

Why HNW Middle Eastern families are looking to the Channel Islands for structuring

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Jersey and Guernsey have been ranked within the four most favoured jurisdictions by advisers to Middle Eastern families seeking wealth management and succession solutions outside the region. Why is this?

Jersey and Guernsey are jurisdictions with a well-established history for providing high net-worth families (**HNW Families**) with bespoke solutions for succession planning and family governance. Jersey and Guernsey have well-developed trust laws, and courts experienced in dealing with all manner of trust disputes as well as providing direction to trustees on key issues relating to the administration of trusts where circumstances arise.

Both Jersey and Guernsey also offer HNW Families an alternative to trusts in the form of foundations. Establishing a foundation may be an option that is more appealing for individuals wanting to separate legal and beneficial interests in assets who are not accustomed to the concept of a trust: a foundation provides a familiar structure similar to that of a company.

In addition to the strong legal history and variety in the structuring options available to HNW Families, the exceptional professional services on offer in Jersey and Guernsey are another reason why HNW Families from the Middle East are choosing these jurisdictions for their structuring and succession strategies.

What are the challenges - the need to create liquidity while safeguarding trophy family assets, the drive towards diversification?

Structures are often established in the Channel Islands to hold specific assets, and this can range from family businesses to trophy assets such as real estate, yachts, artwork and more exotic asset classes, such as bloodstock. Those structures need to fit into the family's overall asset allocation goals and while many are seen as an investment, this is not always the case. Family offices are

professionalising all the time and access to more accurate reporting about the family wealth is becoming increasingly important. This reporting better enables the family to manage its wealth and service providers which can integrate this are at a competitive advantage when trying to win over HNW clients. A better overall view of the family wealth and better structuring enables clients to have greater access to debt financing to help manage both their investment risks and the jurisdictional risks which international families now face. This is an area where trust and company administrators can add value for their HNW clients through their experience of dealing with banks and others to raise and manage leverage.

Why the growing importance for high-net-worth individuals and businesses with international assets (either via personal account, corporate structure or trust) to properly prepare their succession plan and navigate the complexities of succession planning?

HNW Families and high net-worth-individuals (HNWIs) with international assets who invest time in succession planning early often find that this approach is very rewarding. HNWIs often now hold assets across the globe and this requires them to be familiar with the tax and succession laws in multiple jurisdictions. Failure to plan appropriately for this can result in sometimes unnecessary exposure to local taxation and, worse still, assets passing to family members for whom they were not originally destined, as many jurisdictions still have forced heirship regimes. Expert legal advice in each jurisdiction is an absolute necessity for international families.

It's important to adequately prepare for the complexities of transfer of wealth to the next generation. It can be a fatal decision to not have a framework in place, power struggles and conflict can ensue when a business or family assets are transferred to the next generation. A central framework created with the input of experienced professional advisers, is vital to ensure an organised transfer, especially in instances when business or family assets are located internationally.

There have been reports of families seeking to create a specially designated corpus of funds to enable the younger generation to invest in sectors such as medical research and development, healthcare, education and technology. What is driving this?

Family governance does not succeed when it is strictly the founder's vision imposed upon the next generation. The Capgemini World Wealth Report 2021 revealed that HNWIs are currently seeking alternative investment to diversify their portfolio. [1] For HNW Families to be able to survive and grow through the passage of time, it is clear that a fear of change is detrimental. The past two years have taught us all that it is the ability to adapt to changing circumstances which will help businesses to survive and succeed. HNW Families must realise the importance of allowing future generations the opportunity to meet the developments and challenges of the future.

The driver behind this seems to be twofold - firstly, allowing the next generation the opportunity to take responsibility for specific sectors of the family's investments and, secondly, leveraging the family's own resources to gain exposure to new and innovative investment opportunities. HNW

families are also increasingly concerned to ensure that their investments take proper account of their environmental impact.

It appears these younger generations are now working with the advisory community in driving positive engagement in respect of discussions around family governance, constitutions and values. Why are they taking a more integral part in the decision-making process and what different perspectives and insights are they providing?

The key question is what do families need to do to become long-term resilient families? In responding to this question it is clear that open discussion and encouraging contribution from all family members involved is vital. This of course includes members of the younger generations who will ultimately be responsible for continuing the founder's legacy. Family governance works when all members contribute to the structures and frameworks are put in place to determine future decisions. Although a professional approach is crucial to creating a framework of succession planning which is legally and administratively functional, this should be approached with sensitivity to the emotional nature of families. Younger generations will want to be involved in decision-making, and we are seeing a drive towards sustainability. Capgemini reported that when offered a product by their firm 43% of ultra-HNWIs and 39% of HNWI's (younger than 40) are expected to request an ESG score.[2] It is natural that the younger generation will want to invest in their future, and the future generations to follow.

How has this increased engagement had an effect on the local market in terms of the development of solutions utilising the DIFC and ADGM to create local foundations?

While there are now a greater range of domestic fiduciary structures available for Middle Eastern clients, we have not seen a reduction in the number of families looking to structure through the Channel Islands.

Certain families are adopting a bifurcated approach to their wealth structuring - with businesses operating in the jurisdiction held through local holding structures and their international assets held outside the jurisdiction.

The Channel Islands are already managing these challenges and are ideally placed to support Middle East businesses in their own transitions - how is/can this be developed further?

Jersey and Guernsey have been a long-standing choice for HNWI Families and HNWI's globally. We have provided our clients from the Middle East with reliable, bespoke advice to help manage transitions for their businesses and personal estates. Ogier's Channel Islands Private Wealth teams can provide assistance across the board: the work we are seeing more regularly is of a much larger nature than in the past and more tailored. It is therefore standard for various Ogier teams to provide these structures with advice (most commonly corporate, funds and regulatory advice). Ogier can provide a streamlined experience for our clients, with cohesion from all of our service lines.

[1] World Wealth Report 2021: North America breaks 5-year trend and overtakes APAC in High-Net-Worth population and wealth (capgemini.com)

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