Crazy rich Asians: the next generation – and the struggle to make a success of succession

As Asia's richest families prepare to hand down US$2.5 trillion in wealth by 2030, long deferred succession plans have been thrown into sharp relief

But intergenerational tensions persist over the way that money is handled and invested, and how family businesses should be run, wealth managers say

Su-Lin Tan

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This Week in Asia cover graphic. Crazy rich Asians wealth transfer. Image: SCMP

Nirvana Chaudhary, the eldest scion of Nepal's wealthiest family, may run the day-to-day operations of a massive conglomerate whose businesses span financial services, packaging and communications, but when it comes to the big decisions, he's beholden to the family's investment committee.

"Believe it or not, there are times when I want to do so many things but the investment committee says no, and I have to respect that," he said. "This is about discipline as well and we believe in having good constitutions, councils, and standard operating procedures."

The Chaudhary clan, like many of the Asia-Pacific's richest families, know well the value of having structures and rules in places to ensure that their wealth endures and can flourish across the generations.

Binod Chaudhary, president of the Chaudhary Group, speaks at a summit in Singapore in 2019. The 68-year-old is Nepal's first and only billionaire. Photo: Bloomberg

Checks and balances provided by the Chaudhary Group's investment committee and family council ensure that the business and social philosophies laid down by its founder and president – Binod Chaudhary, 68, Nepal's first and only billionaire – continue to be followed.

These guidelines dictate the governance of businesses that account for approaching 10 per cent – or about US$3.6 billion – of Nepal's US$40 billion gross domestic product, as well as the family's interests in other parts of emerging Asia and Africa, and expansions into the US, Europe and elsewhere.

Such structures have increasingly been thrust into the spotlight during a pivotal decade of wealth transfer for many of the region's most affluent families, as first-generation founders begin to enter their twilight years and succession plans become ever more important.

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How exactly to hand over the reins is a decision that many prosperous business dynasties – in Asia especially – have been happy to put off until now for fear of change, but wealth managers such as Lee Wong, head of family services for Asia at Swiss private bank Lombard Odier, say a watershed moment is fast approaching.

"Transition is becoming quite real. The volume of wealth transfer is fairly large at this inflection point," she told This Week in Asia.

The approaching shift promises to keep lawyers and wealth managers busy with years of complex structuring adjustments, as heirs apparent begin to claim their birthrights, investments flow into new sectors and the number of family offices in the region increases.

By 2030, an estimated US$2.5 trillion in intergenerational wealth is expected to have changed hands across Asia, according to wealth research institute Wealth-X and various regional surveys – part of the US$18.3 trillion wealth transfer that's forecast to occur globally by the end of the decade, a sum that exceeds China's annual GDP and is more than six times the market capitalisation of US technology giant Microsoft.

The Microsoft logo is seen on a building outside Paris, France. The amount of wealth set to be handed down by Asia's rich this decade is multiple times that of the US tech giant's market capitalisation. Photo: AP

Around 47 per cent of the Asia-Pacific's richest families are set to hand the keys to the kingdom to the next generation over that same time period, according to a 2023 report by wealth advisory firm Campden Wealth and the Singapore-based Raffles Family Office.

Succession plans were also sped up by the pandemic, Wong said, as affluent Asian families whose members had become spread across the globe struggled to reconnect and were confronted with their own impermanence.

"It was our observation that some clients felt vulnerable," she said. "They know of people who passed on during that time. It made them more in touch with their mortality and the need to plan for contingencies."

Nikki Koh, Singapore CEO at life insurance broker Charles Monat, said another knock-on effect of the pandemic, which boosted the fortunes of the world's rich even as it forced millions of others into poverty, was a heightened awareness of the risks associated with accumulated wealth – prompting many to seek protections such as taking out insurance.

World's rich doubled fortunes to US$1.5 trillion during pandemic, Oxfam says

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This aversion to risk can also be seen in the tendency for trust issues to emerge among the older generations of wealthy Asian families, according to Peter Golovsky, an Asia-Pacific wealth adviser with Berkshire Global Advisors – leading to those patriarchs and matriarchs choosing to maintain control over the family's wealth until the very end.

Succession planning's inescapable association with mortality and the taboo of death only adds to the difficulties, making it a sensitive topic of discussion for many families, UOB Bank's head of wealth planning and family office advisory service, Angela Koh, said in an analysis late last year.

This is why Wong says affluent Asian families should look to set out clear instructions and governance structures – like the Chaudharys have in place – so that there are fewer impediments to the transfer of wealth.

The recent boom in family offices, or family-owned firms that specialise in wealth and asset management and succession planning, in places with favourable tax rules like Singapore and Hong Kong reflects this advice being followed.

Singapore's central business district. Places with favourable tax rules like the city state have seen a boom in family offices over recent years. Photo: Bloomberg

But intergenerational tensions persist over the way that money is handled and invested, and how the family business should be run, wealth managers say.

"For the first time, it's the inheritors who will outpace the self-made [in wealth accumulation] ... and those inheritors – the sons and daughters – are of a different generation," Golovsky said.

"So, families need to think about creating an environment in the family business where there is flexibility to allow for different interests of the next generation while ensuring the family legacy is preserved."

While similarities exist between generations in regards to desiring growth and stability, research suggests that younger heirs are more likely to consider investing their family's wealth into trending sectors, such as sustainability, or look at incubating start-ups.

New generation, new behaviours

Though each individual case is different, Wouter Kneepkens, a partner at the Singapore family office Blauwpark Partners, said saidthere was a general trend of interest in running the family business starting to wane among younger generations.

"The first generation would have built and created the wealth and the second generation would have built on this wealth whereas third generation-heirs – who tend to be the most educated – often would have preferred a career outside or to focus on the investment side of things," he said.

A pattern also emerges when it comes to investments, Kneepkens said, with the founders of family firms generally having the least cash on hand and ploughing most of it back into the company, while the second generation often rely on private bankers – and risk getting "absolutely scalped" by them.

The third generation, on the other hand, tend to have more sophisticated investment strategies, but lack the "mandate" or authority to make changes as the previous generations retain control, he said.

Storage tanks at a carbon capture and storage project in Norway. Younger heirs to family businesses appear more keen to invest in environmental, social and corporate governance projects, money managers say. Photo: Bloomberg

"There's generally limited freedom for the next generations to explore and they are often waiting for the older generation to pass [on] or quit," Kneepkens said, adding that inheritors can sometimes find themselves outvoted by elders who prefer the "status quo", even if it is outdated.

Another distinction, most money managers agree, lies in where younger heirs choose to invest the family business' money.

Next-generation leaders, many of whom are millennials and Gen Z, tend to prefer sustainability investments and those that aim to tackle climate change, as well as environmental, social and corporate governance projects, as compared to their forebears.

They also have a more international perspective, according to Desmond Teo, Asia-Pacific family enterprise leader at multinational professional services firm Ernst & Young Global Ltd.

The unstoppable rise of sustainable investing

8 Jan 2024

"Therefore, they may be more attuned to global concerns such as global warming and social inequality," Teo said.

"As they take over the family business or when making investments, they may pay more attention to matters like environmental sustainability, or adopt more contemporary approaches to philanthropy, such as impact investments."

This holds true even if such investments prove to be higher risk for lower reward, according to a survey of high-net-worth investors in the Asia-Pacific that Lombard Odier carried out in November.

Last year's family business report by Swiss private banking group Julius Baer similarly revealed that the younger cohort of heirs have a larger appetite for risk.

Nearly half of Asia's rising generation is keen to embrace higher risks than the previous generation, coupled with an eagerness to use technology
Christos Anagnostopoulos, Julius Baer Singapore

"Nearly half of Asia's rising generation is keen to embrace higher risks than the previous generation, coupled with an eagerness to use technology and real-time information for quicker decision-making," said Christos Anagnostopoulos, Singapore head of Julius Baer's family office services advisory.

These younger inheritors also don't shy away from modern financial instruments or newer sustainable investments, Anagnostopoulos added.

The Lombard Odier survey found that the younger generations were not only looking at more digital assets, but were considering investments in private assets and businesses – including start-ups – as opposed to listed companies.

A Bank of America study in 2022 found that 75 per cent of wealthy investors between the ages of 21 and 42, against 32 per cent of investors over age 43, did not think it was possible to achieve above-average returns solely with traditional stocks and bonds.

Falling stock figures displayed on a screen in Hong Kong. Surveys indicate younger investors are turning away from traditional stocks and bonds in favour of alternative investments. Photo: Bloomberg

Instead, they will tend to explore alternatives, such as hedge funds and private equity, and newer asset classes like cryptocurrencies, when compared with their baby boomer forebears, another analysis by RBC Wealth Management found.

"Older investors may be more likely to adopt a less risky investment strategy than their younger peers, which could be part and parcel of the older cohort's common focus on locking in a legacy or inheritance for their children," it said, while noting that older generations were increasingly starting to appreciate new investment sectors.

Blauwpark Partners' Kneepkens said younger generations had learned to be wary of hiring fee-hungry consultants as outside advisers. Instead, they value reputation and screen financial-service providers and advisers carefully, Julius Baer's family business report found. They want good relationships, low fees and online trading facilities, and demand real-time updates on their financial information.

They are consequently more wary about who they hire as advisers, said Ai Ling Toh, a Singapore-based relationship manager for RBC Wealth Management, in an analysis last year.

> **Their parents used to ask me to get research material for them, but millennials come to me with materials in hand. It keeps me on my toes**
> **Ai Ling Toh, RBC wealth management relationship manager**

"Their parents trust us completely and don't need a second opinion on anything," Toh said. "Millennials are new to this, so they want to check around and make sure they know almost as much as we do."

Millennial heirs would also seek out "copious amounts of information on online trading platforms that provide free reports", she added.

"That's very different," Toh said. "Their parents used to ask me to get research material for them, but millennials come to me with materials in hand. It keeps me on my toes."

In China, finding growth in non-traditional investments and having good advisers go hand in hand for next-generation leaders, according to a private wealth report published by China Merchants Bank in 2021.

Pedestrians walk past a China Merchants Bank Co. branch in Guangzhou. A 2021 report by the bank found next-generation leaders favouring non-traditional investments. Photo: Bloomberg

Almost half of those surveyed by the bank said they wanted "early access to the most recent financial and wealth management intelligence and insights" and so were keen on hiring professional wealth management advisers, it said.

When it comes to managing the family's fortunes, a top priority for many among the next generation is preserving wealth while trying to make their own mark, said Gina Chong, another RBC Wealth Management relationship manager.

Future-generation family business owners tend to look up to someone “who has built their own business, sold it and built another”, RBC Wealth Management also found.

“The older generation focused completely on building wealth and their businesses,” Toh said. “The younger people I work with think more about themselves, their lifestyle and finding a purpose for their lives.”

Chinese yuan and US dollars banknotes. In Asia, wealthy millennials are likely to spend more and save less due to confidence in their ability to earn money, experts say. Photo: Reuters

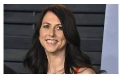
Limited academic research suggests that the new generation’s philosophies differ from those of their predecessors.

A 2021 paper written by researchers at Pepperdine University in California found that self-made generations dreamed big and competed hard, while those who had inherited wealth were aware of their economic privileges and felt that they did not need to compete as much.

In Asia, wealthy millennials are likely to spend more and save less due to confidence in their ability to earn money, RBC’s Chong said. “In addition, they know they have their parents’ savings to spend.”

There has been a shift towards more philanthropic giving among the younger generation of family business owners, especially those under 40, said Simon Lo, Charles Monat’s international CEO.

As women get richer, they are also changing the face of philanthropy



30 Jan 2022

“The trend began before the pandemic but may have been accelerated due to the highly visible economic, social, and painful humanitarian impact that the pandemic generated,” Lo said.

Lim Seok Hui, CEO of the Singapore-based Temasek Trust’s Philanthropy Asia Alliance, says the new generation’s philanthropy tends to focus on the climate crisis, one of the greatest existential threats to the region with over 50 per cent of global carbon emissions originating in Asia.

Younger heirs also like to adopt a systemic approach to giving to ensure maximum impact, she said. They fund early stage start-ups until they mature, are able to raise their own capital and often work alongside the groups they are helping.

Meanwhile, research suggests philanthropy by older generations has traditionally taken the form of hands-off donations to charities or other organisations such as schools and hospitals.