

THE WALL STREET JOURNAL.

WSJ.com

DECEMBER 30, 2009

Families Share Advice on Finances

HONG KONG—Call it a support group for the rich.

A few weeks ago, a group of Asia's wealthiest families got together to discuss perils they face as family business owners. Items on the agenda of their two-day conference in Singapore included their sometimes fraught relationship with private banks and the grooming of children and grandchildren to become future leaders at their companies.

The conference was one of the first events held by the newly formed Family Business Network Pacific Asia, a loose organization of wealthy Asian families that plans to meet regularly to discuss some of their most pressing challenges. The network was formed by Frederick Tsao, who took the helm at Singaporean shipping company IMC Corp. from his father, Frank Tsao.

According to people close to the group, part of the impetus behind establishing the network—the Asian chapter of an international organization formed in Switzerland nearly two decades ago—is to foster independence from external financial advisers. Private bankers, in particular, have drawn flak for pushing investments that resulted in big losses during financial turmoil.

In 2008, many wealthy Asian investors incurred big losses on so-called accumulators, structured products carrying huge risk if stock prices tanked, as they did that year.

As a consequence of that financial pain, some families are considering setting up family offices—separate from the family business and independent of a specific bank—to oversee their finances. Until now, some families have either relied on their relationships with bankers or have tapped individuals at their companies to manage their assets part-time or in addition to their corporate duties, wealth experts say.

Private banks and wealth advisers are beefing up their presence in Asia, a potential major source of growth. But trust in their services is an issue. Compensation in the region is still more tightly wound with the ability to sell investment products than in Europe or the U.S., say private bankers and wealth experts. In addition, private banks may not have experienced hands in the region to help wealthy families navigate the difficulties of corporate succession and estate planning. Many private banks in Asia rely on revenue generated from setting up plain-vanilla trusts, which designate a beneficiary to inherit a wealthy individual's corporate shares and other assets.

Because of this, Christian Stewart, an independent wealth adviser and former private banker with J.P. Morgan, says Asian families are keen to develop a more independent understanding of these issues. In this, the FBN might prove useful as a platform for the rich to share their problems, to get "people to realize that the challenges they face are not

THE WALL STREET JOURNAL.

WSJ.com

particular to them."

Still, Asia's rich families are dogged by challenges that differ from those affecting heir counterparts in the U.S. and Europe, wealth experts say. "The key difference is that emerging markets represent a more hostile business environment," says Joseph Fan, a finance professor at the Chinese University of Hong Kong, who has studied the transfer of power within family-controlled Asian businesses. In Asia, as in other emerging markets, Mr. Fan explains, the lack of reliable legal systems and the prevalence of corruption places a bigger emphasis on the importance of relationships.

Many of Asia's largest and most well-known private companies were created in the aftermath of World War II. Many face the thorny issue of shifting oversight of the business to the next generation. In a study published two years ago, Mr. Fan found that only 30% of Asian family-owned businesses successfully make the transition to second-generation ownership; fewer than 5% are able to pass the reins to the third generation.

Failure is often unrelated to problems managing the business, says Mr. Stewart. "A lot of conflict that occurs is about tension between the roles people play in the family versus the business," he says.

Print Powered By  FormatDynamics™