

## **Providing for the next generation**

The demand to protect and pass on assets is growing and HK is at the forefront, writes Elizabeth Horscroft

[trusts]

IN THE DAYS of the Crusades, when the knights of Christianised Europe set out for the Holy Land, they knew there was a fair chance of never returning from the battle zone. They therefore took steps, before departing, to provide for the financial needs of wife, family and dependants. This usually involved entrusting a male relation or friend with the assets and responsibility and sketching out the terms of a basic legal agreement.

This is how the first trusts came about. The concept has endured and is flourishing in the modern world as an important tool in financial planning and wealth management.

The trust industry has grown steadily in Hong Kong over the past 25 years. In fact, the Hong Kong industry is the most experienced in Asia, said Lau Ka-shi, chairwoman of the Hong Kong Trustees' Association. 'Local professionals in the sector are often asked to advise clients from Taiwan to Thailand, Singapore to China,' she said.

Even so, interest in trusts is still relatively new in the region, having really taken off only in the mid-1990s.

A survey conducted by KPMG on behalf of the association and the Society of Trust and Estate Practitioners (STEP) estimated the total assets under administration by the trust industry at \$2.83 trillion in 2004, 12 per cent more than the estimated \$2.54 trillion in 2002.

Susan Collins, chairwoman of STEP Hong Kong, said there were many reasons to set up trusts, estate duty traditionally being one of the most common. But the abolition of estate duty in Hong Kong, effective from February this year, has made trust planning more straightforward, showing people how best to protect and pass on their assets to the next generation.

As it turns out, revoking the estate duty has had a limited impact on the trust market, and other, more significant, factors are at work.

In fact, even before the law changed, only 10 per cent of the clients of one company, Fortis Intertrust, had turned to trusts to avoid estate duty, said Asia managing director Alan Johnson.

The other 90 per cent had other reasons, such as providing protection for professionals whose jobs exposed them to the risk of litigation, and allowing successful businessmen to ensure a level of future financial security for their family members. Also, putting private

investment decisions in someone else's hands through a trust can help prevent conflict of interest for people in public life and circumvent probate-related problems.

But the real impetus in Hong Kong, Ms Lau said, was coming from the corporate trust industry.

In international finance, trusts are playing an increasingly important role in holding assets for lenders in a way that offered extra protection. For example, corporate trusts are often used to structure project finance deals, arrange for securitisation or bond issues, and set priorities and terms for payment of creditors. The corporate trust industry was also being driven by various collective investment schemes, such as mutual funds, unit trusts, the Mandatory Provident Fund (MPF) and hedge funds.

These pooled investment vehicles are flourishing as part of a more sophisticated financial market in which banks and fund houses have pursued a strategy of diversification.

In terms of growth, the aggregate net asset value (NAV) of MPF funds alone was \$151 billion as of December last year. This is rapid growth from the \$33 billion recorded in late 2001.

With so much happening in the sector, it is no surprise that new career opportunities are opening up at banks and other financial firms.

'We can't find enough people to fill available positions,' Mr Johnson said.

One problem was the time taken, between three and five years, to fully train a person. Candidates coming with a professional background in accountancy or law and practical experience in dealing with tax issues have a distinct advantage.

Of course, employers arrange on-the-job instruction, including the theoretical and practical aspects.

Mr Johnson said his team was growing and that he expected employees to have a STEP qualification on joining or to obtain one soon after joining.

ICS Trust (Asia) Limited, which has been operating in Hong Kong since 1980, is also in hiring mode.

'The question is whether there are enough people for the jobs,' company president Elizabeth Thomson said. 'There are openings for specialists and support staff.'

She said she preferred employees who had training as company secretaries and held the Institute of Chartered Secretaries and Administrators (ICSA) accreditation, plus a university degree.

'The problem is the lack of education for people to move into this area,' Ms Thomson said. 'It is not a regular area of practice for non-professional people, but STEP is making inroads in Hong Kong by offering these programmes.'