Generational shift

In November 2017, 12 experts in the wealth management industry met at The Fullerton Hotel, Singapore, for a STEP Journal roundtable, sponsored by First Names Group, on current trends for high-net-worth entrepreneurs and entrepreneurial families in Asia

WORDS: BLATHAIN IQBAL

FRONT ROW (L–R)
+ SEOW CHEE GOH TEP
  Senior Representative, STEP
+ JOANNA CAEN TEP
  Senior Consultant, Herbert Smith Freehills
+ SHANKER IYER TEP
  Founder and Chairman, Iyer Practice Advisers
+ KATIE GRAVES TEP
  Partner, Withers, Hong Kong

SECOND ROW (L–R)
+ NICK JACOB TEP
  Partner, Forsters
+ SIEW QUAN NG
  Partner, PwC
+ DAWN QUEK
  Principal, Baker McKenzie Wong & Leow
+ EDMUND LEOW TEP
  Senior Partner, Dentons Rodyk

BACK ROW (L–R)
+ STUART DOWDING TEP
  Managing Director, First Names Group, Hong Kong
+ MATT HAYNES
  Group Business Development Director, First Names Group
+ KAREN O’HANLON TEP
  Managing Director, First Names Group, Singapore
+ BILL LEXMOND TEP
  Director, Lepercq de Neuflize Asia Pte
Stuart Dowding TEP opened the discussion by noting that, despite obvious cultural differences between Western and Asian families, they face common challenges regarding wealth structuring – and yet, he said, ‘historically, Asian families haven’t looked ahead as to how to manage their wealth for future generations’. Dowding feels that this has changed in recent years, with families now more open to discussing how they want their wealth to be distributed, and how to structure that distribution.

‘Privacy is an important value for Asian clients,’ Edmund Leow TEP added. ‘Not long ago, the idea of discussing business openly with an outsider was something they would shy away from, but that mindset has changed.’ Seow Chee Goh TEP agreed, noting that the first generation has the hardest time opening up to advice, exacerbated by a ‘reluctance on the part of younger family members to make suggestions to their elders and advise them on what they should do’.

Siew Quan Ng explained that ‘most of the wealth creation in Asia has been relatively recent, within the last 70 years, and this is why seeking advice is considered such a novel concept. The first generation made their wealth through personal relationships; that’s how they’ve done business, so that’s what they put their value in.’ Nick Jacob TEP added that the shift to a more receptive attitude to taking advice derives, in part, from younger, Western-educated generations who are more confident with technology and have a different approach to doing business. ‘They are bringing back ideas of collaboration and encouraging a more cooperative, open approach,’ he said.

According to Dawn Quek, another driver for external advice is where older generations, despite their long-standing respect for privacy and family roles, recognise that a family member isn’t up to the job or interested in working for the family business: ‘In those cases, even very traditional Chinese clients are increasingly saying, “Let’s try to professionalise the family business”. They are interested in discussing who will carry on the business after them, and how they will develop it, either through investment or as a private family fund.’

SOCIAL INFLUENCE
Many participants agreed that clients most frequently ask what ‘everyone else’ is doing, and that social influence is a large, albeit lesser-appreciated, factor in clients’ decision-making regarding wealth management structures. ‘Often, a client will come in and ask for a trust just because their friend has one,’ said Katie Graves TEP. ‘What you need to do at that point is work backwards, and ascertain whether that is appropriate for them.’

It is not just an interest in increased collaboration between entrepreneurs and advisors that has led to more formalised structures being set up. Quek noted that ‘the world has become increasingly complex from a tax and legal perspective’, with an increase in transparency initiatives such as automatic exchange of information (AEOI) and beneficial ownership registers: ‘Clients are aware of this and want advice on crafting their estate and succession plans, and how to handle Common Reporting Standard (CRS) and tax issues.’

Though Quek noted that ‘life events’ in families, such as a sole heir getting married, are a driver behind clients reaching out for advice, external social factors also play a part. The Asian media covers divorces and family disputes almost on a daily basis, and Graves observed that ‘this fuels concerns for those who don’t want to find themselves in the same situation’. Joanna Caen TEP agreed: ‘People come to me for advice because they have seen the coverage and they don’t want to find themselves in the same position. In Hong Kong, for example, the starting point for the division of assets on a divorce is 50/50; that alone is enough to frighten some people into thinking about planning.’

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- Stuart Dowding
CHALLENGES FOR ADVISORS
Building relationships with Asian entrepreneurs requires a long-term investment of time and effort, and can develop indirectly, said Matt Haynes: ‘In a number of cases, it might be that the initial contact with a client is in relation to their commercial activity, where an entrepreneur has an international corporate transaction or is investing in assets overseas. The conversation starts with establishing the appropriate structure, and progresses, in time, to the family business and a discussion regarding succession matters.’

For Haynes, an important question is how successful clients are, once they reach out for advice, in finding the right advisor: ‘Getting the right governance model and structure for the client requires more than simply a good understanding of those available – the advisor needs to understand the client.’

Bill Lexmond TEP agreed, adding that advisors should have a frank conversation with those seeking advice: ‘You need to explain clearly what it is you are giving to the entrepreneur and how it benefits them. Entrepreneurs are used to evaluating worth and negotiating deals. It’s atypical for an entrepreneur to simply take on advice; by their nature, they’re self-sufficient and independent.’

Ng made the point that Asian entrepreneurs find it difficult to differentiate between succession in ownership and succession in leadership, and advisors should be aware of this when giving advice. ‘The other issue,’ he added, ‘and this is where STEP can play a part, is that, when better-quality advisors are involved, the client has more confidence in their abilities, because income tax is so low and simple: ‘Historically, the concept of having a structure isn’t something that has had to be thought of before in Asia, whereas the familiarity of North American and European clients with taxes prepares them to think of future protection.’

Goh warned that advisors should always be mindful to adapt their language accordingly: ‘The overly complex terminology some advisors use can be unhelpful, particularly where English is not the client’s first language.’

UNTAPPED MARKETS
Despite a consensus that Asian families and entrepreneurs have an increasing appetite for wealth management advice, some feel that a significant proportion of the market remains untouched by professional advisors. Shanker Iyer TEP asked: ‘For all the increased business in Asia and the interest in the region, who is our main competitor in the market?’ Leow replied that it’s not industry peers: ‘It’s the entrepreneurs who take no advice; they still form the majority.’ Jacob expanded on this, noting that entrepreneurs often may not take advice when they already have ‘those who advise on an informal level – family members who don’t have regulatory or even business knowledge; this can be dangerous’.

Caen feels that the drive for wealth management planning in Asia has been lower than in other jurisdictions partly because income tax is so low and simple: ‘Historically, the concept of having a structure isn’t something that has had to be thought of before in Asia, whereas the familiarity of North American and European clients with taxes prepares them to think of future protection.’

INCREASED FORMALISATION OF FAMILY OFFICE AND STRUCTURES
There was general agreement among participants that an increase in the number of formalised family offices has resulted in better risk management for families, with decisions implemented more efficiently and clearly.

As to the reason for the rise in family offices, Leow feels that it isn’t increased regulation, rather that entrepreneurs have accumulated so much wealth that they aren’t sure how best to use it: ‘With this wealth being so recent, their own fathers haven’t experienced this problem, so there isn’t advice coming from previous generations on managing it. Entrepreneurs are increasingly forced to look outside the family, while still maintaining the familiarity they are used to – most of my work is conducted in Chinese or Cantonese.’

Jacob’s opinion is that family office governance has evolved significantly over the last decade or so, but that there is still a way to go: because the wealth is more recent, there is an immaturity to the family governance side that is reflected in the family office. Iyer said this could apply to single family offices too – which, he pointed out, ‘can range from professional to very basic’. And for those less-accomplished family offices holding data in one place, Iyer warned of cyberattacks and hacking: ‘The issue of data security is paramount.’

FORMALISATION OF EXISTING STRUCTURES
On the governance side, there is often confusion on the part of the family about what a family office does. There are, of course, some family offices that fail to achieve their purpose; this can happen either because there has been a lack of purpose in what it originally set out to achieve, or because there is a lack of internal structure delineating who is responsible for what. Jacob emphasised how important it is ‘for the right governance to be implemented, to help the structure continually adapt and grow with its purpose’.

Transparency has been a big motivator for restructuring from within, according
to Quek, with ‘previously popular options like nominee arrangements having fallen out of favour, as CRS and the Foreign Account Tax Compliance Act (FATCA) make simplification a priority’. This is an unanticipated side effect of reporting and information-sharing initiatives, arising from clients’ reviews of structures and their purpose as part of their compliance obligations.

Haynes highlighted how families and family offices can often find it difficult to produce consolidated reporting of diverse assets that may be international in nature: ‘It can be onerous to consolidate what the family holdings actually are, and this in turn impacts the family’s ability to make efficient and well-informed decisions. As family offices grow in complexity and reporting becomes ever more important, companies like First Names Group are increasingly engaged to provide reporting services.’ Karen O’Hanlon TEP agreed. After spending most of her career segregating personal and business wealth for clients, ‘CRS, among other recent issues, has led to some amalgamation of global families’ assets, causing family and corporate governance to feature increasingly on every family’s priority list when dealing with the passing of their wealth through the generations’.

**REGULATORY IMPACT**

The change in mindset of Asian entrepreneurs regarding privacy seems to have dovetailed with the push for transparency. With increased AEOI, beneficial ownership registers, CRS and FATCA, clients are being forced to accept that they have to ‘open up’ more. Caen highlighted how recent UK legislation, the Criminal Finances Act 2017, which criminalises corporates that fail to prevent ‘associated persons’ from facilitating tax evasion, makes it a global issue, due to the Act’s extraterritorial provisions. Jacob feels that, although advisors are now on board with reporting regulations, there was a long period before some were able to ‘recognise what was happening’. As a result, there has been a ‘rush in the reviewing and planning to accommodate the various reporting requirements’.

With the rise in AEOI, there is the inevitable risk of erroneous reporting and information being used irresponsibly. Apart from CRS and FATCA, there are other pushes for transparency, such as the widening multi-jurisdictional network of tax treaties throughout the world. Further, the general consensus at the roundtable was that there are some countries that will exploit the ability to request information, using it to go on ‘fishing’ expeditions to look for entrepreneurs’ assets – and that’s if it’s not happening already. ‘This is a concern for those who want to maintain privacy for legitimate reasons,’ said Ng.

**CURRENT TRENDS IN EXISTING STRUCTURES**

Fiduciary companies that administer wealth structures need to ensure that they are fully compliant with regulatory and reporting requirements, and so must seek advice themselves to ensure they have the relevant knowledge. When working with complex clients, participants agreed that there must be a consistent and joined-up approach between professional advisors. As a collective, advisors have one common goal: to ensure that the client is given the appropriate advice and support to manage their personal and commercial affairs.

This issue of being responsible for structures isn’t just limited to the companies; Goh has seen an increasing interest from entrepreneurs in their wealth management structures, and Graves has had a similar experience: ‘Entrepreneurs are now much more engaged, making informed decisions and taking an interest in how their structure will be regulated and taxed.’ Dowding added: ‘With some structures we’ve seen, like unit trust structures for inheritance tax planning, I can’t understand why they’ve had it for as long as they have, with inheritance tax having been abolished in Hong Kong over a decade ago.’

O’Hanlon summed up: ‘The cumulation of many challenging factors surrounding global Asian families, such as economic variabilities, family relationships, reporting obligations, local customs and professional traditions, is leading them to search for the most appropriate strategies to ensure that the passing of control of their wealth is dealt with in the most appropriate manner to ensure continuity and family harmony.’

The roundtable discussion wrapped up with one clear conclusion: the current generation of high-net-worth Asian entrepreneurs and families is more receptive to discussing the future. The building of trust between clients and advisors will lead to long-standing relationships that provide continuity for generations to come. However, practitioners should bear in mind that, in alignment with local and business culture, investing in Asia and Asian clients is a long-term strategy.