Julius Bär

WEALTH PLANNING

Your succession compass

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Foreword

When faced with questions about the future, how do you react? Do you trust your sense of direction when you suddenly need to change course – or prepare for stormier times? When it comes to important decisions – like ensuring your family and business will be looked after in future – you probably follow a strong gut instinct.

But when navigating complicated matters such as multi-generational succession planning for your family or your family's wealth, it can help to map out your routes ahead and seek the insights of those who know the twists and turns that await.

As wealth planners, we are keenly aware that the largest intergenerational wealth transfer in history is set to occur in the next few years – with trillions of USD expected to pass to the next generation by 2050. Not only is this an unprecedented transfer of wealth, but it's also happening at a time unlike any other in history. We now see wealthy families scattered across the globe – with their children, assets, and homes located in far-flung corners. So what is the result of this major event – the great wealth transfer against the backdrop of a truly globalised world?

The answer is, of course, complexity. Succession has never been a simple concept, but now its potential for complications has reached new heights. Families who have preserved their fortunes for decades – even centuries – are now facing uncharted territories. Fortunes must be carefully harmonised across continents and generations.

Not all families can consider themselves ready. Our Julius Baer Family Barometer 2022 found just 1 in 10 families with significant wealth have an established family governance process in place – one of the key facilitators of smooth succession applied by many successful families seeking to preserve their wealth.

How must you prepare for your own succession plans? Consider this booklet the first step in calibrating your compass – a tool for finding direction within your family, within the trends that may shape the future, and within the patterns that emerge across the world. We also provide you with a checklist which we believe no wealth journey should start without.

As trusted advisors over generations, we are here to support you and your family in identifying the clearest path ahead.

Silke Mies
Head of Wealth Planning Advisory
Switzerland & Germany

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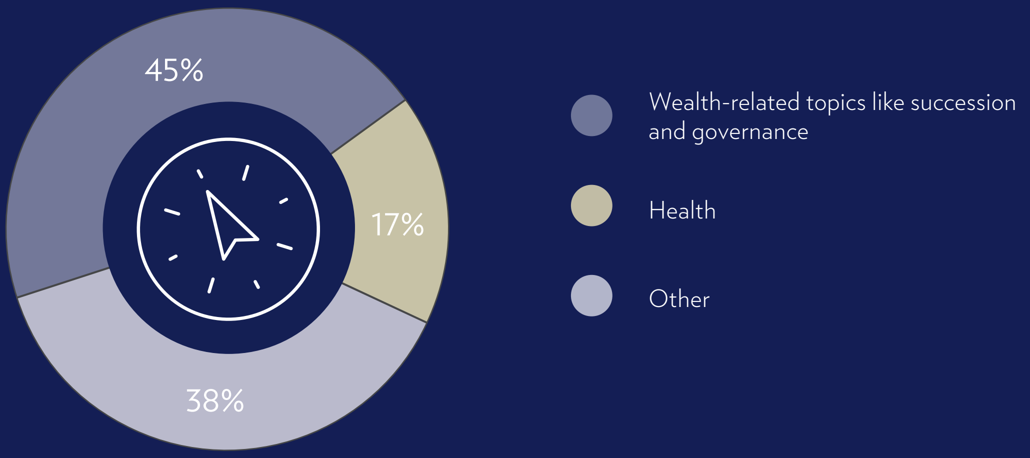
International

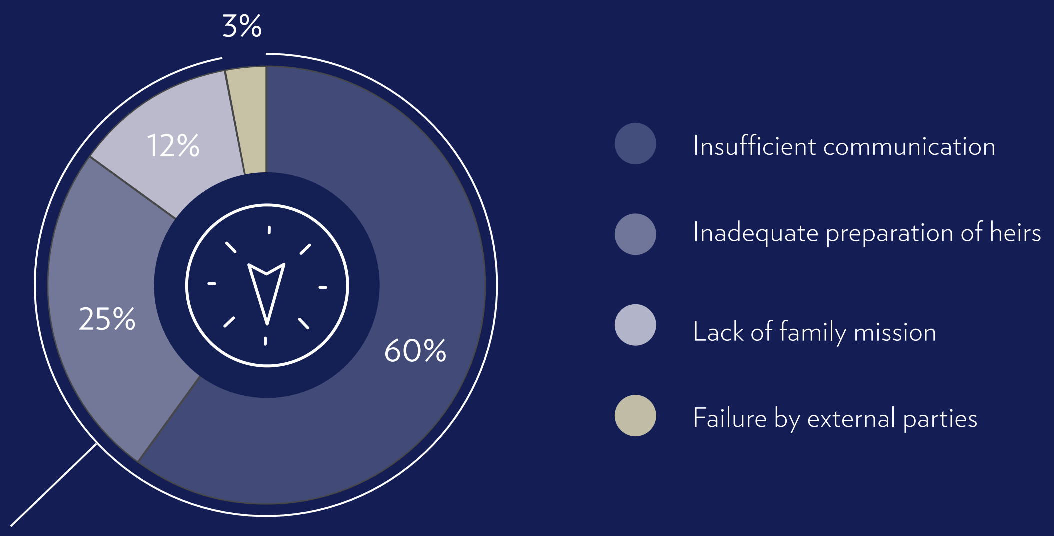
Which topic is the most important beyond investments for UHNW families?



For 45% of wealthy families, wealth-related topics such as succession and governance are the most important topic beyond investments.

Source: Julius Baer Family Barometer 2022

Why are transfers of wealth not successful?



97% of failures for a successful wealth transfer to the next generation are attributable to the family itself.

Source: The Williams Group; 25-year survey of 3’250 families

Finding direction within the family

When your family spans multiple generations, all with different goals, wishes and profiles, it's not so easy for the family business to find its way, especially when matters of succession are on the table. Maria Eugenia Mosquera, Head of Wealth Planning Americas, explains how good governance can ensure you're all heading in the same direction.

In Spanish, we say "La familia es la brújula que nos guía" – family is the compass that guides us. Often, however, that doesn't stop families bickering when it comes to agreeing on which direction to take – compass or no compass. I recall the careful 'negotiations' in my family when deciding where to go on family holidays: my father wanted to go to the countryside, my mother to the beach, and my brother and I were simply waiting impatiently for the journey to finally begin!

In my role as a Wealth Planner, I've experienced many times since those days that it takes more than guesswork for family business owners to set the right direction for the future. One of the topics I support my private clients with, as part of Julius Baer's Family Office Services, is how to bring the next generation into the company and family wealth. How can you align the family's direction and prepare the impatient kids for the right journey?

Complexity calls for common purpose
During my discussions with clients, they often tell me about the difficulties of planning for the future of their family's wealth, businesses, and the challenges they face in trying to navigate the greater complexity – the social, regulatory, tax and geographic obstacles – within their globalised, multigenerational families. This complexity, combined with the looming wealth handover to the millennial generation, means there is a greater need than ever to take a systematic approach to avoid conflict.

The potential costs of such conflict can be very high. Research consistently shows that 70% of families lose a big part of their wealth by the second generation, and 90% of families lose it by the third. And yet, rather than tackling the themes before conflict arises, families are sometimes tempted to opt for a reactive approach that lacks the coordination and focus of a thoughtful strategy.

Operating without a strategy is prone to satisfy some family members at the expense of others and sometimes even reduce the family's wealth or jeopardise the educational needs of the next generation. A further danger, especially with investment 'hot topics' like responsible wealth management, is that without a clearly defined purpose, investment decisions may reflect short-term trends, and families could quickly lose their long-term vision and perspective.

Values-based governance

One tried-and-tested route that helps families

evolve in harmony is to put in place a system of sound governance based on the family's core values and objectives. After all, happy, prosperous families are not created by chance, but emerge out of constant efforts, alignment and rethinking one's own values and purpose.

Once the individual members of the family have recognised that their family is stronger when they move forward with a common purpose and understand that it will take time and energy to make a meaningful change, I sit down with them to consider what values and priorities matter to them personally and, by employing various methods, we select a system of governance that will support their habits and behaviours.

The governance structures can span the whole value chain of managing the family's wealth. We often find that families may express certain values through philanthropic efforts, but maintain different values when it comes to managing their overall wealth. However, families with a clear understanding of their purpose and values can opt for a more focused strategy under which both their investments and charitable activities reflect their unique family values.

Without a clearly defined purpose, investment decisions may reflect short-term trends, and families could quickly lose their long-term vision and perspective.

Maria Eugenia Mosquera,
Head of Wealth Planning Americas

Defining an effective strategy for wealth transfer and succession of key roles can help to professionalise the family business and also the approach towards wealth management by making sure that everyone's needs are met and that all voices are heard. Even if future generations do not want to continue with the family business, good family governance can address this, preserve the family legacy and provide education for the stewardship of wealth.

Six building blocks of governance
At Julius Baer, we support families to identify their needs with regards to governance and we usually group them into six main building blocks. Taken together, these are designed to introduce good communication, transparency and define a decision-making system that functions and plots the right course to integrate the next generation into the family's company and wealth:

1. Family protocol or constitution
Defines the roles and rules to ensure effective organisation and conflict management, and serves as a guideline for asset management and education for the next generations.

2. Family council and assembly
Strikes a balance between family, owners and external specialists, and fosters communication between family members.

3. Family education
Promotes the skills family members need to fulfil their responsibilities relating to the family business or managing wealth.

4. Family or business succession
Supports the family in finding the right solutions and timing for ownership succession and management of the family business and wealth.

5. Family purpose
Designs a clear family strategy for philanthropy and responsible investing.

6. Family office services needs
Helps families to set up a family office or find the right partners.

Each family has its own set of distinct characteristics and requirements that make them one-of-a-kind. While a universal solution for all families may not exist, the six elements above mentioned can aid in the development of a customised strategy to cater to the specific requirements and needs of each family.

With the right knowledge and support, it is important that families aim to establish effective governance structures and create communication, legal and education platforms that enable family businesses to successfully protect and preserve their wealth for future generations.

>> Visit our Succession hub for more insights like this.

Exploring new frontiers – planning for digital assets

Choosing the path for your family's future can be nerve-wracking at the best of times. Adding new asset classes, such as crypto coins, into the mix can cause even more uncertainty – but good guidance can keep you heading in the right direction. Nathalie Eser Wolfer, Digital Assets in Succession Planning, explains.

It's important to familiarise yourself with the basics. Digital assets such as crypto coins are based on blockchain technology. The user needs a public address ('Public Key' or 'PUK') and a corresponding private key ('Private Key' or 'PIK') to access, control and transfer the assets.

The public address 'PUK' and the private key 'PIK' – and not the crypto coins themselves – are managed via a digital purse, the so-called 'wallet'. The wallet can be accessed with a PIN (hardware wallet) or a password (software wallet) and is secured with a 'seed phrase' acting as a backup. Accordingly, the system is associated with risks: If the 'PIK' or 'Seed Phrase' are lost, it is no longer possible to access the wallet and the owner can no longer dispose of the assets.

Ensuring access of heirs

The testator would be well advised to ensure that his digital assets do not become inaccessible upon his death by ensuring that the heirs or an executor have access to them. Forward-looking estate planning is therefore key. The heirs must be aware of the stock and amount of the digital assets, and necessary steps must be taken to ensure access.

For estate planning, a distinction must be made as to whether the testator manages his digital assets himself using a 'self-custodial wallet' and can access the digital assets directly, or whether he manages them in a 'third-party custodial wallet' via a third party (service provider), who alone has access to the digital assets.

Third-party custodial wallets

If the testator keeps the digital assets in a third-party custodial wallet, the contractual relationship with the third party is generally passed to the heirs by law or by including provisions in a will.

It should be noted that the legal and tax consequences of handling 'PUK', 'PIK' and 'seed phrase' depend on the circumstances of the relevant jurisdiction.

Nathalie Eser Wolfer,
Digital Assets in Succession Planning

Most third-party providers may require a form of grant of representation (certificate of inheritance, grant of probate) to access digital assets. If the third-party provider is based abroad, the legal relationships are often subject to a foreign legal system. In such scenarios, it is advisable to clarify the need for action with local experts.

Self-custodial wallets
The situation is more complex if the digital assets are stored in a 'self-custodial wallet': In this scenario, the heirs do not have either a financial intermediary (third-party provider) or a private body or public authority to approach in order to obtain the necessary information to access the digital assets. In this case, the heirs can only access the digital assets by knowing the public keys ('PUK') and private keys ('PIK') – or the corresponding 'seed phrase' (12–24-digit password) stored using online, desktop, mobile, paper or hardware wallets.

To ensure access in the event of death, the testator must note in his will or in a separate document which digital assets he owns ('crypto assets inventory'), how they are managed and how they can be accessed. Depending on the jurisdiction, this information may be deposited with the executor or with a public notary in a sealed envelope. If the testator prefers to keep the passwords 'PIK' and 'Seed Phrase' secret or if the heirs are not familiar with digital assets, the testator can appoint a person skilled in digital assets (e.g. executor or trustee) to assist the heirs in accessing the digital assets.

Conclusion for digital asset investors
Remember – it should be noted that the legal and tax consequences of handling 'PUK', 'PIK' and 'seed phrase' depend on the circumstances of the relevant jurisdiction, and this should be considered, particularly regarding custody and transfer.

Forward thinking and reliable planning by the testator is essential from the perspective of the heirs. It is essential that the heirs are informed of the existence of the digital assets and that the corresponding access to them is ensured.

>> Visit our Succession hub for more insights like this.

Paths to succession for international families

Now more than ever, globally distributed families are faced with complex succession decisions influenced by differing legal and regulatory systems. Gabriele Di Girolamo, Head of Wealth Planning Europe, discusses the potential implications.

Succession planning is part of the culture in many countries around the world. In Europe, the tradition of passing on wealth from generation to generation has existed for hundreds of years, and some families may only be able to trace the meandering path their family fortunes have taken with the aid of a family tree extending back over centuries.

In recent times, however, managing the wealth of multigenerational families has grown in complexity due to a new dimension: the international aspect. The Julius Baer Family Barometer 2022 shows that roughly four out of ten ultra-high-net-worth individuals (UHNWIs) have family members on three or more continents. It's common nowadays for wealthy families to have family members, assets, and businesses scattered around all four corners of the world.

Start by unravelling the legal patchwork
When it comes to bequeathing wealth to our children and grandchildren, however, this increasingly globalised nature of wealth brings with it many implications. Bodies like the World Trade Organization and International Monetary Fund may be influential in managing and controlling international trade and capital flows, but the problems faced by families spanning the globe have often fallen between the cracks of policy and regulation. Against this backdrop, the interplay between the succession laws in different countries – or 'jurisdictions' to use the legal term – requires proper assessment to minimise the risk of conflicting laws or ineffective wealth planning strategies. Put simply, the core objective should be to ensure that the family's wealth passes in line with the wishes of the wealth creators. For this reason, any aspects of the legal and regulatory regimes in all jurisdictions where connections exist that might bring about a different result should be identified, consciously anticipated, and reviewed on a regular basis, particularly upon the happening of any number of life events.

Different jurisdictions have different legal principles when it comes to testamentary freedom, for example. Whereas in England people have the right to leave their estate to whomever they choose subject to certain provisions for family and dependents, civil law in many other countries sets out rules for 'forced heirship'. These rules restrict the ability of testators to decide how their assets should be distributed after death and allocate specific portions of the estate to family members with varying degrees of 'closeness' to the deceased.

In the European Union, a succession regulation was introduced in 2012 to minimise contradictions arising from the interaction of different systems of succession law in the EU. In certain situations, and in the hands of a competent expert, the introduction of regulatory provisions such as this can even represent an additional opportunity. For instance, it could be possible to choose with a Will the inheritance law of the testator's nationality instead of the last habitual residence. The importance of changing the applicable inheritance law is that the testator can proactively plan with professional advice to achieve a succession that aligns with their wishes.

Tackle challenges across jurisdictions
The complexity of dealing with cross-jurisdictional succession planning is not unique to European families, of course. Different needs and trends are apparent across the globe. Given the rapid growth of wealth in Asia over recent decades, we see many UHNW families setting up single family offices to manage their wealth professionally. In the Middle East, special focus is often placed on topics such as asset structuring and liquidity planning, while security and protection are traditionally a top priority for families in Latin America.

Given the different law and tax frameworks, some succession planning solutions are better established or offer clearer advantages in one part of the world over another. For example, trusts have a long history of facilitating wealth structuring across generations in many common-law countries but are now also being recognised in other jurisdictions.

A common challenge across all regions is when a large part of the estate consists of illiquid assets like real estate or private companies. Often entrepreneurs want one family member to take over the business, but their wealth is largely tied up in the company and sufficient liquid assets to benefit other family members equally do not exist. To comply with forced heirship rules or simply meet the entrepreneur's wishes, these situations require liquidity planning strategies and solutions to ensure the designated person will inherit the business and the other family members receive their share of the estate.

Face challenges across generations
Moreover, different generations are likely to have different ways of interacting, upholding traditions or doing business not only as a result of their birth year but also the culture or society in which they grew up in.

In places such as central Europe, family governance as a discipline is well established. However, what works for a family in Frankfurt or Zurich will not necessarily work for a family in Singapore. Failure to find shared values and a common purpose could lead to slow decision-making and eventually cause a breakdown in family relationships.

Get an overview to bridge the gap
The role of wealth planners is to help clients to develop a specific plan that takes into account how the individual families and societies work. We are conscious of the need to tailor our wealth and succession planning approaches to the requirements of each individual family. A long-established wealthy family in Asia and a newly moneyed family in Latin America can have very different requirements, so every aspect of governance must be tailored to the individual situation.

I start by encouraging clients to take stock of their current situation by drawing up a global wealth overview and getting a clear understanding of the consequences if something unexpected happens. Then, with the help of competent experts they can start an evaluation of the various options and

prepare the appropriate plan. I then regularly encourage clients to review the plan when family members relocate or other changes take place in the family, business, or wealth situation to ensure that their goals are achieved. Importantly, planning strategies are not only relevant to ensure smooth succession, but also to provide for the needs of the family, and potentially for continuity, in the event that the wealth creator becomes incapacitated.

What could be my first step in succession?
The complexity of handling succession in global families can seem overwhelming, but a useful tip at the outset is to take tiny steps. Doing something as simple as creating an emergency folder to collect all the key information and documents in one place can be incredibly helpful to your family in difficult situations, no matter where in the world they are located. This is clearly not a succession plan, but the process naturally stimulates future discussions about planning and succession.

The spread of family members around the globe is likely to bring both new opportunities and new complexities. Ultimately, when planning your succession strategy, the optimum approach is to navigate a route through the latter while considering the advantages and disadvantages that the different jurisdictions present to preserve you and your loved ones' wealth for many years to come.

>> Listen to our podcast interview with Gabriele Di Girolamo for more insights.

Checklist:
Your emergency folder

An emergency folder is a simple, practical way of collating important documents and information in one place. It is not a succession plan, but rather a single entry point for documents and information. However, it may be helpful for stimulating future planning and succession discussions.

The checklist below is designed to serve as a starting point for your own folder. It would be in your best interest to inform the people you trust, in advance, of the place of safekeeping of an emergency folder, should you create one. Updating and reviewing the accuracy of such a document, on a regular basis, is recommended.

- Personal documents
- Wishes and provisions
- Banking relationships
- Real estate details
- Investments
- Management details of family business in emergency
- Debts and commitments
- Financial provisions (trusts, insurances, etc.)
- Digital assets information
- Ongoing contracts, memberships, subscriptions, standing orders, etc.
- Public offices held

Our wealth planning experts understand the big picture. We are here to support your legacy.
>> Find out how.

IMPORTANT LEGAL INFORMATION

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