The Rising Prominence of Wealth Solutions and Planning for Asia's HNWIs

A panel of experts gave their insights to the increasingly important subject of encouraging Asia's HNWIs and their families to organise robust, compliant wealth and legacy planning. The delegates at the Hubbis Philippines Wealth Management Forum learned much from the experts on planning far ahead, but building flexible structures that recognise regulations can change, and that the needs and expectations of the younger generations will evolve. They also learned of the crucial importance of trust, professionalism, and empathy in building out the wealth planning

These were the topics discussed:

- *What challenges do Filipino families have in wealth and legacy planning, and how is that changing?*
- *Are we ready for the inter-generational wealth transfer?*
- *How will The TRAIN law affect wealth transfer in the Philippines?*
- *What are the effects of transparency on the conversation with clients?*
- *How can we make the most of the opportunity that Wealth Planning and Structuring represents to us?*
- *Any other emerging opportunities in wealth management?*

PANEL SPEAKERS

- **Stella Cabalatungan**, Executive Vice President, Head of Private Bank - Relationship Management, BDO Private Bank
- **Angel Marie L. Pacis**, Founder and President, KnowledgeLinks Wealth Solutions
- **Irene Lee**, Business Development Director, Intermediary and Partnership, Hawksford
- **Ivan Pelle**, Executive Director - International Taxation, RGN
- **Sebastien Hayoz**, Managing Director, Asiaciti Trust

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THE KEY TAKEAWAYS

Building the onshore proposition

Many of the emerging wealthy families in the Philippines are not ready for the transmission of their businesses and their wealth to the younger generations, even though most of the wealth resides in the hands of those older than 50. Domestic private banking and family office services are developing onshore to provide the advice and expertise that was previously only available offshore.

Build in flexibility

Many apparently tax compliant structures available today might not be compliant in the future, such are the changes in global and domestic regulation, witness the BVI for example. IFCs are still valid as centres for structuring wealth for preservation, privacy and inter-generational transfer, but clients should select them based on reputation and compliance.

Tighter supervision

Whatever tax changes are taking place in the Philippines, and despite the ongoing extremely tight bank account secrecy laws, the critical difference is stricter supervision by the tax authorities. This is leading clients to be more cognizant of the risks and more receptive to hiring and paying for professional advice.

Local clients mature

Clients in the country increasingly welcome advice that you can share with them to help them make an informed decision of wealth preservation and transfer, on business continuity, family government, the family constitution and so forth.

Experts must be expert

But the advisers must be experts, not just on the local environment, but also on the links to the offshore jurisdictions, especially in a more complex world where HNWIs have business connections and assets around the globe.

Winning trust

The conversations required with families, not just the founders, but the broader family and younger members, can genuinely take place only if the clients have trust in their bankers and advisers, and this takes years to build. As to returns, there are fees for these services, but even if not, you know the future generations will stay with the bank or adviser, and that helps the business grow, sometimes exponentially.

See the pitfalls

A guest explained how he helps the clients see how the dominoes can fall in different directions if things are not adequately planned and executed. The right structures can then be designed to avoid these types of worst-case scenarios.

Decisions from the top, but build in flexibility

Most decisions ultimately will come from the founder patriarchs or matriarchs, not the younger generations. So an expert advised to cater professionally and compliantly and sensitively to their needs, but build in flexibility for future generations to adapt the structure to their needs, once the founder generations pass away.

"MANY OF THE EMERGING WEALTHY FAMILIES IN THE PHILIPPINES are not ready really to transfer the management of the company to the second generation," began one guest. "This is very important because when the founder-patriarch passes away, sometimes it transpires the companies will have to be dissolved because the offspring all have their own agendas. Our family office service is there to provide a solution to them, to help manage the companies for them, or to help them organise themselves. Clients are slowly beginning to see the value of what we offer now in the Philippines, something that was previously only available offshore."

Organising the families involves, for example, creating a family constitution, helping ensure business continuity, reducing the dependence on just a few individuals.

Looking ahead

Another panellist observed that tax compliant structures available today might not be compliant in the future, such are the changes in global and domestic regulation. "A recent example was the BVI and the rules on economic substance as of January 2019," he reported. "This was not anticipated."

Everyone had focused on changes regarding control and management, but no one expected that when they set up a BVI company in the past they would now need to demonstrate certain that the BVIs had adequate economic substance in the BVI, as required under The Economic Substance

IVAN PELLE
RGN

ANGEL L. PACIS
KnowledgeLinks Wealth Solutions

(Companies and Limited Partnership) Act 2018, enforced as of January 1. "The BVI was probably the best solution or the appropriate solution in the past, but how it has been transformed over the years has made it very difficult," the panellist added.

Choose your IFC wisely

The same expert observed that international financial centres (IFCs) today can address the protection and succession of international assets, but clients should be cautious about the reputations of those IFCs. "They are still valid, but credibility is vital," he said.

Banking secrecy laws in the Philippines remain extremely stringent today. "If the wealthy and powerful have things to hide," said one guest, "of course it will take a long time before this will change. But I think we must prepare the clients and emphasise that transparency will help them, whether they like it or not. Governance is easier to sell now if you actually start the conversation of transparency."

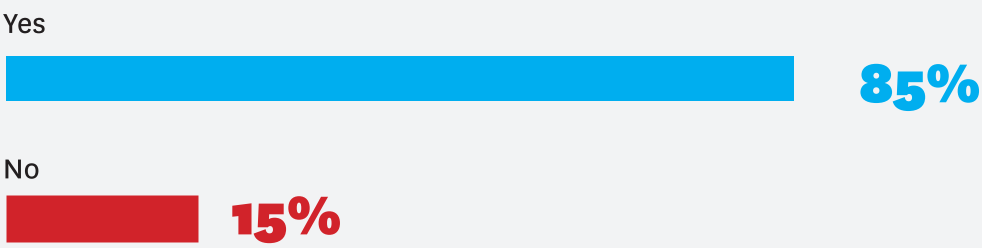
Tighter supervision emerging

On the subject of taxation, a panellist commented that whatever tax changes are taking place, the fundamental change is tighter supervision. "What used to get lost in a mass of data and fall through the cracks, will probably now be found out sooner or later, so people need to prepare, and they actually are more open now to advisers on top of the regular bankers to organise their affairs, and to pay fees. I am surprised, but we even get paid to help them open accounts, even locally, if we handle the conversation appropriately."

SEBASTIEN HAYOZ
Asiaciti Trust

Another expert commented that local clients no longer fight against the concept of paying tax. "Instead, they welcome advice that you can share with them to help them make an informed decision, and that includes paying for such services," they observed. "This includes making sure that they actually fulfil their requirements, carry on the family line of business if that is what they intend to do, or striking out on their own, making their mark."

SHOULD THE REGULATOR FORCE BANKS AND WEALTH MANAGERS TO DISCLOSE ALL FEES TO CLIENTS?



Source: Philippines Wealth Management Forum 2019

Advisers must be 150% professional

But, they continued, this cannot happen if the advisers do not arm themselves with the latest expertise and knowledge of the rules, not just in the country, but with regard to jurisdictions with which their clients might have dealings. “For example, the China and US trade tensions, you may think that it does not really affect the client in the Philippines, but you might be surprised because your clients may have dealings with these countries and you need to help them to make the correct decision as to how to navigate these challenges.”

As for the IFCs, the panellist said they continue to have merit, with Singapore lauded for its longevity, its stability, professionalism and transparency.

Beauty pageants

Another guest remarked that Hong Kong also competes hard for the attention of the local clientele in the Philippines. “It is usually a beauty contest,” he said, “although I myself favour Singapore, Hong Kong is always viable, especially if there are cost benefits.”

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Creating stability, not avoiding the inevitable

“There are still avenues to avoid tax,” said another panellist, “but that is not advisable. What is advised is for clients and families to think long-term and tax evasion is very short-term, poor thinking. Families must look to create something that is stable for the next generations, and is a subject that everyone realises that they need to talk about.”

Cool, calm, collected advice

“How do you encourage the local clients to talk about things in a non-emotional way?” a panel member asked.

“It boils down to relationship management,” an expert responded. “We must build the relationship, and we as a market leader in domestic private banking, we have usually already arrived at a point where the relationship is strong with the client and the next generation, where they have become more like friends than customers. Along the way, we get to discuss the problems they may have with children, a spouse, their wider family.”

STELLA CABALATUNGAN
BDO Private Bank

“A lot of people think that estate planning or trust structuring is all about just minimising taxes,” she continued, “but it is far more. It is knowing exactly what the assets actually are first, avoiding the painful process of customers passing away and being unable to identify all the family assets, which could also be overseas, of course. Identify the assets, monitor, help them grow, help them manage tax efficiently, and so forth, it is a step-by-step and lengthy process. But to get to that point, the relationship develops over the years.”

Long-term gains

As to returns, she added that there are fees, but even if not, you know the future generations will stay with the bank, and that helps the business grow, sometimes exponentially.

Another guest explained how he helps the clients see how the dominoes can fall in different directions if things are not properly planned and executed. “It is like scenario analysis,” he said. “We look at what the client has, what they want in terms of wealth transfer, who the beneficiaries are, what the event paths are that might occur, and then help them decide which event path is the most undesirable.”

Building walls to prevent disaster

We will then," he added, "design something that actually prevents the most undesirable event path. Estate planning, intergenerational management, these are actually risk management."

Trust is undoubtedly paramount, opined another expert. Understanding and trust are two vital elements that assist on the path to effective succession planning, which takes the long-term view. "We can help them understand that if their offspring do not want to manage their businesses, they can hire professional management. We explain how family governance should work, and family constitutions, we engage ourselves deeply with the clients and the future generations who will later hold the wealth. All this helps the families stay together."

IRENE LEE
Hawksford

Top-down decision-making

"Yes," same another panellist, "it is great to involve the younger generations as well, to build trust with them, but we must also recognise that generally, it is the patriarch or matriarch who will decide."

"My view on that really," he added, "is trying to find the solution, trying to find the right tool that is flexible enough to basically cater to needs and the wishes of the patriarch or matriarch during his or her lifetime and for structure to be sufficiently flexible to then be adapted to what the offspring need and to what the next generations need. So, planning 10, 20, even 40 years in advance to my opinion does not really work, as we have seen in the US or Europe and therefore certainly not in Asia. Build something that works today for the wealth creators, but that is sufficiently flexible to adapt to the circumstances of the next generation."

Look ahead, objectively

The final word went to an international expert who reiterated the need for tax compliance. "Understand your options, especially if you are a wealth globetrotter, and find the right solutions for you and your family, but at the outset recognise you must be compliant." ■