



# GETTING THE RIGHT WEALTH ADVICE

WITH SO MANY FINANCIAL INSTITUTIONS AND ADVISORY FIRMS OFFERING VARIOUS WEALTH MANAGEMENT SERVICES, HOW CAN YOU CHOOSE WHAT'S RIGHT FOR YOU?

THE RAPID GROWTH in wealth and numbers of affluent individuals across Asia in recent years has enticed many financial institutions as well as independent advisers to either set up or expand services to tap this opportunity.

Hong Kong and Singapore are the region's private banking and wealth management hubs and there is an overwhelming variety of offerings and marketing campaigns in both these cities to lure potential clients.

So what are the main options for you to consider? And how can you ensure you choose an adviser – and institution – that will act in your best interests?

## TYPES OF WEALTH PROVIDERS

Broadly speaking, the main providers of wealth management services in Asia are: private banks, consumer banks, boutique advisory firms, independent asset managers, independent financial advisers (IFAs), and family offices.

There is some overlap, although each type of organisation tends to target certain groups of individuals, depending either on their level of wealth or their goals for how they want their money managed and invested.

As a result, there are general ways in which these organisations differ: the range and type of products they offer you, the fees they

charge in the process, the approach they take to managing risks, their level of service delivery and quality, and the sophistication and wealth of their clients.

Probably the three most commonly known and used wealth providers are private banks, retail banks, and IFAs.

Private banking tends to involve the provision of a wide range of highly-personalised financial products and services to wealthy individuals, with the institution charging commission on a per-transaction basis. These clients typically need at least US\$1 million in disposable assets to become a client, although some banks have higher minimum thresholds.

In reality, products are quite standardised in the private banking space, so it's the quality of advice and service that helps an institution stand out. This comes down to who is giving the advice, and how they are delivering it – with consideration to whether it is suitable at that point in time given market conditions and a client's needs, goals and tolerance for different risks.

Consumer banks, on the other hand, target mass affluent clients (generally anywhere from US\$200,000 to US\$1 million) with so-called priority banking services. These include everything from basic deposits to investment and insurance products, and some degree of asset allocation advice. Fees are generally charged through commissions.

Some retail banks position themselves as product supermarkets, offering a wide range and competing on price.

Others try to provide value through their advice and product screening processes – spending a lot of time looking at what products are available, and at the experience and track record of providers, to be able to offer what they judge to be the best range possible.

IFAs are professionals who offer independent advice on all financial matters to individual clients. They recommend suitable products from across the market, as an institution doesn't guide them on what to sell. In addition, they provide a range of complementary services from insurance to estate planning.

Some IFAs charge a flat fee for their services; whereas others get paid through commissions they receive from product providers, such as fund managers, with whom they invest client assets.

## WHAT TO LOOK FOR IN A WEALTH MANAGER

While wealthier individuals tend to get access to a broader and more complex range of products through private banking accounts, for example alternative assets such as private equity and hedge funds that are traditionally not available in retail networks, the level of service and advice is supposed to be one of the key differentiating factors between wealth providers.

This is true to a point – given the resources private banks commit to their platforms and that one of the ways they try



to impress and recognise their clients is via a more personalised approach and offering perks such as invitations to exclusive events.

Ultimately, however, your priority should be to make sure someone you can trust is looking after your wealth. And who is doing what is most appropriate to suit your needs and achieve your overall objectives.

Of course, the individual adviser with whom you have a relationship gets paid by the organisation he or she represents, and is likely to be driven by maximising their own earning potential. Still, you need to feel confident this individual is looking out for you.

Being able to understand the value that person can add to you is an obvious starting point. Even in relationships of several years, you should continually re-assess what value you are getting, and whether this can be improved.

Critical to this is peace-of-mind that your adviser is being open and honest with you. Much of which comes down to you being specific and rational in the types of questions you ask.

Firstly, this requires you to be clear about what you are trying to achieve, and secondly, how to distinguish institutions and individuals that can meet these needs. Then it's down to asking the right questions and assessing whether the adviser is being professional and sincere in their response.

As a quick reference guide, if you aren't asking the following questions, then you aren't doing what's best for your wealth and financial future.

### *Experience and personal ambition*

- How long have you been in the industry?
- How long have you worked for this organisation?
- In what ways are you qualified to advise me on my portfolio?
- What licences and qualifications do you hold? Which associations are you registered with?

### *Service and differentiation*

- How do you differentiate yourself from other advisers?
- What is the real value you can offer me?
- What is your approach to communicating with clients? How often will you contact me?
- In what ways can I tell that you will be acting in my best interests, rather than only those of yourself or organisation?

### *Fees and remuneration*

- How are you compensated?
- What are your financial objectives and targets?
- How does your organisation measure your performance?
- For products you earn commission on, what is the commission schedule?
- Who else will gain from my investments and our relationship in general?



### *Suitability and risk assessment*

- How many clients do you have with similar profiles to me? How are their portfolios constructed?
- What risk analysis will you do on my portfolio? How often?
- What other checks and balances do you have in place to monitor and assess my investments?
- On what basis do you make your investment recommendations and decisions?
- What was your worst investment advice – tell me how you made the investment, monitored it and the decisions you made along the way to stick with it or to get out?
- What training do you do, and how frequently?
- What are your processes in conducting due diligence on the product manufacturers you recommend to me?
- How will you evaluate my goals and risk tolerance on an ongoing basis?

### *Investment process and expertise*

- What is your investment process?
- How can I be sure you will sell me an investment solution rather than just products?
- What other experts and resources can I access at the firm? Can I meet these people, and have dialogue with them if needed?
- What is your view of the market and how various economic and other issues are likely to affect my portfolio?
- What are the most important factors I should consider in achieving my investment goals?
- What advice can you give me on my cross-border investments and tax-related issues?
- What about advice for my family, and how I should prepare for the future and succession?

### *Pricing*

- How is the pricing of individual products structured?
- Why is it structured in this way?
- Is this flexible? Is there room to negotiate?



# UK Budget 2010 What does it mean for expats?

LIVING OUTSIDE THE UK is no excuse to ignore the government's budget announcements. Tiresome as it might seem, the contents of that battered old briefcase can have far-reaching effects even for non-residents.

This year, the new coalition government's emergency budget brings a mixed bag of news, some good, some not so good and lots that is neither good nor bad.

## QUALIFYING RECOGNISED OVERSEAS PENSION SCHEMES (QROPS)

Much speculation about changes to the QROPS rules did not materialise, leaving QROPS as a credible and legal route for transferring a UK pension to an overseas pension without generating any negative tax charges.

The advantages to expats are many and include no restrictions on pension contributions; the ability to mitigate currency risks or generate pension income in the currency of their new country of residence; no UK IHT on the accumulated retirement fund; no requirement to purchase an annuity; and of course the ability to

pass any of the unused pension assets (on death) to a wide range of beneficiaries, from individuals to trusts.

However, advisors and clients should take care when selecting a provider, as the actions of many QROPS providers have been brought into question. Payments or actions outside of the strict requirements for QROPS can lead to scheme disqualification, frozen scheme assets and high tax charges; costs associated with QROPS should also be considered.

## DEFERRAL OF ANNUITY

The first glimmer of improved flexibility for pensioners has manifested itself in the budget, as members of UK registered pension schemes will no longer need to purchase an annuity at the age 75.

These changes came into force from the June 22 2010 and will affect many British expats; particularly those who are currently taking income drawdown or those who have not yet opted to take pension benefit.

The Budget's interim measure enables members of registered pension schemes, who reach the age of 75 (on or after the June 22

2010) not to have to buy an annuity or otherwise secure an alternative pension income until after they reach 77.

What takes the shine off this announcement is that it currently only allows a two year deferral of the need to purchase an annuity or opt for the alternatively secured pension route.

The full rules are expected in early 2011, following an extensive consultation process, but this could be the first real step towards providing additional flexibility during retirement.

## INHERITANCE TAX PROTECTION

Importantly, this interim measure mentioned above, provides a degree of IHT protection where a secured or scheme pension has not been obtained post their 75th birthday. Hence qualifying pensioners will see a total tax charge of 35% as opposed to maximum tax charge of 82%, should they pass away between the age of 75 and 77.

Unfortunately, those pensioners who were already over the age of 75 as at 22 June 2010 and have not secured a pension income can still be subject to combined IHT and tax charges of up to 82% on death.

Hence a transfer to a QROPS remains a very strong consideration, as these schemes are not subject to UK IHT, special lump sum death benefit charges or unauthorised payment charges when distributing their assets on the death of the member. However, expats must consider carefully wealth or inheritance taxes that may apply to distributions in the countries where they reside.

## REVISION OF STATE BENEFIT AGE

The revision of the UK State pension benefit age to 66 (possibly as early as 2016) should also be considered by those planning retirement abroad. And with the possibility of this becoming 70 years of age in the following decade, many are questioning how to fund early retirement.

The link between the annual increase of the UK state pension and the Retail Price Index (RPI), which was established in the 1995 Pensions Act, has been amended to the Consumer Price Index (CPI).

CPI is the standard measure of inflation on internationally agreed standards throughout Europe. The main point of difference is that RPI includes mortgage interest payments.

Thus changes in the interest rates affect RPI and not CPI. Hence, a cut in interest rates typically results in a fall in RPI inflation and visa versa. The controversial aspect of this move is that historically RPI has typically exceeded CPI. This means that pensioners have been financially better off over the past 10 years because of RPI being higher than CPI. Currently RPI stands at 5% where as CPI is 3.2%. Over a 10- to 15-year period a difference in compound returns of one or two percentage points a year can make a considerable difference to earnings. Hence this amendment to the measure of inflation and indexation will likely leave all pensioners with lower annual increases in their state pension benefit.

“The budget could have been a lot worse for all, but what is clear is that pension provision and social security are front and centre of the agenda,” says Rex Cowley, head of marketing at Close International. “QROPS remains a real option for those looking to pass on wealth, who don’t want to commit to an annuity, or those who are looking to shake off their UK domicile. For those British expats that favour keeping their pension in the UK, they will most likely see more flexibility after their 75th birthday and more favourable protections from IHT during the interim period up to age 77 where pension benefits are not already secured. As for indexation, most British expats are in the same boat and can expect the new inflation index to result in smaller annual increases to their pensions.”

For further information contact Close International at [www.closeam.com](http://www.closeam.com)

