



THE “ABC” OF HIGH NET WORTH (HNW) FINANCIAL PLANNING

by **Tan Seng Chuan**

According to Investopedia (1), a high-net-worth individual (HNWI) is defined as “a person or family with liquid assets above a certain figure”, and “figure for membership in the high-net-worth club is around \$1 million in liquid financial assets”. It was reported in an MAS article (2) that “Singapore has established itself as one of the leading private banking and wealth management centres globally and in Asia; and “high net worth individuals choose Singapore for our sound financial regulation, strong rule of law, as well as political and economic stability”. It was also reported in a South China Morning Post (SCMP) article (3) that family offices (corporate entities that moneyed families use to structure the way they invest and preserve their riches) are gaining popularity and “the number of family offices in Singapore grew by five times” from 2017 to 2019.

With this, we see that there is a growing opportunity of this HNW market segment in Singapore. This article hopes to share the “ABC” of HNW financial planning: to first understand the HNWI’s financial planning concerns, needs and opportunities; and finally to position ourselves to cater to this opportunity and market as financial practitioners.

THE “ABC” NEED, CONCERNS AND OPPORTUNITIES FOR HNW FINANCIAL PLANNING

Financial needs analysis is the basics of financial planning. As a financial practitioner, we must first understand these financial planning concerns and needs for the HNWI, which are broadly classified into these three main areas:

A- ASSET PRESERVATION & PROTECTION, ASSET ENHANCEMENT

HNWIs could be business owners, top executives, or highly paid professionals in the corporate world. As their wealth grow, they would be concerned about wealth longevity, and would want to do so by enhancing their financial asset, as well as having asset protection and asset preservation to minimize leakages. HNWIs typically has high income and have assets spanning across different geographical locations and jurisdiction, one main key area of concern will be in taxation, whereby they would want to preserve their wealth by paying lower taxes with tax planning. It is reported in a Straits Times article (4) that “Singapore is also attractive to high-net-worth individuals from a fiscal perspective, for instance, by having a low tax rate, zero capital gains tax, and efficient structures to manage single-family offices, such as the variable capital company structure with its tax and permanent residence incentives”.

In addition, HNWIs are also exposed to risk and threats that may deplete their wealth as well. Some of these examples include sickness and health conditions that require expensive medical treatment or affect their working ability; protection against debts or obligations in case their finance takes a downturn; as well as specialized risk like litigation concerns, creditor protection due to their profession or business exposures. With this, insurance will be important for them to use as a tool to preserve and protect their wealth. In a report (5) published by AIA and EY, “72% of HNWIs believe that insurance plays a significant role in creating and preserving wealth”.

Apart from asset preservation and asset protection, HNWIs would also be concerned about asset enhancement to grow their wealth. According to a research (6) done by Aon Client Insight on behalf of Quilter International, it revealed that “55% of Singapore’s high net worth (HNW) investors are more concerned with wealth creation than wealth preservation”.

B- BUSINESS PROTECTION, BUSINESS RISK MANAGEMENT AND BUSINESS SUCCESSION PLANNING

For HNWIs who are business owners, business protection will be an important priority for them. In the same report (7) published by AIA and EY, a notable finding of “48% of HNW entrepreneurs in Singapore have business protection through insurance solutions, encompassing a range of areas including business loan protection, health and illness income protection, business transfer and legacy planning and inheritance equalization, falling short of the regional average of 54%”.

The report also indicated “84% of HNW entrepreneurs in Singapore have previously heard about business wealth protection, but 52% of them do not have any kind of such protection in place”. From these findings, it presents an opportunity for us as financial practitioners to be able to address this business protection, business risk management and business succession planning needs of these business owners HNWIs.



THE “ABC” NEED, CONCERNS AND OPPORTUNITIES FOR HNW FINANCIAL PLANNING (CONT'D)

C- CREATING LEGACY

According to a Business Times article (8), it is reported that “60% of Asia's HNW not planning for succession”. It is also reported in the same article that “clients had not fully considered the risk of the family business being split apart and sold after the death of the patriarch or matriarch as a result of complex family dynamics”, and there could be “a lack of understanding about what a succession plan aims to achieve and its long-term benefits”.

With “more than \$15 trillion in wealth is set to change hands from one generation to the next” by 2030 as published in an Asia Nikkei articles (9) , we see that there is an importance and concern for HNWIs to understand the need, benefit and methodology of doing wealth transfer. This will allow HNWIs to pass on their wealth to their next generation with minimum leakages to things like estate duties etc; preserving family harmony and relationship; and help them move from being successful to significant, by creating a legacy.

POSITIONING OURSELVES TO “ABC” FOR HNW FINANCIAL PLANNING

After understanding the needs, concerns and opportunities for HNW financial planning, we should position ourselves with these “ABC” to better serve and assist HNWIs in their financial planning:



A - ADD VALUE

HNWIs typically engage and have different subject matter experts and professionals serving them in different fields separately. They would have their own accountants, lawyers, tax consultants etc.

We can add value to HNWIs as a financial practitioner by linking and integrating all these different subject matters back to their financial plan with comprehensive financial planning to provide an overall clearer picture. With more wealth, HNWIs would have more complexity in their financial planning requirements. We will have to level up our competency in both skills and knowledge, as well as gain experience to add value to these HNWI for their financial planning.

B - BUILD RELATIONSHIPS

As financial practitioners, we are in the relationship business rather than transaction business. Building relationship and trust are very important aspects in our practice.

According to the 2018 World Wealth reports by Capgemini (10), it is reported that “only 55.5% of HNWIs said they connected “very well” with their wealth manager” and wealth manager should invigorate their connection with HNWIs customer to improve satisfaction. With this, we see there is more to be done for financial practitioners to nurture and cultivate the relationship with HNWI clients to build trust.

There is a famous saying by former US president Theodore Roosevelt: “Nobody cares how much you know, until they know how much you care.”

We can build relationships with these HNWIs by being sincere and showing them care and concern; building rapport and to know more about them to find out their concerns and priorities. We should also be open and transparent to communicate clearly and effectively; as well as knowing their likes and dislikes, hobbies and speaking their “lingos” to connect with them.

THE “ABC” NEED, CONCERNS AND OPPORTUNITIES FOR HNW FINANCIAL PLANNING (CONT'D)



Notes:

- 1- <https://www.investopedia.com/terms/h/hnwi.asp>
- 2- <https://www.mas.gov.sg/development/wealth-management>
- 3- <https://www.scmp.com/week-asia/economics/article/3110535/asias-super-rich-singaporefamily-offices-keep-wealth-churning>
- 4- <https://www.straitstimes.com/opinion/forum/forum-singapore-must-protect-its-reputation-as-top-global-financial-hub-0>
- 5- <https://www.aia.com.sg/content/dam/sg/en/docs/aia-survey-research/thoughtleadership.pdf>
- 6- <https://media.quilter.com/search/most-singapore-high-net-worth-investors-favour-wealthcreation-compared-to-wealth-preservation-strategies/>
- 7- <https://www.aia.com.sg/en/about-aia/media-centre/press-releases/2020/aia-reportrelease-singapore-adaptation.html>
- 8- <https://www.businesstimes.com.sg/asean-business/60-of-asias-hnw-not-planning-forsuccession>
- 9- <https://asia.nikkei.com/Economy/Ranks-of-crazy-rich-Asians-grow-but-heirs-face-uncertainfuture>
- 10- <https://www.capgemini.com/wp-content/uploads/2018/06/Capgemini-World-Wealth-Report.pdf>
- 11- Refer to Tuesday Time article https://drive.google.com/file/d/1vxWSR1BmZ4r7eZg470nBr_5DCf5ts9UH/view for the CARE principle in more details.

C- CREATE POSITIVE CLIENT EXPERIENCE

HNWIs typically prefer a high touch and concierge type of service. We can try to do so to provide a positive client experience by applying the “**CARE**” principle (11): **C** for being competent in providing our professional services & advice to meet the needs and concerns for these HNWIs as mentioned above; **A** for acting in client’s best interest; **R** for responding promptly to client’s concern or questions with a high service level (that we ourselves would like to have as clients); and **E** for showing empathy and be a caring advisor for our clients to provide a listening ear and to be there for them.

HNW financial planning is a broad and extensive topic which requires experience and expertise, and it is beyond the scope of this article to cover every aspect. I hope this article provides a basic understanding regarding the needs, concerns and opportunities for HNWI financial planning.

The “ABC” positioning is also useful for us in our day-to-day work, be it for HNW financial planning or planning for other clients. With this, let us always strive to do our best and be there for our clients, so that we can be the trusted financial practitioner for our clients; to best represent our firms & companies; and together to raise the professionalism & standards of our industry.

AN ONLINE PUBLICATION BY IFPAS © 2021
Insurance and Financial Practitioners Association of Singapore All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior permission of the publisher.



Tan Seng Chuan is a licensed financial practitioner and an active IFPAS member.

He holds the ChFC®/S, CLU®/S, IBFA and AEPP designations.