WORDS OF ADVICE TO GUIDE ASIA'S HNW & UHNW FAMILIES

THROUGH SUCCESSFUL BUSINESS SUCCESSION

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The Hubbis Digital Dialogue event of June 6 offered delegates the opportunity to hear from a variety of wealth management, legal, fiduciary and other experts on the best ways to approach the often-challenging issue of family business transition to sustain wealth and family cohesion into the next generations. It might be that the businesses are passed to the NextGens, it could be that the businesses are simply sold and the funds then distributed, or perhaps the founders and family might opt for continuing family ownership but with professional stewardship of their businesses by external management drafted in.

Whatever the decisions these families make, they must be carefully thought through, and then the families must assemble the right experts to expedite their plans. These strategies and their execution always involve a complex interplay of legal, structural, and emotional factors, demanding a sensitive, empathetic and nuanced approach to ensure success.

The latest Hubbis Digital Dialogue series discussion, supported by Trident Trust, brought together a panel of experts to delve into these intricacies. Hannah Bisson of Trident Trust, which has carved its role as a global expert in trust, corporate, and fund administration services, and is well known for its close working relationships with business-owning families in Asia, played a pivotal role in framing the discussion.

The panel underscored the importance of bespoke solutions tailored to the specific needs and goals of each family, rather than relying on one-size-fits-all approaches. Their detailed exploration covered various facets of family business transitions, emphasising the need for a holistic strategy that integrates legal frameworks, emotional considerations, and effective governance structures to ensure smooth and successful generational transitions.

SPEAKERS

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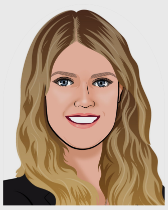

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Some Big Picture Perspectives on Business Family Transition

The discussion highlighted the multifaceted nature of the family business succession and transition. One key point was the shift from traditional owners/shareholders, often the founders and his or her spouse, to more structured approaches, often using trusts. This transition is not merely about transferring ownership but ensuring that the family business remains cohesive and effective through the generations.

The panel discussed how no one size fits all - different families require different structural solutions. For some, this might mean moving towards a trust structure that allows for more formal governance and accountability. This shift can help in managing the family business more professionally, perhaps bringing in third-party specialists to evolve the operations for the future and, in general, ensuring that roles and responsibilities are clearly defined and that there is a system in place to handle control, decision-making, and potentially handle disputes.

The conversation also touched on the importance of maintaining the family's emotional cohesion. While legal structures are essential, they must be complemented by efforts to keep the family united and focused on common goals. Family charters, regular family meetings and good communication are all vital tools to help maintain this unity, ensuring that all members feel involved and heard.

Despite the growing awareness of these structural needs, the panel noted that many families still struggle to implement these changes effectively. The process of transition is often new to many families, even though the underlying issues have been around for a long time. The need for specialised advice and support was pervasive in the discussion, as families must navigate both the legal complexities and the emotional dynamics to create structures that work in practice and not just on paper.

Expert Opinion

HANNAH BISSON OPINES: Selected Views from the Trident Trust Expert

"One challenge when planning for business succession, compared to traditional assets, is the increased number of stakeholders involved and how to either align their interests, or separately incentivise the different groups. It will require bespoke documentation and co-ordination at each level of the structure - the trust, the business, and perhaps even an overriding family constitution."

"Trusts are a useful tool in family business succession because they provide a long-term, secure shareholder for the business."

"Family disputes do happen, and so the structures we establish should take this into account. Advice should be periodically refreshed, planning should be reviewed to ensure it is still fit for purpose and I also recommend regular family meetings; open forums to raise concerns, manage expectations and which bring the family together."

Legal and Fiduciary Considerations in Family Business Transition

The legal and fiduciary aspects of family business transition are crucial for ensuring that the process is smooth and legally sound. The discussion underscored the importance of clearly defining the roles and responsibilities of legal advisors, fiduciaries and other advisors. One key takeaway was the need for legal professionals not to stray beyond their areas of expertise and avoid trying to assume roles better suited for other experts, including even psychologists or family counsellors.

Legal advisors must focus dispassionately on creating structures that are legally enforceable and capable of holding parties accountable. This might involve drafting comprehensive shareholder agreements, trust deeds, and other legal documents that clearly outline the governance and decision-making processes within the family business. The importance of maintaining legal privilege and confidentiality was also stressed, especially when advising multiple family members and different generations.

Another critical point was the potential conflict of interest when a single advisor tries to serve multiple family members. Primary advisors must remain loyal to their primary client, typically the family patriarch or matriarch, and ensure that their advice does not inadvertently favour one party over another. This can be challenging in family dynamics where multiple members have stakes in the business.

The panel also discussed the role of fiduciaries in managing family businesses. Fiduciaries must understand the specific risks and goals associated with family businesses and create structures that balance control with accountability. This often involves using private trust companies (PTCs) or other bespoke structures that provide the necessary flexibility while maintaining legal and fiduciary standards.

Overall, the legal and fiduciary considerations in family business transitions are about creating robust structures that can withstand the complexities of family dynamics and ensure the business's continuity and success across generations.

Expert Opinion

AT A GLANCE – Selected Nuggets of Advice from the Experts

Understand Family Dynamics: Recognise that family dynamics play a crucial role in business transitions. Addressing emotional and relational issues alongside legal structures can lead to more successful outcomes.

Bespoke Trust Structures: Create tailored trust structures that align with the family business's specific needs and goals, avoiding cookie-cutter solutions.

Collaborative Approach: Employ a multidisciplinary team approach involving legal, fiduciary, and family dynamics experts to address all aspects of the transition.

Clear Governance: Establish clear roles and responsibilities within governance frameworks, ensuring transparency and accountability while respecting family values.

Regular Family Meetings: Facilitate regular family meetings to foster open communication, manage resistance to change, and build a shared vision for the future.

Incentivise Engagement: Use financial structures and clear rules to incentivise family members, ensuring they remain engaged and motivated to contribute to the business's success.

Ongoing Review and Adaptation: Regularly review and adapt trust structures and governance frameworks to ensure they remain fit for purpose as the family and business evolve.

Independent Oversight: Include independent non-executive directors in the family business board to provide objective oversight and protect both family members and the business itself.

The Role of Professional Collaboration in Family Business Advisory

Advising family businesses and owners requires a multidisciplinary approach. The discussion highlighted the value of collaborative teams comprising legal advisors, fiduciaries, communication coaches, and family business consultants. This team-based approach ensures that all aspects of the family business transition are addressed, from legal and financial issues to family dynamics and even emotional well-being.

A key point was the role of consultants who can help facilitate family meetings and governance structures. These consultants work closely with family members to foster open communication and create a safe environment for discussing sensitive issues. By involving a family champion, usually a family member with a strong interest in the business's continuity, these consultants can help bridge the gap between family members and other professional advisors.

The collaborative approach often involves working even with communication coaches or therapists who can help resolve interpersonal conflicts and improve family dynamics. This is particularly important in patriarchal cultures where the decision-making power rests heavily with the family head. The goal is to ensure that all family members, especially the next generation, are prepared for and involved in the business's future if they wish to be.

The panel also emphasised the importance of clear engagement letters that define the roles and responsibilities of each advisor and specialist involved. This clarity helps manage expectations and ensures that all advisors work towards the family's common goals. The need for regular family meetings and ongoing education for family members was also reinforced as a means to keep everyone informed and engaged.

In essence, collaboration amongst experts in family business transitioning provides a comprehensive, holistic approach that helps families address the legal, financial, and emotional aspects of business succession and transition, ensuring a smoother and more effective process for all involved.

Family Dynamics and Emotional Considerations

Family dynamics and emotional considerations play a critical role

Expert Opinion

FROM THE EXPERTS – Selected and Curated Quotes from the Panel Members

"For business families, it's crucial to move from traditional shareholder groups to more structured approaches using trusts, ensuring both accountability and emotional cohesion."

"As a legal advisor, I focus on creating enforceable structures, but I must acknowledge my limitations and not stray into family counselling, which requires a different expertise."

"The challenge in fiduciary roles is balancing the creation of structures with maintaining family unity, ensuring that legal frameworks support the family's broader goals."

"Effective business succession planning involves understanding the unique dynamics of each family and avoiding a one-size-fits-all approach, which can often lead to more harm than good."

"Corporate governance principles like transparency and accountability must be integrated into family business structures to ensure they are robust and capable of enduring through generations."

"Legal advisors must be careful to maintain their focus on their primary client and avoid the potential conflicts that arise when advising multiple family members."

"Trust structures for business succession planning need to consider the family's specific needs, ensuring that there is a balance between control and flexibility."

"Family business transitions can become contentious if advisors do not clearly define their roles and do not maintain strict boundaries between legal and emotional issues."

"Using sophisticated trusts like the Cayman STAR or private trust companies can offer the necessary flexibility for family businesses while helping in ensuring robust governance."

"The success of a family business trust structure depends on its ability to adapt and evolve with the family's needs, requiring ongoing review and adjustment."

in the success of family business transition. The discussion underscored the importance of addressing these 'softer' aspects alongside legal and structural elements. Understanding the unique dynamics and histories of each family is essential for creating effective transition plans.

One of the main points raised was the resistance families often have to change, which can create significant pressure, and often lead to stressful trigger events that force the family to suddenly deal with transition issues. Facilitating proactive and often pre-emptive communication through regular family meetings in advance of any such trigger moments is advisable to manage expectations and potential resistance. These meetings provide a platform for all family members to express their thoughts and concerns, helping to build a shared vision for the future.

The panel also highlighted the importance of understanding the expectations and drivers of each family member. By knowing what motivates each person, advisors can better tailor their strategies to meet the family's needs. This understanding can also help manage conflicts and ensure that all members feel valued and heard.

Bringing in experts such as counsellors or therapists was raised as a valid approach, especially recommended for dealing with complex emotional issues, particularly in families with a history of trauma or conflict. These professionals can help address underlying issues that might otherwise derail the transition process.

Overall, the panel agreed that while advisors do not need to

"We advise a collaborative team approach, involving legal, fiduciary, and family dynamics experts, as we think it is essential for addressing the multifaceted challenges of family business transitions."

"Facilitating regular family meetings and creating a safe environment for open communication are key strategies for managing the resistance families often have to change."

"The role of process consultants is to help families develop a shared vision and build governance structures that reflect their unique dynamics and goals."

"Trust ownership of family businesses requires careful consideration of how to maintain emotional commitment among beneficiaries, ensuring they remain engaged and supportive."

"Corporate governance practices, such as having independent non-executive directors, can significantly enhance the effectiveness of family business boards and protect the interests of both the family and the business."

Survey Review

THE HUBBIS POST-EVENT SURVEY – VIEWS FROM ASIA'S WEALTH MANAGEMENT COMMUNITY

Hubbis immediately sent out a post-event survey to delegates, to which we received a large number of replies. Many of them were pleasingly detailed, and combined, the replies form a clear body of thought on the state of - and outlook for - business succession planning and structuring amongst Asia's HNW and UHNW families. This is a snapshot of their observations.

Hubbis: Are the current leaders/founders of Asia's successful businesses adequately prepared (both psychologically and structurally) for the transition of the assets, businesses and control to the next generations? Why or why not?

The answers revealed an Asian landscape marked by significant challenges and varying degrees of readiness. The majority indicated that many founders/leaders are not fully prepared, both psychologically and structurally, for this critical transition. A substantial number of respondents highlighted that founders often struggle with the psychological aspect of relinquishing control. Many founders hold a strong emotional attachment to their businesses and are reluctant to step down, believing they have more time to handle the transition themselves. This reluctance can create a significant barrier to effective succession planning.

Structurally, the preparation for transition also appears inadequate. Despite the availability of various structural options, there is often a lack of formal succession plans. Respondents noted that while some leaders are gradube psychologists, they must recognise their limitations and know when to bring in external experts. By addressing both the emotional and structural aspects of family business transition, advisors can help families navigate the complexities of succession planning more effectively.

Trust Structures for Business Succession Planning

The panel discussed generalities relating to trust structures for business succession planning, delving into the intricacies of designing effective frameworks for family-owned businesses. They emphasised that trusts need to be tailored to the specific needs of the family and the business, rather than relying on standard templates.

One key point was the distinction between trusts set up for liquidity purposes and those for active family businesses. For business trusts, it is crucial to create structures that allow for continuity and accountability without overburdening the trustees. Private Trust Companies (PTCs) and Cayman 'STAR' trusts (which provide greater flexibility and functionality than traditional common law trusts) were raised as valid options that offer flexibility while maintaining the necessary oversight.

The discussion also touched on the role of trustees in managing these structures. Trustees must balance their fiduciary duties with the practicalities of overseeing the running of a business. This should realistically mean avoiding day-to-day management – in which they are seldom qualified - and focusing more on governance, guidance and oversight. By creating mechanisms such as family committees or

ally involving the next generation, many still prefer to retain control over key decisions, only passing on responsibilities without the corresponding authority. This can lead to conflicts and inefficiencies, threatening the continuity and stability of the business.

The responses also pointed to cultural factors that influence readiness. In many Asian societies, respect for elders and traditional family dynamics can complicate the transition process. Founders may prioritise family harmony over formal governance structures, which can result in vague or informal succession plans. Additionally, the younger generation's readiness and willingness to take over vary, often further complicating the transition.

Interestingly, a small segment of respondents expressed a more optimistic view, noting that some business leaders are making concerted efforts to prepare for succession. These leaders are engaging in structured planning involving professional advisors, and they are often actively grooming the next generation. In regions like Hong Kong and Japan, where business practices are more mature, there have been many notable successful transitions of major family businesses and estates.

Overall, the survey results indicate that while there are pockets of preparedness, many of Asia's business founders and leaders need to intensify their efforts in succession planning. This includes addressing psychological barriers, implementing robust structural frameworks, and considering the cultural dynamics that impact family businesses. Continuous planning, professional advice, and training are essential to ensure smooth transitions and the continued success of these businesses across generations.

Hubbis: How closely involved should the second and third generations be in this business succession planning, and how can advisors and specialists help draw the founders and the younger generations together?

The replies show clearly that the involvement of the second and third generations in business succession planning is a topic of great importance. The consensus is clear: these younger generations should be closely involved to ensure a seamless transition and the continued success of the family business.

Many respondents emphasised the necessity for early and active involvement of the next generations. Involving them from the outset can help prevent dissent and family discord, fostering a collaborative environment where all voices are heard. This inclusion is particularly important for aligning the visions of the founders with the aspirations of their successors. The more informed and engaged the younger generations are, the better equipped they will be to take on leadership roles and drive the business forward.

Advisors and specialists are crucial in bridging the gap between the generations. Their involvement is not just about providing technical expertise but also about facilitating communication and understanding within the family. One effective strategy is for advisors to ingratiate themselves into the family's trust and begin conversations early. This helps build a foundation of trust and ensures that all family members feel valued and included in the planning process.

Organising family meetings and creating communication forums are essential tools that advisors can use to draw the founders and younger generations together. These forums provide a safe space for family members to express their opinions, share their visions, and discuss potential conflicts.

protector committees within the trust deed, trustees can ensure that strategic decisions are made at the appropriate level without getting involve in micromanaging the business.

Another important aspect discussed was the need for ongoing review and adaptation of trust structures. Family businesses evolve, and so must their governance frameworks. Regular family meetings and reviews of the trust deed can help ensure that the structure remains fit for purpose and aligned with the family's goals.

In conclusion, trust structures for business succession planning must be carefully designed to balance control, accountability, and flexibility. By involving highly professional trustees, family members, and external advisors, families can create robust frameworks that support the long-term success of their businesses.

Corporate Governance in Family Businesses

The panel highlighted the gap between corporate governance practices in public companies and those in family businesses. They noted that while public companies have adopted rigorous governance standards, family businesses often lag in this area, particularly when it comes to integrating these practices into trust structures.

The discussion focused on the need for family businesses to adopt key corporate governance principles such as accountability, transparency, and separating strategic and operational decision-making. This can be achieved by creating family committees or governance councils that oversee major strategic decisions while

Advisors can act as mediators, helping to find common ground and align the goals of different family members.

Education and training are also vital components of successful succession planning. Advisors can provide tailored training programs that prepare the younger generations for their future roles. This can include setting up family academies or mentorship programs that equip the next generation with the necessary skills and knowledge to manage the family business effectively.

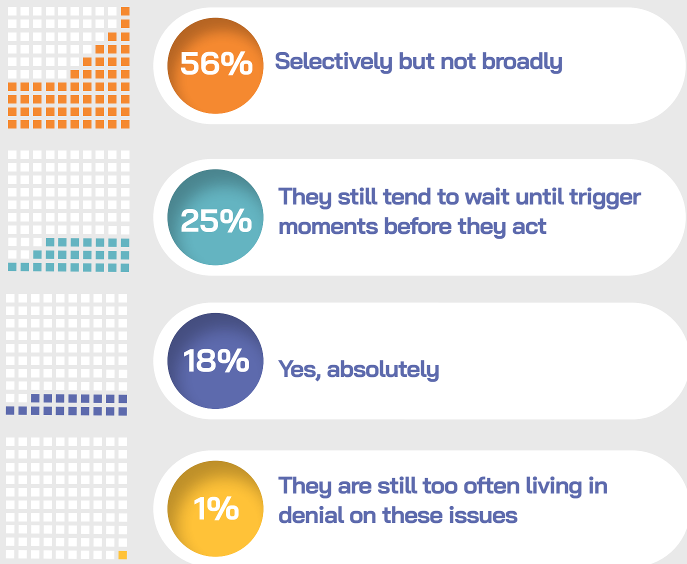
Cultural factors and family dynamics must also be considered. In many Asian families, respect for elders and traditional values play a significant role in succession planning. Advisors must navigate these cultural nuances carefully, ensuring the process is inclusive and respectful of family traditions.

The level of involvement of the younger generations can vary depending on their abilities and interests. Some respondents noted that the younger generations might not always be interested in or capable of taking over the family business. In such cases, advisors can help identify alternative roles or career paths that still contribute to the family's legacy, such as philanthropic endeavours.

In summary, the close involvement of the second and third generations in business succession planning is crucial for the continuity and success of family businesses. Advisors and specialists can facilitate this involvement by fostering open communication, providing education and training, and mediating conflicts. By doing so, they help ensure that the transition is smooth and that the family business remains robust and prosperous for the generations to come.

The Hubbis Post-Event Survey

ARE ASIA'S HNW AND UHNW FAMILIES APPROACHING BUSINESS SUCCESSION WITH THE RIGHT DEGREE OF PROFESSIONALISM AND URGENCY?



leaving day-to-day management to professional executives.

One suggested approach was to embed good governance practices within the trust deed itself. This includes defining the roles and responsibilities of trustees, family committees, and business executives. By clearly delineating these roles, families can avoid the pitfalls of micromanagement and ensure that strategic decisions are well structured, properly discussed and also transparent.

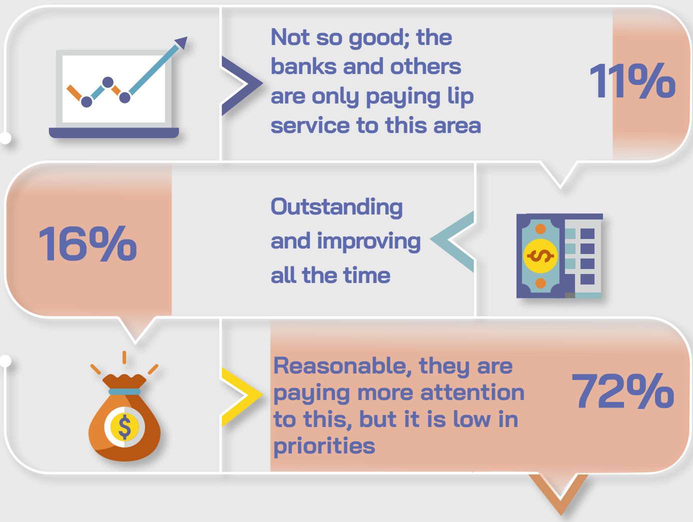
The panel also discussed the importance of independent non-executive directors (INEDs) on the boards of family businesses. INEDs can provide objective oversight and help protect the interests of both the family and the business. They can also act as a bridge between the management team and the family, ensuring that both sides are aligned in their goals and expectations.

In summary, integrating corporate governance principles into family business structures is crucial for ensuring their long-term success. By adopting best practices from the corporate world and tailoring them to the unique needs of family businesses, families can create robust governance frameworks that support sustainable growth and effective succession planning.

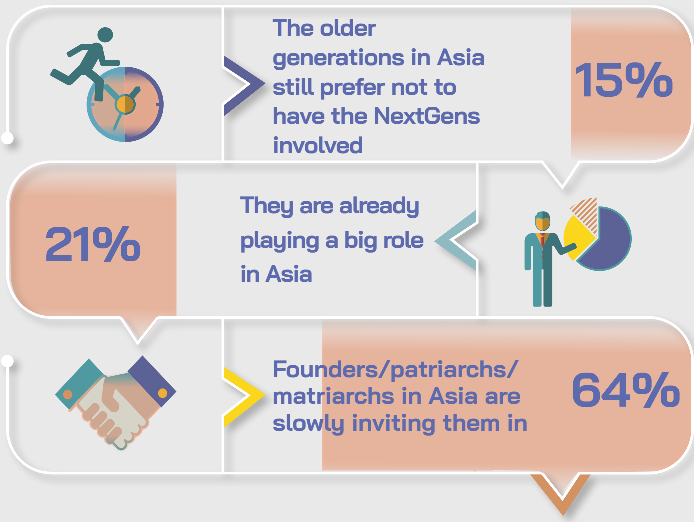
Balancing Cashflows and Ownership in Family Businesses

Balancing family member liquidity and business realities and potential are critical issues in family businesses, particularly when it comes to motivating family members to stay engaged and contribute to the business's success. The panel discussed various techniques to address these challenges,

HOW WELL ARE THE PRIVATE BANKS AND INDEPENDENT WEALTH MANAGEMENT FIRMS IN ASIA DOING AT BUILDING EFFECTIVE FAMILY-WIDE, MULTI-GENERATIONAL RELATIONSHIPS WITH A VIEW TO HELPING THESE FAMILIES WITH INTER-GENERATIONAL BUSINESS TRANSMISSION PLANNING & STRUCTURING?



TO WHAT EXTENT ARE THE NEXTGENS PARTICIPATING IN THESE SUCCESSION PLANNING/ STRUCTURING PROCESSES ALONGSIDE THE FOUNDER/CREATOR GENERATION?



emphasising the need to create structures that provide financial rewards and also engender a sense of ownership and commonality amongst shareholders.

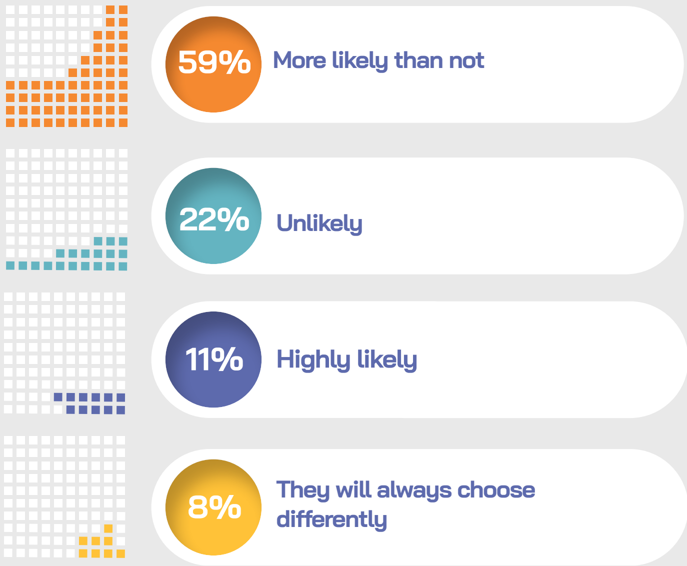
A key point was to advocate using different share classes or trusts to distribute financial benefits. By creating separate trusts or share classes with fixed returns, families can ensure that all members receive a financial stake in the business without diluting control. This approach allows for the distribution of profits while maintaining the integrity of the business's ownership structure.

The panel also explored the idea of share option trusts, and employee benefit trusts as tools to incentivise key family members as well as key staff. These structures can align the interests of family members and team members with the business's success, encouraging them to invest their efforts in its growth and development, or to remain loyal to the family and business.

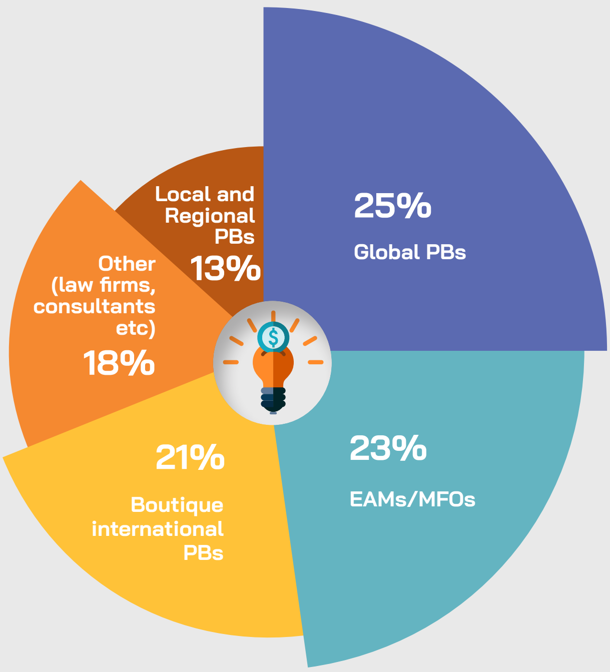
Another important consideration is the need to balance financial incentives with the preservation of family unity and long-term goals. The discussion highlighted the importance of clear communication and agreed-upon rules for distributing profits and decision-making. By creating a transparent and fair system, families can avoid conflicts and ensure that all members feel valued and motivated.

In conclusion, addressing liquidity and incentives in family businesses requires a thoughtful and tailored approach. By using a combination of financial structures and clear governance rules, families can create an environment that encourages engagement and supports the business's long-term success.

IN YOUR VIEW, HOW LIKELY ARE THE NEXTGENS TAKING CONTROL OF ASIA'S BUSINESSES TO BE LOYAL TO THE PRIMARY PRIVATE BANK OR EAM/ MFO FAVOURED BY THE FOUNDER GENERATIONS?



WHICH TYPES OF PROVIDERS ARE DOING THE BEST JOB AT ADVISING ON AND HELPING PLAN FOR SMOOTH ESTATE AND BUSINESS SUCCESSION AND TRANSITION?



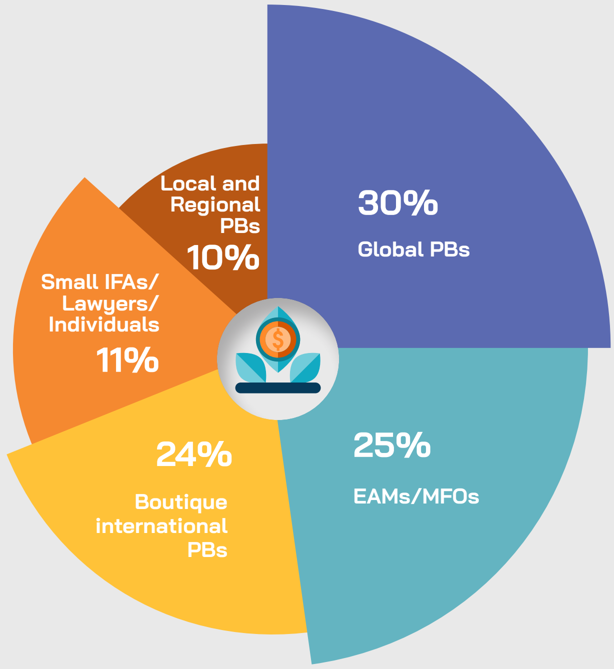
Which jurisdictions do Asia's private clients favour for their business transition wealth planning and trust structures? Why?

When it comes to business transition wealth planning and trust structures, Asia's private clients said prerequisites includes stability, favourable legal frameworks, and a robust financial services ecosystem. The survey responses reveal a clear trend towards favouring Singapore and Hong Kong, with some mentions of the Caribbean, particularly the British Virgin Islands (BVI) and the Cayman Islands, and some advising Switzerland and Jersey for their long-established capabilities and characteristics.

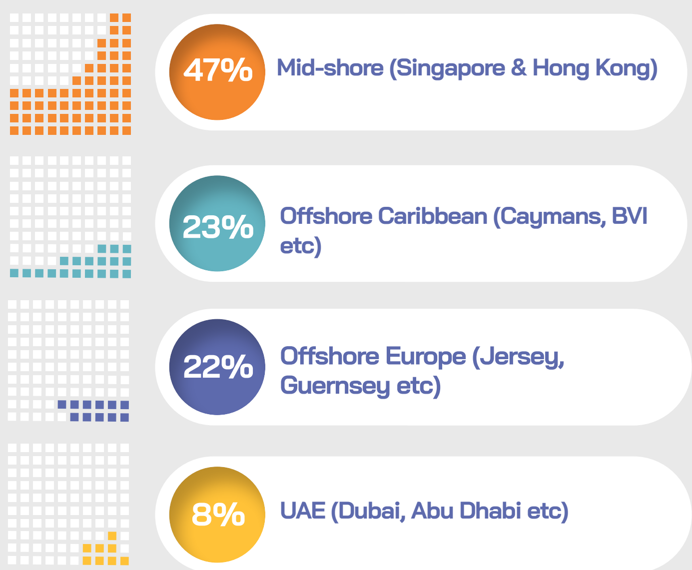
Singapore and Hong Kong emerged as the top choices for several reasons. Both jurisdictions boast strong legal systems, political stability, and favourable tax policies, which are crucial factors for clients seeking to ensure the smooth transition of their wealth and business interests. Singapore, in particular, is highlighted for its strategic location, clear regulations, and well-established trust law framework. The city-state's reputation for being a stable and 'clean' jurisdiction with numerous dual tax agreements makes it an attractive destination for setting up trusts and family offices.

Hong Kong is also highly regarded, particularly for its mature financial market and well-understood trust structures. Despite political uncertainties in recent years, it remains a favoured hub due to its robust legal system and the ease of doing business. Respondents noted that the cultural familiarity and historical ties within Asia make Hong Kong a preferred

WHICH WEALTH MANAGEMENT PROVIDERS ARE ASIA'S NEXT/YOUNGER GENERATIONS MORE LIKELY TO WORK WITH WHEN THEY HAVE EITHER MADE NEW WEALTH OR INHERITED SIGNIFICANT WEALTH FROM THEIR PARENTS OR EVEN GRANDPARENTS?



WHICH JURISDICTIONS ARE MOST FAVOURED BY ASIA'S WEALTHY FAMILIES FOR THEIR BUSINESS SUCCESSION PLANNING & STRUCTURING?



choice for many families looking to maintain their wealth within a familiar environment.

The Caribbean jurisdictions, notably the BVI and Cayman Islands, are favoured for their cost-effectiveness and well-established legal and financial infrastructures. These offshore centres offer significant benefits, including favourable tax regimes and high levels of confidentiality, which appeal to clients looking to protect their wealth from political and economic instability in their home countries. The flexibility and availability of a wide range of trust structures in these jurisdictions also contribute to their popularity.

Switzerland and Jersey were mentioned less frequently but remain relevant due to their long-standing reputations as safe and stable havens for wealth. These jurisdictions are known for their strong governance frameworks and expertise in wealth management, although their popularity seems to be waning in favour of more accessible and culturally familiar locations like Singapore and Hong Kong.

The choice of jurisdiction is often influenced by the nature of the family business and the specific needs of the clients. For instance, clients from mainland China and Southeast Asia are increasingly considering Singapore and Hong Kong due to their proximity and familiarity with the local business environment. Additionally, the presence of well-established financial services sectors in these jurisdictions provides access to a wide range of wealth management solutions, further enhancing their appeal.

Advisors and legal, fiduciary and other specialists can and should play a crucial role in guiding clients through the complexities of jurisdictional choices. By understanding their clients' unique needs and preferences, they can recommend the most suitable jurisdictions that align with their long-term goals and offer the necessary legal and financial protections. This tailored approach ensures that business transitions are handled efficiently and securely, preserving the family's wealth and legacy for future generations.

THE FINAL WORD – EMPATHY AND EXPERTISE MAKE THE PERFECT COMBINATION

Navigating the transition of family businesses across generations requires a delicate balance of legal precision, structural integrity, and emotional intelligence. The insights shared during the June 6 Hubbis Digital Dialogue underscored the importance of bespoke approaches tailored to each family's unique needs. By integrating multidisciplinary expertise and focusing on clear governance, regular communication, and appropriate incentives, wealthy and uber-rich families can ensure their businesses thrive through transitions, preserving their legacy and fostering continued success.