is definitely regulatory arbitrage between the two centres.”
PREDICTION: China is several decades away from making an impact on the wealth planning industry

“It is definitely premature at this point in time to think there will be a lot of planning work to do. China is tantalisingly close, but it’s not there yet.”

“It will be a long time before we move to planning for the onshore assets of mainland Chinese people.”

“There will be some ups and down, but China is a huge elephant that will march inexorably forward.”

“The tax laws in China are increasingly complex and changing rapidly. It would be utterly foolish not to fully understand those rules and make sure that you’re complying with them.”

“There is a lot of Chinese money in Hong Kong, but how much of it resides in trusts?”
PREDICTION: Tax is not the major driver of demand for trust structures in Asia

“In most of our discussions with clients, the first topic is never about tax.”

“Asset protection, succession planning, and then tax. Those are the three drivers of wealth planning in Asia, in that order. In Asia, you don’t have the same cross border tax challenges as you do in the West.”

“At this moment, tax is not a big component of what motivates the client to do a kind of planning. I would say the push factor is probably succession planning.”
Clients

**PREDICTION:** Clients’ awareness of the need for tax compliance is growing

“People accept that in order to open bank accounts they have to go through this process of establishing a source of wealth and compliance.”

“For Asian clients, there has been a re-examination of the risks of geographically distant trust jurisdictions, causing a move away from the traditional offshore financial centres.”

“Many of our clients are getting aware of compliance needs and more willing to do planning in a compliant manner.”
PREDICTION: Asian clients will remain unique in seeking very strong control over their assets

“Asian clients traditionally don’t like the loss of control. I think that is really a cultural thing.”

“The bulk of our trusts have reserved powers.”

“The private trust company drive mainly stems from the fact that Asian clients like the idea that they can be in control.”
PREDICTION: Asian clients will remain very sensitive to fees

“"The Asian client actually is extremely fee sensitive. It really reflects the fact that the clients that we mostly see in Asia are first generation money.”

“The foreign lawyers’ charging methodology is quite unattractive to the Asian client.”

“In Asia, clients have more product spread, but they are also much more discount and fee conscious and less loyal.”
PREDICTION:  Banks will continue to have major competitive advantages in Asian wealth planning

“Some banks will offer reduced fees to clients for trust services in order to enhance their asset management business. Banks can afford to run a trust company within a private bank because of the income from asset management fees.”

“Brand has an important impact on business for the big banks like HSBC and Credit Suisse. I think that a good brand name helps a lot when you’re prospecting for new clients.”

“The larger banks are growing and hiring in Asia. The private banks in Asia are growing; everybody’s hiring.”

“An independent doesn’t necessarily have to worry about their licence being pulled in onshore India or onshore America like a global bank will have to worry about.”
PREDICTION: The lack of fiduciary and legal talent is a major constraint on the future growth of the industry

“The Singapore government actually pays people to be trained here. We will have to import a lot of professionals in the short term.”

“Recruiting people has been always a problem. However, in the last couple of years more and more CVs from the Channel Islands are coming through. The next problem is going to be in the legal profession.”

“There’s a big need to import talent and base them here, but there’s also a lot of pressures on the existing people within the industry. We simply don’t have an adequate number and level of experienced staff who have been working in the jurisdiction for many years.”

“In terms of the Trust business, the pool of talent is quite shallow. It’s difficult for us to get adequate resources in the market.”

“It’s difficult to have consistency in a trust department, of people doing trust administration, due to the general lack of supply of qualified fiduciaries.”

“The lack of tax planning experience leaves Asian trustees without the skills they need to structure complex tax based wealth.”
PREDICTION: The perception of Asia as a low cost financial centre is inaccurate

“Fees for the work we do are not less than the fees in the other regions. In most cases they are certainly equal and some of the more sophisticated areas we work in, they are significantly higher.”

“I don’t think the costs are lower here, and clients in Asia are very cost conscious so the playing field seems pretty level.”

“Costs are not lower here. People from outside the region tend to think that it’s just all cheap labour. In fact, it couldn’t be further from the truth.”

“The reason things are more profitable here is people actually work harder. It’s not unusual in Hong Kong for people to work 12 to 15 hour days.”
PREDICTION: New wealth planning business in Asia will continue to be private banker driven

“This market is entirely private banker driven. There are 500 private bankers running around Asia looking for people who’ve got money. People with money aren’t going to their lawyer and saying ‘please help me with my estate planning’.”

“At the end of the day the referrals business is always going to be based on the individual and brand credibility.”

“There are a lot of introductions from the bankers. Asia is less adviser-led than Europe because of the lack of need for tax advice.”

“Our business will always involve getting to know the private bankers, the lawyers and the accountants. If you’re doing a good job, existing clients is your best way of getting new business.”
PREDICTION: Banks will continue to be the primary providers of investment services

“Their resources and global reach make banks still the natural home for investment services.”

“Most clients’ investments are in discretionary mandates.”

“Clients are occasionally wary of the investments that some of the banks are carrying out for them.”
PREDICTION: Independent asset management boutiques will increase their share of the investment services market

“The client has basically said to the bank relationship manager, I’m happy to put my USD5 million with you but I want someone independent of you to keep an eye on it.”

“Private wealth management has become commoditised so you have to deliver more bespoke, higher value, more tailored services.”

“We have relationship management style models where we have people who look strategically after our clients.”

“My problem with the small independent advisors is the sustainability of the governance structures over many generations.”
PREDICTION: Both Hong Kong and Singapore will remain primarily offshore focused in wealth planning

“When it came to the Trusts and taxes, we’ve always been a domestic location. It was only when all these wealth managers started to come in, that we became an offshore trust location.”

“In Singapore our main market is still regional.”

“Shanghai will eventually outgrow Hong Kong as the onshore financial centre, but Hong Kong will remain the offshore centre for China.”

“People for whom privacy, confidentiality and secrecy are important are likely to want their structures abroad.”

“With respect to mainland Chinese clients, we’re usually planning for their offshore assets, so their wealth is already outside of China.”
PREDICTION: Singapore will be the dominant centre for private client trust services in Asia

OVERALL RESPONSE

HONG KONG RESPONDENTS
**PREDICTION:** Singapore will be the dominant centre for private client trust services in Asia

“A lot of regional head offices now, for banks and trust companies, are looking to establish in Singapore.”

“Our increasingly regional role may drag people from Hong Kong and other trust companies to Singapore.”

“We’re seeing a lot of interest in trust companies setting up in Hong Kong, but very little action.”

“There is just a stronger history of trust administration over the years in Hong Kong than there is in Singapore.”

“There is no doubt that some people say ‘Well I wouldn’t have my money kept in a division of the communist state’.”

“Hong Kong is still not a trust law centre but it is a booking centre for people who want to send work to Cayman, BVI, and Bermuda.”
PREDICTION: Private wealth management in Hong Kong will remain focussed on corporate structures
PREDICTION: Private wealth management in Hong Kong will remain focussed on corporate structures

“Hong Kong will continue to be driven by Asian corporate trust structures.”

“We tend to set up private equity structures rather than simple succession planning vehicles.”

“There is a growing trend of companies moving in to Hong Kong doing corporate services.”

“The trend is for using trustees in various corporate capacities either as directors or as trustees or as administrators.”

“The pool of asset managers and other finance professionals is still stronger in Hong Kong than in Singapore.”
“The absence of tax issues for domestic clients means succession planning and wealth preservation are the major reasons trusts are used.”

“Asian clients are very sensitive to the assets disappearing the next day, so they are very, very careful who they put their assets with.”

“Asian clients have this absolute need to look after family and need for succession planning to protect their sons’ inheritance.”

“The Chinese have recently created a pre-nuptial agreement that might actually negate the need for this trust drive.”

“Here in Hong Kong, trusts are much more about succession through family businesses.”
PREDICTION: The widespread use of private trust companies is consistent with a healthy wealth planning industry

“Five years ago we had something like seven or eight licensed trust companies in Singapore and now we’ve got about 40.”

“Many clients don’t understand the level of work that they will have to do when you set up a private trust company: many of them are not ready to do it.”

“From a provider’s point of view, the private trust company is great because the private client cannot run their own trust company and needs corporate service providers.”

“Private trust companies are a sort of wedge in to the family office idea.”

“We haven’t seen many private trust companies go bad yet, but they will.”
There were eleven participants in the leadership group looking at the future for trusts and estates practice in Asia. Their valuable input led to the formation of the survey questions and the quotes that appear in this report. Their energy and creativity is gratefully acknowledged.

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