21ST-CENTURY WEALTH STRUCTURING

Alex Baker and **Alicia Dimitrova** explain how modern wealth structuring can help families maintain control through generations

Families structuring their wealth are increasingly shifting away from a purely tax-driven approach. Instead, they are focusing much more on the core principle underpinning wealth structures that can withstand the test of time: the transgenerational transmission of wealth.

This transition requires the empowerment of a family's next generations and a formalised governance structure within the family, setting a framework within which decisions will be made regarding the family's wealth.

Although most families aspire to such a lasting legacy, they may have been hesitant to embark on what may seem like the daunting task of regulating multiple generations and family branches' relationships to the family wealth. Understanding a family's objectives and assisting them in formalising their intrinsic values can create the ownership and governance structure needed to nurture the generations to come.

GENERATIONAL TRANSITION

The ageing baby boomers have accumulated more wealth than any other generation in history, to such an extent that the blessing of family wealth frequently threatens harmony and changes family dynamics when an unstructured transition happens. Families that actively groom the next generation to assume the increased responsibility associated with notable wealth pave the way for a successful transition. Family governance helps to give this process structure by establishing clear rules and protocols for managing the family wealth, thereby reducing the risk of personal disputes.

The typical scenario tends to involve a close-knit family whose members work in the same family business, implementing the patriarch or matriarch's decisions during their lifetime, with the sensitive question as to what shall happen thereafter being often inadequately addressed, if not completely ignored.

In instances where the business is predominantly, or even exclusively, reliant on the head of the family's ongoing involvement in the day-to-day running of the activities, a detailed transition plan becomes all the more vital.

To spare the next generation the uncertainty, conflict and frustration that a misunderstanding of the patriarch or matriarch's intentions might trigger, it is crucial for any wealth-owner to be open and transparent about their wishes. At an early stage, they should be encouraged to discuss who may succeed them as the linchpin of the family structure and set out the envisaged management and ownership structure of the business.

An important part of planning the continuation of a family business by or for future generations entails planning the future management structure of the business, whether it's by a suitably qualified member of the next generation

KEY POINTS

WHAT IS THE ISSUE?
The relationships that lie at the heart of family wealth are all too often overlooked. Conceptualising family governance may prove challenging for clients.

WHAT DOES IT MEAN FOR ME?
Clients will often need help transitioning influence and control over family wealth from one generation to the next.

WHAT CAN I TAKE AWAY?
With a proper structure in place, careful foresight of the obstacles ahead and an organised family governance approach, families may be able to avoid disputes, business discontinuity and disruption of family harmony.

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or a professional management team, with family members merely reaping the benefits of economic success. It also ought to forestall heirs from inheriting the legal ownership of the business outright, so as to avoid business operations being impaired by a fragmented ownership structure. The family should outline whether the intention is to remain invested in the business indefinitely or to have the option to divest with a view to reinvesting the proceeds into more profitable ventures.

It is possible to stave off the aforementioned disruptions by consolidating the business ownership in a trust or a foundation where the beneficiaries understand how the family wealth is structured and managed. Family members are more likely to develop into responsible custodians of wealth who appreciate key relationships if they are invited to contribute in meetings with the family's trustee or financial advisor, encouraged to pursue philanthropic endeavours and clearly understand what proportion of the family wealth is available for immediate use (versus being earmarked for the future).

What's more, alerting the younger generations to the impact that wealth may have on them and the world will be an integral part of preparing them to assume more responsibilities and consciously partake in the family's wealth management. The ensuing sense of clarity and purpose will foster trust and respect within the family across generations and family branches.

FAMILY GOVERNANCE

Families often include their chosen trustees in family discussions regarding the structure of their wealth at an early stage so the trustees can weave the threads of family dynamics into a tailored wealth structure, thereby ensuring a seamless transition further down the line.

Family governance may be conceptualised as having three tiers:

- The first tier is the family as a dynamic, yet informal, social construct that lies at the heart of the issues faced.
- The second tier provides a more structured approach by setting out rules and responsibilities, formulating a code of conduct for the family regarding its decision-making process for matters concerning family wealth, as well as establishing one or more councils or committees consisting of family members.
- The third tier relates to the management of the family wealth by the family council and the implementation of decisions made by the family. Once reporting lines, decision-making powers and responsibilities have been determined, the family council, rooted in the family's larger aspirations as distilled by the first and second tiers, interacts closely with the family's wealth structure.

A wealth structure often takes the form of an executive organ pursuing the goals supported by the family council. A wealth structure must be based on clear rules and a vision for the future in order to provide the benefits sought by the family, hence the need for a trusted advisor to provide feedback to the family as a whole, enabling high-level strategic decisions.

When a family chooses a wealth structure as its long-term asset-holding vehicle, the interaction between the family council and trustees is of paramount importance to ensure the family governance remains aligned with the family's goals. For instance, trustees may implement a family governance plan that requires different councils to be responsible for different parts of the family wealth, or they may set up a family business council, protector council, private investment council or philanthropy council, each consisting solely of family members according to the roles foreseen for each of them and regulated by rules set out in the family constitution. Decisions made at family council meetings may then be communicated down to the various components of the wealth structure, whose trustees would receive useful recommendations as to how to exercise the powers vested in them.

STRONGER STRUCTURES

Wealth-owners should be reminded by their advisors that wealth structuring is not merely a matter of legal and tax planning and should accept the fact that they are equally responsible for a successful transition to the next generation by nurturing the relevant relationships.

Structuring wealth is also about passing on a philosophy to the next generations, enabling them to cope with the increased responsibilities associated with wealth. The next generations may be brought up to see themselves as custodians of wealth, rather than mere consumers, and loved ones would benefit greatly from the support afforded to them through meaningful planning that incorporates the family's intrinsic values – whether it is social responsibility, independence or entrepreneurship.

Combined with a family governance plan, wealth structures become powerful mechanisms that ensure the decentralised ownership of assets on the one hand, and continuity of influence and control over the destiny of the family wealth on the other.

The long-term benefits of such an investment are gratifying for the wealth-owner, who will see their family working together towards a common goal. It should also prove worthwhile, as it will foster the preservation and continuity of family wealth, help to create a legacy and facilitate the orderly transition of wealth to the next generation.

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