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## Video Transcript

### A Family Office Dialogue – Succession Planning in the New Era

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**Yan:** Hello, everyone, my name is KayKay Yan, Managing Director, Relationship Management at HSBC Global Private Banking. The rapid economic growth in Asia has created many legendary entrepreneurs in the past 3 decades. At the same time, wealth creation process induces the challenges of succession planning. For example, how to pass the baton to the next generation? How to sustain wealth for generations to come? Among the many succession planning topics, I believe the hottest topic is the establishment of a family office. We are honoured to invite Aik Ping Ng, Head of Family Office Advisory, Asia Pacific at HSBC Global Private Banking, to share his insights on family office.

#### Key Drivers to set up a family office

**Yan:** Why ultra-high net worth clients set up family office?

**Ng:** The Family office serves to manage both the investment and non-investment family matters of the family.

There are 4 key drivers that prompt ultra-high net worth clients to set up a family office:

Continuity – A family office creates a second engine of wealth creation, develops diversified business and manages wealth transition to the next generation.

Control – Enhances family's control over family wealth in a professional and structured manner to safeguard privacy and confidentiality.

Connectivity – Selects and manages third party service providers to meet the family's sophisticated needs e.g. security and concierge services. A family office plays a key role in liaising and selecting third party service providers.

Communication – Creates a platform for communication of family vision, values across different generations to uphold the family legacy.

Therefore, traditionally, a family office is regarded as a tool for succession planning, helping families simplifying and managing family matters, allowing clients to have more time to enjoy life, and to ensure an orderly wealth succession and realise wealth creation and wealth preservation.

**Yan:** Aik Ping, I understand. Continuity, control, connectivity and communication.

### **An effective solution for intergenerational wealth transfer**

**Yan:** My next question is how do families achieve business continuity and sustainable legacy?

**Ng:** Over the next decade, more than \$15 trillion in wealth will be passed on to the next generation globally, with Asia accounting for \$1.9 trillion<sup>1</sup>. The trend of increasing wealth means that more and more ultra-high net worth clients are interested in setting up family offices, but not all wealthy families need to set up their own family offices. Depending on the needs of ultra-high net worth families, they can use various tools, such as trust, will, etc. to achieve their goals. Setting up a family office is also an increasingly common succession planning tool.

There are 4 focused areas that the family can work upon from family perspective:

Firstly, to foster a common sense of family belonging through clear communication of family vision, mission and values of the family.

Secondly, to establish an orderly inheritance framework which goes beyond just the financial assets. It is important to educate the family on the full wealth journey involving wealth creation, preservation and legacy transfer to fully appreciate the privileges and responsibilities of the family.

Thirdly, to establish effective communication channels to determine the roles and responsibilities of the respective family member within the family business to avoid any potential conflicts.

Lastly, to impart the entrepreneurial spirit to the future generation. We have seen founders providing seed capital to the younger generation to encourage them to explore and venture for strategic opportunities to further the family's business interests.

With regards to the family business, the family office can assist in transforming the business through digitisation, upgrading internal management systems, actively seeking strategic business partners and expanding into new business frontiers. If the younger generation is not interested to take up the family business, the family can consider engaging a professional management team to drive the business to achieve sustainable development and growth.

### **Choosing the location for Family Office**

**Yan:** Thank you Aik Ping. When considering the location or jurisdiction to set up a family office, what factors should be taken into consideration?

**Ng:** Families should consider the location of their family office based on their specific circumstances, for instance, the location of their operating business and where the family members are currently domiciled. The family needs to weigh in on whether the relocation will have any impact on the family and family business. The family also needs to consider whether the family requires any acclimatisation to the desired location such as weather, culture, etc.

At the same time, the family needs to consider the respective tax incentive policies of the jurisdiction, local regulatory requirements; whether the family office needs to be licensed, disclosure requirements, etc.

Many families also focus on the availability of experienced talent pool in the new location for hiring strategies to effectively manage and run the family office.

### **Looking into the development of the family office industry**

**Yan:** Aik Ping, please share with us what are the latest development and trends of family offices?

**Ng:** The official figures from the Monetary Authority of Singapore (MAS) indicate that ~400 family offices have been established as of end 2020. This represents a 5-fold growth from 2017 to 2019.

Despite the Covid pandemic, we have seen an instrumental growth of ~300 family offices in 2021, reaching a total of ~700 as of end 2021. The MAS has approved more than 100 new family offices in the first 4 months of 2022.

In the recently released 2022 Budget Speech, the Hong Kong SAR government officially proposed to provide tax concessions for eligible family investment management entities managed by single family offices.

You can see that local governments have strongly emphasised the development of the family office industry.

### **Future trends of family offices in Asia**

**Yan:** What are the key trends in the Asian family office landscape?

**Ng:** We can see 4 major emerging trends:

Firstly, resilience of the family office. The Covid pandemic has prompted many families to re-assess and review their risk management practices. This include:

- 1) Establishing a business continuity plan (BCP) for crisis management
- 2) Implementing a comprehensive investment policy and process to allow efficient decision making.
- 3) Developing a diversified strategy focusing on four areas: jurisdiction, asset allocation, family office structure and human capital.

Secondly, sustainability of the family wealth. We observe that clients are increasingly interested in developing an institutional structure to professionally manage family assets. Going forward, we can see the continued specialised and institutional approach in family wealth management for ultra-high net worth families.

Thirdly, adaptability. Singapore and Hong Kong will continue to develop their respective family office ecosystems with their tax incentive policies and conducive operating conditions. The family office needs to adapt and adjust their strategies to the changing conditions within the jurisdiction they operate to fulfil its full potential as a vehicle to provide confidentiality, and flexibility for effective management of family wealth.

Lastly, intergenerational communication. The family office allows the younger generations to be highly involved in the management of the family wealth and this builds family cohesion and unity which is required for the continued legacy of the family.

**Yan:** Aik Ping, thanks for your sharing. We learnt a lot. Thank you.

**Ng:** Thank you very much.

<sup>1</sup>香港中華總商會 The Chinese General Chamber of Commerce (cgcc.org.hk)