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Asia's financial centres gear up to court family offices
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With the transfer of wealth to the next generation of
Asians underway and growing interest from highly-taxed western families, the region's financial centres are rushing to court family offices, writes Paul Golden.

The relatively high percentage of first generation wealth creators in Asia has heightened awareness of family office services across the continent, with the major financial centres keen to promote themselves as the location of choice for these aspiring dynasties.

One of the most widely quoted financial expressions in Asia is "Fu Bu Guo San Dai", which is the Chinese equivalent of "from shirt sleeves to shirt sleeves" or that wealth does not pass to the third generation. In China, it is said that the first generation builds the wealth, the second generation lives like gentlemen, and the third generation must start all over again.

This points to an obvious opportunity for the wealth management and succession planning expertise provided by family offices, particularly if they can overcome the reluctance on the part of families to share information ?even among their relatives ?and the fragmented nature of a market in which a large number of players provide elements of family office services.

A study of family offices in Asia conducted by the University of St Gallen on behalf of VP Bank Group referred to several factors that would increase interest in the family office model, including the impact of economic growth on the high net worth population, greater financial sophistication and demand for increased transparency and independence.

In addition, Charles Lowenhaupt, founder of Lowenhaupt Global Advisors, points out that tax rates in Asia are substantially lower than in Europe and this has attracted (and will continue to attract) investment. "This will inevitably lead to the establishment of satellite family offices and expanded family office services in Asia as a means for administering Asian investments. Also, some families see the diversification of their centres of operation as protective, just as diversification of custody and residence can be protective," he says.

The obvious "locations of choice" for private wealth management functions in Asia are Singapore and Hong Kong, which are best suited for international and cross-border facilitation according to Mark Smallwood, Asia Pacific head of wealth management solutions at Deutsche Bank Private Wealth Management. This is due to the well established principles of English common law in their legal systems, a clear and internationally respected regulatory environment and the availability of international quality specialist support functions and services such as trustee, fiduciary, tax, custodian, corporate administration, fund administration, private and investment banking.

Surprisingly, Simon Galpin, director general of investment promotion at Invest Hong Kong, admits that the former British colony does not have any specific initiatives to encourage family offices and that since they do not have to be officially registered or licensed, it is impossible to say how many are operating in this special administrative region of China.

However, having English as the language of business is an asset, as is the business registration process. "Setting up a company is fast, easy and inexpensive ?in under a week and for a very low cost, a company can be up and running and the same rules apply to both local and foreign owned companies. Residency is not a factor of concern and Hong Kong has a low, simple and predictable tax system," explains Galpin.

Singapore has a policy of promoting itself as a location for family offices as well as international trust business, international charities and fund administration through taxation exemptions, and by having the regulators work closely with industry groups and bodies, says Christian Stewart, founder of Family Legacy Asia.

"But the world is becoming an increasingly transparent place and while both Hong Kong and Singapore provide very friendly tax and regulatory environments, a move from the west to Asia is more likely going to be about finding commercial benefits to having a presence in Asia," says Stewart. "For example, a European family might want to establish relationships with Asian family offices and other private investors, or to source and conduct its own due diligence on investment opportunities in China or other parts of Asia. Hong Kong and Singapore might even represent a convenient stepping stone between Europe and Australia."

As with Hong Kong, residency is not an obstacle in Singapore, explains Stewart. "It should be easy to get a work permit for a family office head and both jurisdictions offer investment-based residency schemes, which would allow family members to gain residency rights as well."

Another factor favouring these two locations, he adds, is access to talent. When creating a formal family office the tendency in Asia is to look for an experienced banking or investment professional to head up the operation. This needs to be someone who has the maturity and experience to be able to navigate the family, provide sound professional advice on the investment management side and often someone who can add some additional value to the family, for example because they also have an interest in helping with family governance or philanthropy.

"Because Hong Kong and Singapore are the banking and finance hubs, this type of candidate is often going to be living in one of these locations," says Stewart.

The Trustee Act (2004) and Trust Companies Act (2006) were passed to further clarify the position and operation of Trusts in Singapore, adds Luke Peng, CEO SG Trust (Asia). Specifically, there are provisions that allow private trust companies to be set up and administered by locally licensed trust companies.

"Singapore and Hong Kong's robust regulatory environment offers stability, without overly burdening family offices with excessive reporting or filing requirements," he notes. "Foreign trusts in Singapore are zero-rated for tax purposes on most types of investment income and the current corporate tax rate is 17%, which is on the whole lower than most countries in Europe."

Graham Reeve, managing director of Myer Family Office in Melbourne, says that while there are no tax or regulatory advantages to moving an established family office from Europe to Australia, the government is moving slowly to try to establish the country as a financial centre, for example by allowing some tax relief on interest withholding.

If the family office investment entity is resident in Australia, it will be subject to tax on its worldwide income so there are clearly better locations for minimising tax liability, especially where the family is not located in the country. But Reeve believes there are enough wealthy families in Australia to create demand for new family offices.

"The family office market in Australia is constrained by the number of suitable providers, not by the supply of wealthy families," he says, a view supported by a research report by the Queensland University of Technology, which found that between 2006 and 2008, the 200 largest fortunes in Australia increased in average value from $101.5 billion to $139.6 billion. The report also found that more than a quarter of these fortunes were controlled by families.

Richard Boyce, family office director at Pitcher Partners in Melbourne, is also convinced that more family offices will be domiciled in financial centres such as Melbourne over the next decade, particularly if professional organisations are successful in their attempts to target this sector.

"Melbourne is emerging as the financial hub of Australia with more than 50% of Australia's wealth being managed out of this financial centre," says Boyce. "While there are limited advantages from a regulatory point of view to setting up a family office here, we have a stable banking system with four of the eight AA-rated banks in the world domiciled in Australia, together with a very stable government, which provides for a predictable, long-term wealth creation environment."

Residency issues can be managed though the regulatory framework and advances in technology mean that domiciling activities in Australia is becoming more attractive as a means of accessing local management and opportunities, concluded Boyce. "An appropriately experienced partner with international tax and compliance experience will provide the required administration services and being hedged into the Asia Pacific region with on the ground experience would be advantageous to a long term investment growth strategy."

Inevitably, other emerging financial services centres are keen to tap into demand for family office services in Asia with Shanghai and Mumbai the likeliest destinations. "Regulators in India are focused on increasing transparency and reducing costs to the investors to ensure this type of business is encouraged," confirms Jaideep Hansraj, head of wealth management services at India's Kotak Mahindra Bank.

Other, smaller jurisdictions are also attempting to get in on the act. For example Labuan, Malaysia's offshore financial centre, hopes its low tax regime, Islamic finance specialism and access to Kuala Lumpur's more established financial services facilities will entice family offices.

The elephant in the room during any discussion of the potential of the family office concept in Asia is business culture, most notably attitudes to estate and succession planning. While it is estimated that 80% of the wealth in Asia will move to the next generation in the next 15 years, the transfer mechanisms for the transfer of assets are somewhat informal, says Smallwood.

"The opportunity I see in Asia is in helping wealthy families focus their minds on the long-term family governance plan and oversight of the family wealth for future generations, including the manner in which it is transferred to those generations," he says.

Richa Karpe, director of investments at Indian multifamily office firm Altamount Capital Management, refers to instances where large companies have had to break up due to succession issues. "Many businesses in India are family-run and these families want to create an effective structure to manage the challenges."

The fact that so much Asian wealth is newly created makes the family office even more attractive because it is seen as tested by experience and as representing best practices in process and wisdom, says Lowenhaupt. "Indeed, the fact that a family office elsewhere has had a 100 year history reassures a family of new wealth that wealth can be maintained over generations if certain standards are set and met," he explains.

As for where family offices will end up being located, it is hard to pick an obvious winner. Every potential family office "hub" has its advantages. Singapore and Hong Kong benefit from recognisable legal systems and access to large numbers of wealth management professionals who have settled there, often with their own families, while Melbourne will gain from the government's efforts to make the country a leading centre for financial services in the region.

What is certain is that all these centres will face increasing competition from the UAE, where the Dubai International Financial Centre (DIFC) has established a single family office initiative and is looking closely at attracting Asia's wealthy families. This programme was introduced in response to the fact there is no financial centre that has specifically implemented a policy for family offices, claims Dubai-based Andrew Young, group director at Opus Private, a fiduciary and family office services company.

"The DIFC took a long hard look at family offices and commissioned a report on how they are constituted around the world. It decided to allow such operations to incorporate in Dubai providing they have a single employee based in the DIFC. It also operates a fast-track visa service for employees," he says. New regulations introduced by the DIFC offer distinct benefits to family offices as they exclude single family offices from many of the regulatory constraints placed on conventional organisations.

Since the initiative was introduced at the back end of 2008, about 50 major families have set up shop in Dubai including non-resident Indian and Pakistani families as well as wealthy families from Singapore. Young acknowledges that principles generally like to have their family office close to hand, but says that once families are aware that there are other options within easy reach of where they do their business they will be tempted to at least move their back office functions.

"There is often a split between centres of excellence for investment management (London/Switzerland) and lower cost back office jurisdictions,' he adds. "More families in this region are prepared to structure and plan their global assets and the fact that wealth has been created relatively recently make the family office 'sell' easier."