WEALTH MATTERS

Room to build next generation of clients

Ensuring family businesses thrive well into the future is key.

By Genevieve Cua

At BOS, the intensive programme in- volves content that clients would typically find in other banks’ programmes, such as backgrounding on finance, economics and financial products, trust planning, portfolio construction and philanthropy.

What may be unusual is that participants also attend one or two accredited courses which private bankers are required to attend. In their job attachments, they are assigned to briefs at various departments, but are required to comply with bank secrecy and confidentiality rules. The most recent batch, for instance, worked on a real project – revising BOS’ internet site. Their proposals are now being implemented.

Part of the time was given over to charity. The recent batch took an elderly group out for a day at the Martin Barrage. Talk on family businesses and entrepreneurship are frequently a feature of next-gen conferences. Entrepreneurial success is, after all, a key source of Asian wealth.

A study by the National University of Singapore Business School and Family Business Network Asia found that 52 per cent of S$500 million companies are family-owned.

One resource that banks can tap into is the Business Families Institute (BFI) under the auspices of the Singapore Management University. Associate professor Aline Koh, BFI’s academic director, said the centre is a ‘neutral platform’ to advance the study of business families in Asia. Its work, she said, includes research and education on just how banks and wealth managers work with family businesses in various sectors who provide resources and strategic advice.

Professor Koh said: “For many families, the biggest worry is the curse of being rich. The first generation built the business from nothing, and they had a strong sense of having to work hard. While they want the kids to be successful, they also want them to be stewards of value, not just of wealth.

“The children, even if they are not in the business, should recognise that with all the good that has come to them, they have to do good, and do it well.”

She cites a number of prominent family businesses, such as Malaysian corporation YTL, that pursue the principle of “do good and do well.”

“How do we continue to instil that legacy of legacy story, to tell the kids that wealth isn’t your entitlement? How do you put into practice a structured system so that when Grandpa and Pa are not around, all this continues?”

Some families have articulated a set of governance principles, not unlike a company’s mission statement. “It can come in the form of guiding principles, a family charter or council in which certain roles ap- ply. They are a legacy statement, or your personal belief of what the family stands for and how to encourage. When it comes to stewardship, banks think of wealth transfer, but it is more about values transfer.”

Among the BFI’s members is a French family that is in its 12th generation. The family has a code and value statement.

Yet another issue families face is the uncertainty, that is, the challenge of making the wealth last through multiple generations.

Typically, this becomes a concern when the family wealth reaches the $100 million threshold. “We’re starting to see families in Asia where some parts of a family’s core business are monetised, and you see the set-up of family offices, not just for managing passive or public-sector wealth, but also to create an entrepreneurship platform. This platform can aid family wealth advice, compared to new business ideas, and, hopefully, they go beyond the traditional core business.”

Prof Koh added that nurturing entrepre- neurship is a way to grow a family’s wealth. “Your value creation can’t come from managing the current pot. That man- agement is done by private banks. You set the banks a mandate to preserve the current wealth, and then you need fu- ture prospective wealth creation. We help to build an entrepreneurial mindset within the family. Philosophy is an activity of commit- ment that can also cement a family and serve as a dynamic to express its values.”

“Giving in is not just about giving money; that’s the easy part. How do you give time?”

“Going in an institutionalised manner allows families to engage other family members who are not in the business. The family gets bonded, but the sustainability of the project is critical.”

“One thing giving doesn’t make is an art or difference to some of the causes. But if you have a family that’s trans-genera- tion, they can continue to give when you’re not around. A platform can be set up by a bank in an institutionalised manner so that giving becomes more sustainable.”

“Clearly, banks that can tap Asian clien- tees’ needs relating to their families stand to gain in the long term. Next-gen coun- selors, however, help not only to some extent. The main purpose of work to raise good m cheaply takes place well before adulthood.”

“Room to build next generation of clients Ensuring family businesses thrive well into the future is key. By Genevieve Cua

HILDREN born with the proverbial silver spoon pose a unique set of challenges for their wealthy parents. With money in abundance, how do you inculcate children with the drive to succeed, a strong work ethic, strong family bonds – and all that, tempered with humility? There are, sadly, numerous stories of rich kids gone astray.

The adage that wealth is fittered away by younger generations is true of many fortunes.

Private banks are increasingly turning their attention to issues surrounding the “next generation” of clients. Many banks host weekend conferences attended by sons and daughters of clients.

Bank of Singapore (BOS) has gone a step further. In addition to conferences lasting one to two weeks, it has begun a more intensive, 40-day programme that offers young people a chance to attend accredited courses at the bank and a short internship as well.

Response to the programme has been overwhelming. “We struggle to put a cap on our intake,” said Adam Chew, BOS’ head of learning and development. The latest programme, which ended last month, had 25 participants.

Each conference clearly generate more costs than short-term revenues for the banks, but the opportunity to engage chil- dren of clients is clearly one that they are determined to pursue.

Mr Chew said: “This isn’t about making money from clients. We want to be their partners in their journey of making and transferring wealth. We want to build an ex- perience with them, making the relationship sticky.”

PwC’s Global Private Banking and Wealth Management Survey 2013 says wealth managers have become less successful at retaining wealth when it is transferred to a spouse. About 75 to 80 per cent of assets retained in 2011 fell to 71 per cent in 2013. When wealth is transferred to children, the retention rate is even lower: 51 per cent.

Mr Chew added: “There is a link to wealth managers retaining assets if they do not leverage inter-generational opportu- nity better.”

Asian wealth managers need to understand the future stakeholder back- scope better to avoid loss of assets and hinders new relationships with the surviving spouses, next-generations heirs or the board of charitable foundations in a more competitive environment.

A SWOT survey of high net-worth individuals found that Asian clients are distinctly preferred affluent families rather than personal wealth. Just over 67 per cent of Asia-Pacific respondents said they requred family wealth advice, compared to 26 per cent of HNWIs in the rest of the world.

SUPPORT IN BUSINESS

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