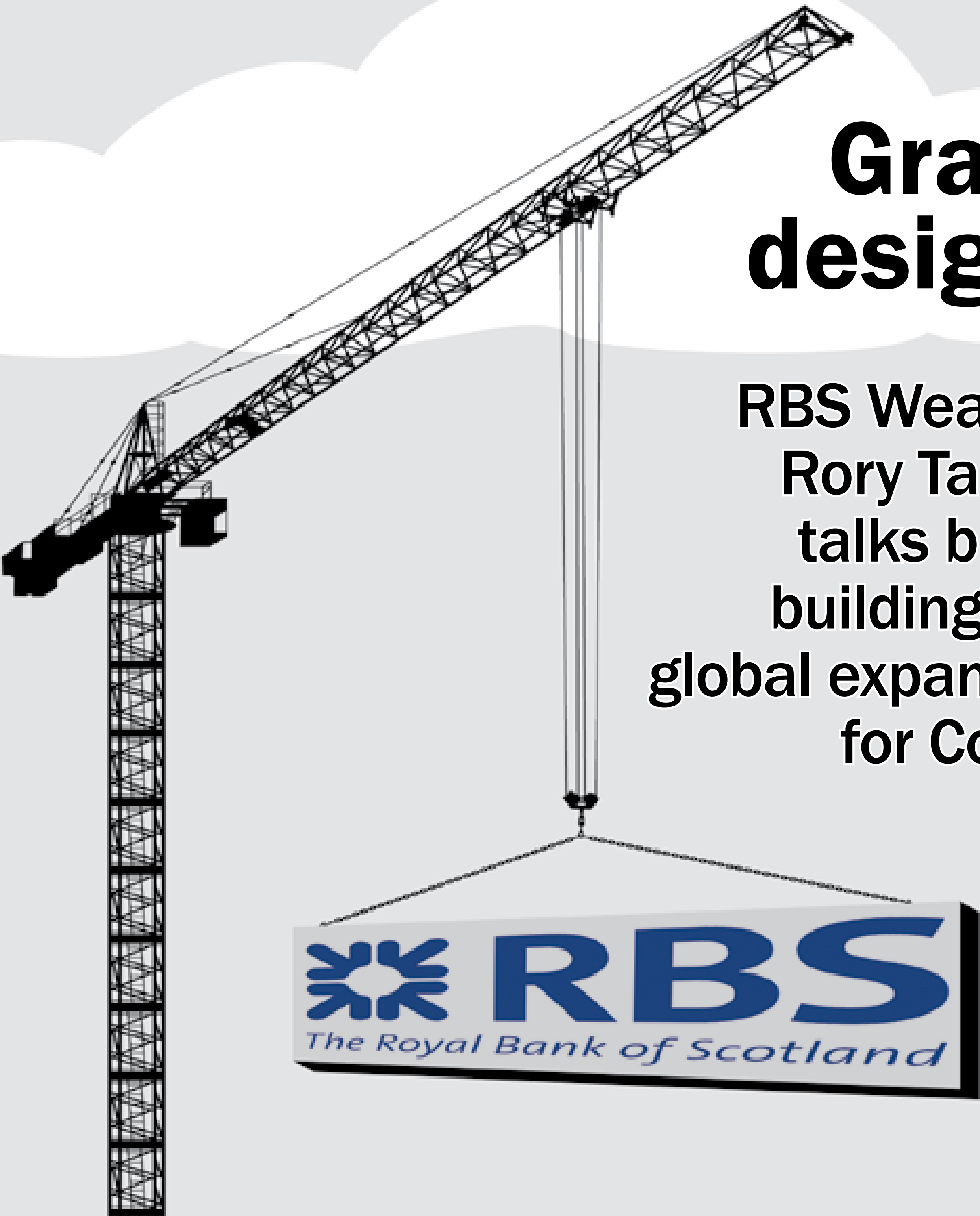
BENCHMARK INTELLIGENCE ON THE WEALTH MANAGEMENT INDUSTRY

Private Banker INTERNATIONAL

January 2011 Issue 268

www.privatebankerinternational.com



Grand designs

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Selling the family office to Asia

The high percentage of first-generation wealth creators in Asia-Pacific needing to transfer their legacy has heightened awareness of family office services in the region. But **Paul Golden** finds attracting wealthy Asian families to the concept takes a careful mix of expertise, location and overcoming cultural barriers

It appears to be what Americans call a "no-brainer". Take the family office concept, so widespread among European and US family wealth, and introduce it to the rapidly expanding pool of first and second generation ultra high net worth (UHNW) Asian families.

If only it were that simple. A lack of adequate estate and succession planning traditions, fed by a cultural aversion to sharing family wealth, is making it tough to get family office structures off the ground in the world's fastest-growing wealth region.

"There are enough wealthy families in India to create demand for new family offices," says Richa Karpe, director of investments at multi-family office firm Altamount Capital Management.

"But Indian families do not like to put all their eggs in one basket, so a pure discretionary management model will not work. Families like to retain control on the decision making process in investments."

A study conducted by VP Bank and Switzerland's University of St Gallen found that UHNW families in Asia were characterised by a strong desire for confidentiality and secrecy and uniform unwillingness to give anyone full wealth disclosure – including their own family members.

Growing awareness

That is not to say the interest in the family office model among wealthy Asian families is not there. The 2007-2008 financial crisis raised questions among UHNW families as to whether they could (or should) invest their assets in a different way.

This has been coupled with a growing realisation that the next generation will have to rely more on professionals and organised structures and processes.

Bank Pictet & Cie (Asia) managing director Jean-Claude Erne expects the number of wealthy families in Asia to continue to grow. The VP Bank/University of St Gallen (see chart) study estimates Asian single family offices could grow to about 120 by 2015.

Many established single or multi-family offices from Europe are showing an interest – or even establishing a presence – in the Asia-Pacific region to take advantage of investment opportunities and lower tax rates. Although careful attention will have to be paid to assessing the types of family office services or structures these Asian families need.

Mark Smallwood, Asia-Pacific head of wealth management solutions at Deutsche Bank Private Wealth Management, says the real challenge in Asia is to define what a family office is.

"In Europe the 'family office' is often better described as a private family investment office, typically staffed and with an ethos towards asset management," Smallwood explains.

"In Asia it would be better described as a private family enterprise with the staffing and ethos directed towards operating the family business, followed by satellite investments including private equity and liquid investments."

Cultural challenges to succession planning

Estate and succession planning is perhaps the greatest challenge facing wealthy families in Asia Pacific.

It is estimated that as much as 80 percent of wealth in Asia will move to the next generation over the next 15 years, yet the transfer mechanisms for the transfer of assets are informal at best.

At worst, there are examples across the region of major families with rudimentary succession plans finding themselves embroiled in lengthy and damaging court cases.

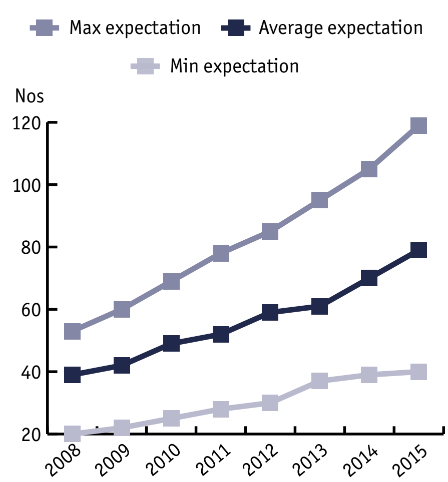
This creates an obvious opportunity in helping wealthy Asian families focus their minds on long-term governance planning and oversight of the family wealth for future generations.

The use of private trustee companies is growing rapidly, where families are establishing their own trust companies in a tax neutral manner to create one further level above the core family enterprise.

This higher level provides the opportunity to co-ordinate other family assets under what becomes the holding structure and to

ASIAN SINGLE FAMILY OFFICES IN 2015

Number of Asian SFOs could hit 100 in three years



Notes: Research published in 2008. Source: VP Bank/University of St Gallen report, *Family Offices in Asia*

use this platform as the basis for the family's governance and succession plan.

"Perhaps the private trustee company could be the basis for the term family office to supersede the 'family enterprise' as the governing structure," adds Smallwood. "Particularly as the family moves from second to third generation and the core business reduces in significance to the overall family wealth as it begins to diversify."

Location, location, location

Once the needs of these families and the scope of services they require have been agreed, the location of the office is the other vital component.

According to Erne, most families will choose to set up in cities that have high-quality communications networks, a reliable legal (and tax-friendly) system and a reservoir of highly skilled manpower where English is widely spoken.

Singapore and Hong Kong are well positioned in this regard, suggests Erne.

"Melbourne can certainly be an interesting place as well, but more for Australian families – Australia being 'outcentered' for family offices who need to deal on an international basis," Erne suggests.

"However, as time goes by, one should look at the possible emergence of Shanghai and Mumbai as alternative family office centres."

Singapore has a policy of promoting itself as a location for international family offices as well as trust business, international charities and fund administration.

It tends to do this through specific taxation exemptions and by having the regulator work closely with industry groups and bodies, explains Christian Stewart, founder of Family Legacy Asia.

"In contrast, the Hong Kong government has always taken a hands-off approach and does not appear to be proactively promoting family office business," Stewart adds.

"Nevertheless, despite the different approaches of the two governments, both jurisdictions should be equally attractive locations."

Myer Family Office managing director Graham Reeve agrees that Singapore is working to make its financial environment more attractive to family offices.

"There is some evidence that Indonesian families are setting up family offices [or investment offices] in Singapore due to the financial environment in that country," he says.

Asian family offices – in the US and European sense – are developing slowly as most of the activities associated with a US or European family office are still embedded in the family operating business.

Family office appetite driven by the young

Over the next decade, Reeve expects family offices to become more popular in Asia as the western-educated children of Asian families return to the region influenced by their experiences.

While there are no family office-specific incentives in Australia, the Melbourne-based Myer Family Office MD says its advantages as a location include an absence of death or gift taxes and a tax concessional pension (superannuation) environment.

"The government is moving slowly to establish Australia as a financial centre with some tax relief on interest withholding, for example," Reeve adds.

"Australia also has a booming economy compared to most other locations, which presents strong opportunities for families to do business here."

Richard Boyce, family office director at Pitcher Partners, predicts Asian family offices will be domiciled in key financial centres such as Melbourne in line with growing family wealth and globalisation of investments.



From left to right: Graham Reeve from Myer Family Office; Richard Boyce from Pitcher Partners; and Christian Stewart from Family Legacy Asia

While there are limited regulatory advantages to moving an established family office to Australia, Boyce refers to stable government and policy making as providing 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 to access local management and opportunities," he says.

An appropriately experienced partner with international tax and compliance experience will provide the required administration services, adds Boyce.

"Being hedged into the Asia-Pacific region with on-the-ground experience and domiciled in Melbourne would be advantageous to a long-term investment growth strategy," he says.

The main downside is that if the family office investment entity is resident in Australia it will be subject to tax on its worldwide income. Reeve is also critical of some of those supplying family office services in the country.

"There are enough wealthy families in Australia to create demand for new family offices," he says.

"The market is constrained by the number of suitable providers, not by the supply of wealthy families. Unfortunately, many suppliers [both old and new] think they service families by 'flogging products', which is not what is required."

Dubai pitches for family office business

Dubai has been perhaps the most proactive location to bid for Asian family office business. The Dubai International Financial Centre (DIFC) took a long look at family offices and commissioned a report on how they are constituted around the world.

On the back of this research, it decided to allow family offices to incorporate in Dubai as normal limited companies providing they had a single employee based in the DIFC. The centre also operates a fast-track visa service for employees.

Since the DIFC introduced its single family office initiative at the end of 2008, dozens of wealthy Asian families have relocated to the emirate.

These include a number of large Middle Eastern families but also non-resident Indian and Pakistani families, as well as families from Singapore.

An additional consideration, concludes Stewart, is availability of talent.

"To create a formal family office, the tendency is to look for an experienced banking or investment professional to head it up," he says.

"You are typically looking for someone who has the maturity and experience to be able to navigate successfully within the family, provide sound professional advice on the investment management side and add value, 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 of the region, this type of candidate is often going to be living in one or other of these locations.

Even if the family is based in or originates from another part of Asia and the business is based in that country, the family office head may still live in Hong Kong or Singapore.

In this instance, the formal family office is set up where the head is based and that person travels on a regular basis to visit the client family in country.

The hurdles to wooing Asian HNW families to the family office model could be difficult to clear. But the prize, netting Asia's ballooning ranks of HNW families, is set to attract growing numbers of banks and wealth managers eager to crack Asia's family wealth code. ■