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# Creating the Asian Family Dynasty

Having a trust structure is no guarantee of creating a successful family dynasty. It is very important to think through how a trust structure is going to impact on the lives of its beneficiaries...

We have all heard of the proverb "From shirt sleeves to shirt sleeves in three generations", or as they say in Chinese "Wealth only survives three generations".

Common wisdom is that a Trust structure can help overcome the Proverb. But on the contrary, sometimes a Trust can help this Proverb come into being. This proverb is based on the third generation not knowing how to Work; not being taught to be Good Owners; and not being allowed to follow their own Dreams and Calling.

Yes it is true there are often tax and legal advantages offered by a trust structure when it comes to protecting financial wealth. For example, a trust can be used to protect the family assets from creditors and help with minor or incapacitated beneficiaries. It is also true that a trust is a vehicle that can be used to keep financial wealth concentrated. But this is just a part of the wider picture. Following is a checklist of important issues to think about when considering establishing a long term trust.

"I don't want the wealth to corrupt my children and grandchildren".

This is a common concern here in Asia where traditional values favour hard work frugality and keeping a low profile. But this is primarily a question of teaching values. If you are passing on financial wealth; you also need to pass on the right values; values need to be thought about, modeled and communicated. So in addition to the legal structure, you need to teach your beneficiaries values – the trust structure can't do it for you. When talking about values this can include talking about important questions such as "what is the meaning of money?", "what is the real wealth of a family?", and "what is Work?"

"Daddy are we rich?"

Again the traditional Asian response has been to keep the family wealth – and the existence of the family trusts – a secret. However Family Secrets are counterproductive and block family energy, especially in the age of Google, when things aren't always as secret as the older generation might like to think they are. And the lesson today is "What you don't know will hurt you. Your heirs need to be prepared, in an age appropriate manner."

"I am worried that my children and grandchildren are not going to manage the money properly".

In an Asian family, great focus is always put on the management role (and ownership and management are seen as going hand in hand). However, especially in the context of a trust structure, where prima facie management will be vested in the trustee or in the hands of a trust investment committee, beneficiaries and inheritors don't need to be taught to be good managers but they do need to be taught how to be Good Owners. And beneficiaries do need to be given a Financial Education.

"Mummy, at school today some children said that we come from a very rich family? I didn't know how to answer them... I was so embarrassed."

Being taught how to deal with Confidentiality is part of being given a Financial Education

An "arranged marriage"

It is not often appreciated that when you create a trust for your children & grandchildren, you are creating a Relationship between those beneficiaries and the trustee. You should ask yourself "What type of relationship do you want this to be?" How can you ensure that this "arranged marriage" is going to be a "good relationship" having a positive impact on the lives of the beneficiaries?



## Roles & Responsibilities

Another question is how can a Trust have a positive impact on the lives of the beneficiaries, if the Roles and Responsibilities of the parties to the Trust are not clearly understood? Beneficiaries need to be educated to be Good Beneficiaries; they need to be educated about Trusts; they need to know what their roles & responsibilities as beneficiaries are.

“Form should follow function”

Like any long term organization, a long term Trust should have a clear Mission. It is important to be clear about your intended Mission for the Trust, so that the trustee and the protector can administer the Trust in the direction of the Mission, as well as any beneficiaries who come to take on a role in the governance of the Trust.

Jay Hughes, author of Family Wealth, Keeping it in the Family (Bloomberg) says that fundamentally, there are 3 different types of Trusts. The first is the will substitute / probate avoidance trust. The second type is a trust created as a memorial to the Founder (settlor). The third type is a gift made to enhance the lives of the beneficiaries. Hughes says that form should follow function. You need to be clear on what type of Trust it is intended to be; what are your objectives in setting up the Trust, what are you hoping to achieve?

“Give a man a fish, feed him for a day. Teach a man to fish, feed him for a lifetime”.

The Jewish philosopher Maimonides listed eight different levels of giving; the lowest level is a transfer made out of duty or obligation; the highest level is one that makes the beneficiary independent. If your intention is to make a gift (i.e. the third type of trust) is it intended to be a gift of love? Is it intended to enhance the lives of the beneficiaries? How will your gift help to make those beneficiaries independent? Finally have you carefully considered whether this gift would cause any harm to the beneficiaries?

“Why Me...?”

In Asia we have not really fully experienced the impact of inherited wealth yet – much of the wealth here has been created after world war II. However, beneficiaries want to know why. A long term Trust will always send a message to the beneficiaries. Whether intended or not a Trust always says something about the values and attitudes of the settlor. Beneficiaries may try to read into the Trust what the settlor thought about them and their abilities. Isn't it better to make sure the settlor gets his or her message clear. And even better, to communicate this in person?

## Assessing Maturity

Trusts often distinguish between beneficiaries who are mature adults, and those who are not. In the majority of cases this is done by writing a distribution plan for the trust that gives the beneficiary increasing access to the income and / or capital trust fund as they hit various age mile stones. But there is a better way. Rather than try to make guesses as to arbitrary ages by which young beneficiaries “should have” matured, trusts could be structured so that the trustees are empowered to obtain professional help to make an assessment of social emotional and financial maturity. However if you are going to structure the Trust so as to be able to assess the financial, social and emotional maturity of a beneficiary, why not go to the next step and use the Trust to actually help the beneficiaries attain these goals?

“Inherited wealth ... is as certain a death to ambition as cocaine is to morality.”

Unfortunately the experience from the US is that some beneficiaries and inheritors do not lead productive lives. Substance addiction problems are a reality. We have all heard of terms like “trust fund baby”; “silver spoon syndrome”; “affluenza” and “remittance addiction”.

It needs to be acknowledged that the possibility of a beneficiary or inheritor suffering from some kind of human problem (e.g. remittance addiction) is a very real one. When we structure long term trusts we should anticipate such a possibility for example by making counseling, or life coaching available to the beneficiaries should a human problem arise. But ... “Prevention is better than a cure”. Why just anticipate the possibility of human problems like remittance addiction? Why not take the next step and use the Trust to enhance the lives of the beneficiaries by helping them to follow their own Dreams? Jay Hughes central message is that if you invest in the dreams of the next generation, these beneficiaries will then be motivated to help steward and conserve the family's financial wealth. In other words this is the best way to overcome the Proverb.

What is the role of a Trustee?

In summary then, what is the role of a Trustee?

Doesn't a trustee need to be able to ensure that the beneficiaries are given a Financial Education and are taught what it means to be a Good Beneficiary?

Doesn't a trustee have to be able to assess Maturity, if not help a beneficiary develop Maturity?

If the Trust is intended to be a gift of love to enhance the lives of the beneficiaries then maybe a trustee also needs to help Mentor and guide beneficiaries and help them in their individual pursuit of happiness; to help them find their calling and pursue their Dreams?

About the author

Christian Stewart advises Asian families on family governance. For more information see [www.familylegacyasia.com](http://www.familylegacyasia.com)

call us: +44 (0)7921 710009 or email [paul@familybusinessplace.com](mailto:paul@familybusinessplace.com)