Things you should know when it comes to succession planning and wealth transfer

Passing your assets to the next generations is more than just setting up a will. It requires careful planning and only with the right structure in place can your estate be passed on to your loved ones as you wish, efficiently and in a controlled manner.

Quilter International has conducted client-focused research*, aiming to understand how high net worth investors (HNWIs) approach their wealth and their attitudes towards succession planning. In this article, we highlight some fundamental hurdles these investors are facing and share insights on how to overcome them.

Our research shows there are three aspects which impact investors having a proper succession plan.

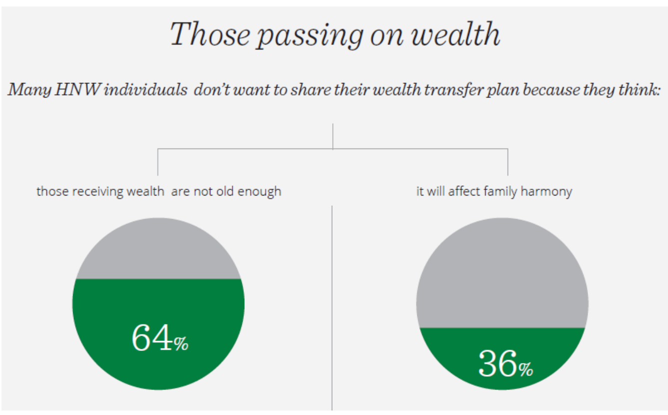
1. Tendency to procrastinate

As the wealth population and size of wealth in Asia are growing, it becomes more important than ever for people to have a succession plan. However, our research shows that only 44% of HNWIs have a full wealth transfer strategy or plan in place, falling to 32% among those who are aged 46+. More alarming is that 19% of HNWIs have done nothing so far despite planning to pass on wealth.

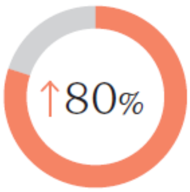
In fact, succession and wealth transfer planning should be considered as early as possible. This allows you to have sufficient time to understand its importance and implications so that you have the knowledge to assess the right structure or instrument. More importantly, it is an ongoing process and may change dependent on your own changing circumstances.

2. Mis-matching expectations between generations

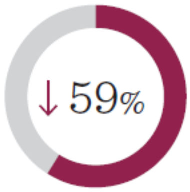
Our research also reveals that there are huge expectation gaps between those passing on wealth and those receiving it. 64% of donors would choose not to communicate their wealth transfer plan to family members believing those receiving the wealth are not old enough, however, 59% of these beneficiaries felt themselves adequately prepared. Also, 36% of donors prefer their wealth transfer plan to be communicated on death to avoid family disharmony, despite the beneficiaries wanting more information to be shared with them.



There is also a disconnect between donors and beneficiaries in the instruments/structures used for transferring wealth.

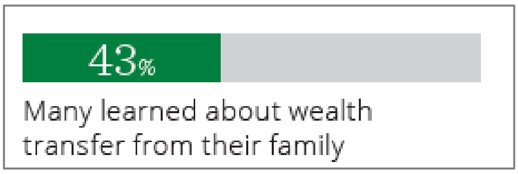


80% of donors intend to pass
on wealth in the form of liquid assets



however, only 59% of beneficiaries
expect to receive wealth in liquid assets

3. Reluctance to seek out advice from professionals



Our findings further indicate that investors do not always seek out advice from professionals when planning their wealth transfer strategy.

43% of them say the wealth transfer topic is introduced by families. However, although 61% of investors say that they are made aware of how a wealth transfer and inheritance would take place, the discussion tends to stop before covering the impact of this.

The need to embrace professional advice and benefits of a holistic view

Most people may not be aware that the transfer of wealth is not a one-off event (upon death), rather it's an ongoing journey. Indeed, 54% of donors who want to pass wealth on want to be better educated on the process and the different solutions; but many cite the concern of lacking financial and product knowledge to make informed decisions.

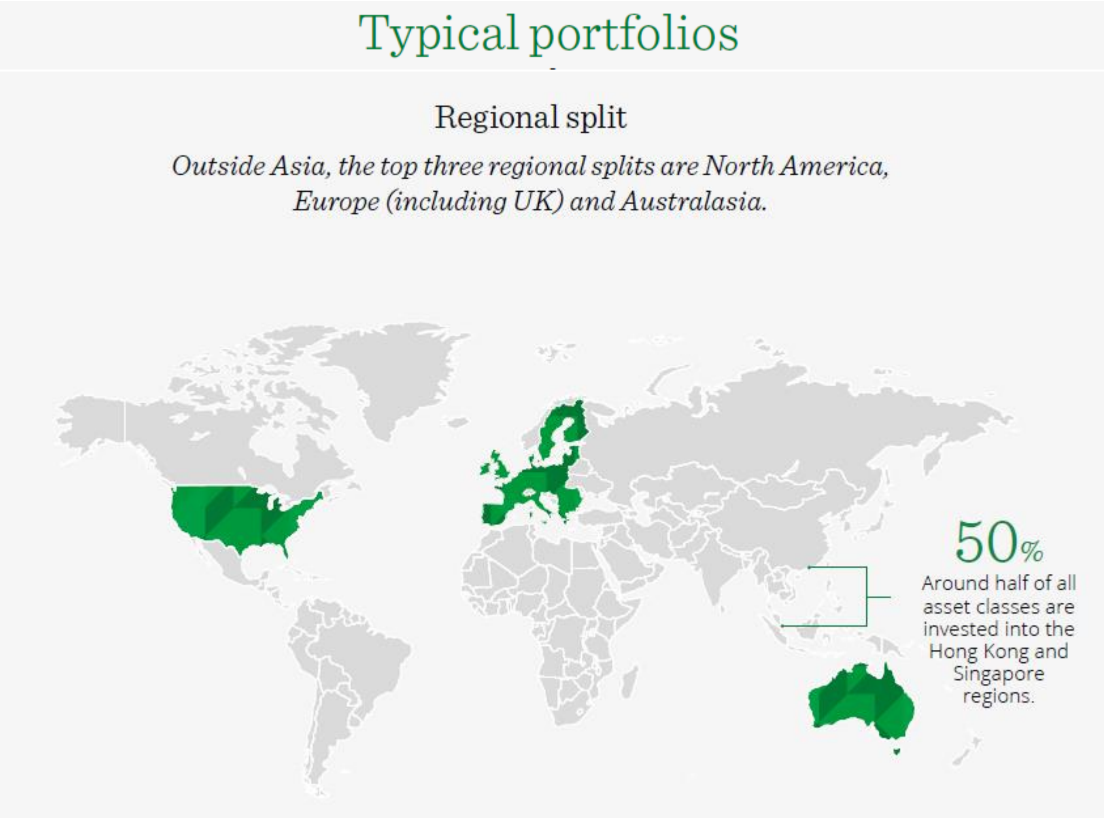
From a succession planning perspective, financial advisers and wealth managers having the technical knowledge and understanding of specific client's needs play an important role. Unlike family dialogue on wealth transfer which often focuses on the 'how' rather than the 'why', 'who' and 'when', the professionals are able to provide a holistic view and better education.

Bridging the gaps between the generations

Some donors may not want to share their wealth transfer plan with their families or beneficiaries. But our findings also indicate that HNWIs in general are increasingly open to discuss this topic, especially the millennial generation. There are certainly different perceptions and expectations between the older and younger generations as well as between the donors and inheritors/ beneficiaries.

A trusted financial adviser or wealth manager, as a disinterested third party, who is detached from the emotional ties and complex family structure, can help facilitate family discussions or difficult conversations.

The need for a robust structure - to grow, protect, preserve, and transfer wealth



There is a noticeable trend that investors are increasingly mobile and exposed to global investment opportunities. Our findings show that outside Asia, HNWIs mainly invest into North America, Europe (including the UK) and Australasia. However, most of Asia's investors are not aware of the potential tax implications of holding multiple offshore assets via different trading platforms or structures in higher tax jurisdictions.

In terms of wealth transfer, the use of a will and trust is very common. But, our findings show that donors are looking for more robust solutions and structures to transfer wealth between generations. HNWIs expect to use beneficiary designations and life assurance policies, which are popular in the US and Europe, for wealth transfer in the future.

There's no doubt that people want their money and assets to grow and be well protected, preserved, and passed on to the loved ones. Finding a suitable solution for you, your family and beneficiaries is not simple. This is why seeking professional advice is important. Financial advisers and wealth managers are able to understand the different circumstances and needs of investors and develop a succession plan before recommending a future proof solution.

If you would like to find out more about our research findings or what wealth transfer solutions and structures most HNWIs in Asia use, please don't hesitate to contact us.

Company Background

quilterinternational.com/hk

Quilter International provides offshore and cross-border life assurance structures and robust wealth management solutions for internationally mobile high net worth clients and affluent investors across the world.

We are part of Quilter plc, one of the leading providers of advice, investments and wealth management both in the UK and internationally, managing £117.8 billion of investments (as at 31 December 2020). Quilter plc is listed on the London and Johannesburg stock exchanges.

** Quilter International completed the Asia intergenerational wealth transfer research in January 2020. The research was undertaken with a total of 107 high net worth individuals (HNWIs) who have USD 3 million or above in investible assets. These 107 HNWIs are split between Hong Kong (51) and Singapore (56).*