

From saplings to forest trees

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As the first and second generation proprietors of Asia's family businesses look to pass control on to their children and grandchildren, private banks and other service providers are hoping that they will look to the Western family office concept to aid the transfer of wealth. But, while succession is a real challenge for Asian family businesses, particularly given the deteriorating economic outlook, observers believe that cultural and financial factors stand in the way of the adoption of formalised family office structures.

Asia is home to some 10,000 wealthy individuals or families with at least \$30 million at their personal disposal, according to a new study by Switzerland's University of St Gallen and VP Bank, a Liechtenstein private bank with its eye on expansion into the lucrative Asian markets.

However, their report found that there are currently just a handful of single family offices in operation across the region, with most high-net-worth families opting not to separate their investments from their core business in any structured way.

But VP Bank and the University of St Gallen predict that the number of family offices will expand rapidly over the next few years as economic power shifts from the West to the East and ageing family business owners look to secure their legacy. They estimate that by 2015 there will be around 120 single family offices across Asia.

"As this population of wealthy people has benefitted from tremendous growth rates in the last few years, mainly driven by thriving economies and booming stock markets, and as it is expected to grow at the same pace for the next few years, the Asian region has become a promising market for family office solutions," their report concludes.

Most Asian observers agree that family businesses face a serious challenge in ensuring that their wealth is preserved for future generations. But many doubt whether the traditional family office model – where a small team of professionals runs an investment office that is entirely separate from the core business – is the right fit for Asian families: "There's a need

for properly run family offices but I don't think the model will evolve to be like the US or Europe because of the nuances in Asia," said Annie Koh, associate professor of finance at Singapore Management University. "It's a process of learning for many families in transition and they are cautious about the setup even though they see the need."

One key problem is the business culture in Asia, which is dominated by secrecy. "In the Western world, you usually have an outsider as a family office manager," explained Patrick Wild, head of overseas private banking at VP Bank. "But in the Asian mentality, we see one major problem in this: the family patriarch and their sons are not willing to give up control or put too much transparency into the situation."

Yuelin Yang, a senior executive at IMC Group, a family-owned pan-Asian shipping and logistics business, believes that while the Western model is the right one, "it will take more time than people think" for Asian families to adopt it. "The cultural issues are certainly there," he noted. "The tendency is to manage investments in-house rather than outsource." IMC is a case in point because although the group does have a family investment office, Yang said there was "a lot of overlap between the family office and the main business".

Another executive of a medium-sized family-run manufacturing business in Singapore added that it was "hard enough keeping lines of communication open between family members without bringing any outsiders into the information loop".

This desire for high levels of confidentiality also means that Asian businesses are unlikely to turn to the multi-family office structure that has become popular in Europe despite the clear cost benefits.

The financial and economic turmoil of the last year has hit many family businesses in Asia but experts disagree over whether the crisis will drive families to diversify and look to make wider investments or concentrate on their core business.

"Families are concerned that if they've parked all their wealth in their own business and it gets hit by the crisis, then the inter-generational wealth may not be sustainable," noted Koh.

But Yang believes that while diversification is one way for concerned businesses to go, "the other school of thought is maybe I should put more money into the business I know more about."

Whether they diversify now or later, most successful family businesses eventually have to invest their proceeds externally, especially if family members want to monetise their stakes. And, if the Western family office model is unlikely to win too many converts in Asia, how will businesses look to preserve their wealth for future generations?

Private banks like VP Bank and its larger rivals are obviously keen to paint themselves as independent consultants who can help family firms put in place the right governance structures and advise them on how to invest their capital in line with the desired risk/reward profile. But the collapse of once mighty financial institutions such as Lehman Brothers and Merrill Lynch has shattered the credibility of sharp-suited Western bankers. UBS, Merrill Lynch and Goldman Sachs are all currently facing lawsuits from wealthy Asian private

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banking clients who bought complex financial products that have plummeted in value or are now worthless.

“Customers are furious and private banks are in cloud cuckoo land if they think that the growth of family offices in Asia will be spurred on by them,” commented Roman Scott, chairman of Singapore-based investment firm Calamander Capital.

He thinks the number of family offices will grow in Asia but that these offices will be directly controlled by the family rather than outsourced to a private bank or other service provider. “The family will have an office and they may well staff it with financial industry professionals who may be ex-private or investment bankers,” he explained. “But they will be working for a family in a family office, in a family building, under family control – not under the family office services division of Merrill Lynch or whoever.”

Koh believes that without any existing Asian model for family offices, families themselves must seize the initiative and, despite their reluctance to open up, must work together to find a more appropriate model. “Asian family businesses need Asian examples, but Asian families are very discreet and they don’t want to air their dirty laundry in public,” she concluded. “They need a group of people they can trust: not banks, but some alliance of family business, some sort of self-help group.”