A promise made to last many lifetimes

HSBC Life

A promise made to last many lifetimes

Passing on wealth to the next generation is a concept that is deeply ingrained in the Chinese value system. While you've worked hard for everything you have, your enjoyment of your wealth would not be complete without the knowledge that you will be able to preserve much of it for the most important people in your life. Legacy planning, however, involves different variables that merit careful consideration. Without a good succession plan, your loved ones could face many obstacles on the road to inheriting your estate. An heir to a multinational enterprise, for example, might learn that his father's estate comes with a hefty inheritance tax, one which he might have to pay with his personal assets, bonuses or even mortgage loans. Legacy planning done with the right financial tools can minimise such impact and ensure the smooth transfer of the largest possible amount of wealth to the next generation.

According to research findings[1] published by the Royal Bank of Canada in 2017, 51% of Asian families say they intend to gradually gift assets to inheritors during their lifetimes. Among them, however, only 31% have a full wealth transfer plan in place. Clearly, there are many who need legacy planning but relatively few who have undertaken it. 70% of those with no wealth transfer plan in place lack confidence in their children's ability to grow and preserve wealth. And Asian families that own overseas properties may face the added complications caused by other regions' tax laws as well as cultural differences. There is a real possibility that the absence of an inheritance plan would impede smooth succession.

If you want your children to live a secure and fulfilling life, you may want to consider legacy planning as a tool for preserving and transferring your wealth to them.

The wellbeing of your loved ones is a lifelong commitment that deserves the most thorough preparation. Find out more about legacy planning tools today, and take the first step towards embracing their future with an enduring gift of love and security.

1 Asia Pacific Wealth Transfer Report 2017, Royal Bank of Canada.

Contents

What is legacy planning?

Legacy planning is the use of different financial tools to make full use of, preserve and transfer your assets to a beneficiary(ies) in accordance with your stated wishes. Contrary to popular belief, it is not something only undertaken on one's final days, but an instrument for wealth management that should be deployed much earlier. Inheritance includes tangible assets like money, property, jewellery, businesses, and intangible assets such as inherited skills, intellectual property and even family values.

What objectives does legacy planning serve?

Allocate sufficient assets for carrying out one's final wishes

Prevent substantial loss in the value of assets due to estate duty[1]

Ensure the rightful ownership or custodianship of assets after the death of the estate owner[1]

Ensure the transfer of ownership or custodianship to the beneficiary(ies) is according to the timetable set by the estate owner

Is legacy planning only for affluent or wealthy people?

There is a common misperception that legacy planning is a rich people's ritual. In fact, it is one of the most important wealth management projects we could ever undertake. A good wealth transfer plan is a possible solution in the following scenarios:

- If you wish to leave assets to a designated beneficiary(ies)
- If you have limited assets and very young children
- People with a complex family structure
- Owners of both local and overseas properties
- Those who want to prevent heavy estate duty from becoming a burden to their beneficiary(ies)
- If you want to leave specific instructions as to how your estate is to be distributed

1 Institute of Financial Planners of Hong Kong website

Chapter 2

Why legacy planning matters

Since wealth transfer involves many parties, issues and arrangements, only a good succession plan can ensure the distribution of an estate owner's wealth according to his wishes while minimising tax liabilities legally, allowing the successor to start building on the family legacy after a quick and efficient succession.

Building a good life for the next generation

Passing your wealth to the next generation might present different challenges. Legacy planning can help you transfer your wealth to your successor efficiently and strategically. Take the case of a wealthy patriarch in Hong Kong. Before he passed away, he made arrangements for his estate to be transferred to his son in two installments. This was calculated to give his son a second chance to succeed in case his son failed the first time. And thanks to this wise strategy, his son was able to make the most of his second inheritance and build a thriving business that now far exceeds what was given by his father.

Family disputes can affect the execution of a will

According to Big Data Report on Inheritance Disputes 2017, a report compiled in China[1]:

80% of wills were eventually executed according to the estate owner's wishes

17% of holographic wills were ruled invalid or partially invalid by the courts

28% of allograph testaments were ruled invalid or partially invalid by the courts

7% of notarised wills were ruled invalid or partially invalid by the courts

So it's clear that even the existence of a will does not automatically guarantee the execution of the testator's wishes.

Potential issues with complex relationships

Modern relationships can be dynamic. If you have not legally wedded a loved one and have not undertaken appropriate legacy planning, your loved one might be left legally unprotected. An unwedded co-inhabitant does not enjoy the same legal standing or marital rights as a married person's. According to Cap.73 of the Intestates' Estates Ordinance, if a person has not legally married his/her live-in partner, and the partner has passed away without leaving a will, he/she will not be entitled to the deceased's assets (clause 4)[2]. Moreover, with divorces becoming increasingly common, making the appropriate arrangements during legacy planning can help mitigate or prevent future disputes.

Securing tax savings legally

Estate tax can represent a heavy burden to the beneficiary(ies). The estate duty in the UK, for example, is quite high. In 2006, a young nobleman there inherited his deceased father's peerage and assets, only to find that he was facing an estate tax of several million pounds. In the end, he had to sell off some his family's assets to make payment. This classic case highlights the importance of comprehensive legacy planning in ensuring fiscal autonomy for the next generation.

1 Big Data Report on Inheritance Disputes 2017, http://www.zhonglun.com
2 Community Legal Information Centre, Law and Technology Centre, The University of Hong Kong Website, 2020

Complexities and opportunities

Times have changed, and our way of life is in all likelihood very different from the previous generation's. Since we're living longer, extended families comprising 4 generations are becoming more common. Rising divorce rates often result in diversified family structures. At the same time, new investment tools are emerging to address evolving market conditions, while overseas investments are becoming increasingly popular. All the above can have a significant impact on wealth allocation. While you're planning, it is worth paying attention to the below:

Complicated family structures

Large family fortunes are often accompanied by complicated family hierarchies. The number of blood relations alone is often dauntingly high, and the fair and equitable distribution of assets can become a thorny issue. This is typically compounded by the fact that, inevitably, non-blood relatives are brought into the family through marriage, and that core members may be wary of the possibility that the family's assets would fall into the hands of someone who is not a direct descendant. All these will likely make wealth transfer even more challenging.

Successors' personal interests and wealth management ability

A family's wealth can include its inherited values. As a McKinsey survey points out, global family businesses have an average lifespan of just 24 years. Of these, only around 30% can be successfully passed on to the second generation[1]. An estate's transferability depends also on the successors' personal interests and wealth management capability. They may have different interests in life and want to pursue careers in unrelated fields. The estate owner should take into account the beneficiaries' personal wishes when allocating assets or try to inculcate in them the appropriate values from a young age.

Not all assets are solely owned

Some assets such as family businesses and real estate holdings may be jointly owned. In that case, a consensus needs to be reached with the other co-owners at the planning stage.

Asset variety

There are many kinds of assets and not every one of them can be distributed equally among the next generation with ease. Family business holdings and other assets that are hard to divide make equal allocation very difficult. The components of an estate can be categorised as real estate assets, tangible personal assets and intangible personal assets. In addition, with overseas investments becoming increasingly common, many people's assets also include properties or businesses in other countries.

- Real estate assets : various properties.
- Tangible personal assets : objects such as motor vehicles, jewellery, furniture, paintings, art pieces and other collectibles.
- Intangible personal assets : mainly financial assets, such as bank deposits, securities, funds, bonds, MPF account balances, etc.

1 https://wealth.businessweekly.com.tw/GArticle.aspx?id=ARTL000118903

Chapter 4

4 steps to successful legacy planning

Many people think legacy planning is needed only by those who have substantial assets. In fact, it's an important wealth management project for most of us at some point along our life journeys. Before you start, you should acquire a clear understanding of the legacy planning process.

1 Asset categories[1]

Review your assets and assign each to one of the 2 categories:

- Liquid assets, such as cash, bank deposits
- Hard-to-divide assets, such as properties, business holdings

Take business holdings as an example. When there are discrepancies between your expectations and your children's regarding inheritance, effecting a fair distribution can be quite complicated. In that case, you may need more flexible succession tools.

2 Retirement reserve and estate[2]

Since you should complete your legacy planning as early as possible, your retirement reserve and legacy assets need to be managed separately. This ensures you will have enough to retire on, and that you won't end up spending assets meant for your heirs by accident.

3 Matching assets and inheritors[1]

The next generation's expectations regarding the future might be different from their elders'. You might well find yourself in the common enough situation where your heirs don't want to take over the family business while you wish to pass the torch to them. That's when the different parties should communicate clearly and find a solution acceptable to all.

4 Choose the right legacy planning tool for you[2]

A will is a common legacy planning tool, but the legal process the heirs need to go through to formalise the inheritance is often quite time-consuming. Making a will, however, is not the only option, and there is a variety of legacy planning tools available. You should familiarise yourself with these tools, consider their relative merits and implications before you decide how best to distribute your assets among your loved ones.

The beneficiary(ies)'s wealth management capability is also key. Some parents might worry about their underage children's ability to safeguard their inheritance in the future. In that case, setting up a trust may be a better option. With a trust, assets are managed by a professional financial service company, and can be disbursed by installment to ensure the estate will not be risked by a successor's inexperience in wealth management or excessive spending. There are life insurance products that allow the policyholder to designate a trust as the policy's beneficiary. If the life insured passes away, the death benefit will be transferred to the trust automatically and made available to the beneficiaries in accordance with the estate owner's instructions.

1 https://www2.hkej.com/wm/article/id/1962332
2 https://www2.hkej.com/wm/article/id/88215

Overseas assets

Owning an overseas property is quite common these days. Many people buy a property in another country to prepare for their children's overseas education or as a personal investment. As part of your preparation, it is important to take into account the possible impact local estate tax and inheritance laws may have on your plan.

Inheritance system

With the exception of certain former Commonwealth countries, most countries or territories do not share the same inheritance system. Mainland China, for example, has an inheritance system that is very different from other territories'. If you own properties or other assets in mainland China, you should consider making a will that encompasses mainland China assets. Moreover, if an estate owner has overseas properties, probate is required for the appointed executor to manage the estate after his/her death[1].

Estate tax laws vary from country to country and can be quite complicated. Some countries levy an estate tax only on their citizens, while others tax estate owners or heirs regardless of nationality. You can seek the opinions of a consultant or local lawyer for a deeper understanding of the relevant tax code.

1 https://www2.hkej.com/wm/article/id/1645315
2 https://www.edigest.hk/article/16862
3 https://www.etax.nat.gov.tw/etwmain/web/ETW118W/CON/406/4771386721179427057?tagCode=
4 https://www.t-thomas.com.tw/?page_id=2541
5 https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/international-business-support/deloitte-cn-ibs-thailand-tax-invest-zh-2018.pdf
6 https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/t4058/non-residents-income-tax.html

Estate duty by area

Estate duty is tax levied on the assets which were left by an estate owner. This can include a tax on an estate's total value as well as an inheritance tax on the successor. Although Hong Kong's estate tax was abolished on 11 February 2006, there are at least 114 countries and territories worldwide that levy estate and other related taxes[2].

Taiwan
Estate tax

Up to 20%[3]

Japan
Inheritance tax

Up to 70%[4]

Thailand
Estate tax

Up to10%[5]

Canada
Capital gain tax*

Up to 25%[6]

Plus an estate certification tax; the rates differ from province to province. In British Columbia, it's 1.4%[7]

Hong Kong
Hong Kong's estate tax was abolished on 11 February, 2006[8]

US
Federal estate tax**

Up to 40%[9]

UK
Inheritance tax

Up to 40%[10]

Australia
Australia phased out its estate tax between 1977 and 1984[11]

China
China currently does not levy an estate tax[12]

* Assets that generate capital gain when given or sold.

** The estate tax applies mainly to US citizens, green card holders and residents. Those who do not belong to any of these categories should assess their US estate tax and gift tax obligations, if any, based on asset category and location. Some states have their own state-level estate tax and gift tax[6].

The above is a list of the peak tax rates of selected countries and is for reference only.

7 http://gcpnews.com

8 https://clic.org.hk/tc/topics/probate/estate_duty_and_grant_of_representation/

9 https://www.pwc.tw/zh/publications/topic-tax/assets/us-tax.pdf

10 https://www.hsbc.com.hk/zh-hk/wealth/insights/wealth-needs/property-insights/london-buyers-guide/

11 https://www.info.gov.hk/archive/consult/2004/estate-c.pdf

12 https://finance.sina.com.cn/trust/xthydt/2019-09-05/doc-iicezzrq3518387.shtml

Overview of 6 common legacy planning tools

There is a variety of legacy planning tools available. It is important to understand the nature of each of these tools and evaluate their respective advantages and disadvantages, so that you can make an informed decision as to which one best suits your needs.

Will

Definition

Anyone who is aged 18 or above can make a will, which is a legal document that states how a person's estate should be distributed after his/her death[1].

Characteristics

The testator can modify the content of the will and allocation of the estate while he/she is still living[2].

Challenges

- If the will is not made through a lawyer and is challenged in court in the future, the beneficiary(ies) may be required to prove that the estate owner was of sound mind at the time of signing[2].
- In certain situations, the Inheritance (Provision for Family and Dependents) Ordinance (Cap. 481 of the Laws of Hong Kong) empowers the court to order that provisions be made out of the deceased's estate for certain members of the deceased's family and dependents[2].

Capital mobility

When an inheritance application has been made on an estate, the estate will be frozen for an often lengthy auditing process. If the beneficiary needs immediate access to the estate for financial reasons, this process could represent a major hurdle[3].

Value protection

Not applicable.

Privacy

The content of a will may be disclosed by court order[2].

Fee

The cost of making a basic will starts at approximately HKD1,000; a formal inheritance application will incur extra legal fees[3].

Processing time

In general, applications for a grant of representation take 5 to 7 weeks to complete even if a will has been made earlier, whereas complicated cases will take longer[2].

1 https://www.clic.org.hk/tc/topics/probate/making_a_will/index.shtml
2 Community Legal Information Centre, Law and Technology Centre, The University of Hong Kong Website, 2020
3 https://www.mpfinance.com/fin/daily2.php?node=1516646809770&issue=20180123

Trust Deed

Definition

A settlor transfers his/her estate to the trustee; the trustee will invest and manage the estate according to the settlor's instructions, then transfer the profits to the beneficiary(ies)[4].

Characteristics

- A trust can prevent ownership of an estate by any person other than the settlor or intended beneficiary(ies).
- Sale of the assets is prohibited.
- The assets can be distributed to the beneficiary(ies) by phase to ensure they won't overspend while helping to maintain their living standards[3].

Challenges

- The transparency of the trust market is not high. Scope of service, fees and conditions all need to be ascertained and negotiated.
- The instructions governing the trust cannot be altered once the settlor has passed away[3].
- The trust could be adversely affected if the trust company closes down.

Capital mobility

Generally, the term of a trust can be as long as several decades and is very difficult to terminate once activated[3].

Value protection

Return on investment depends on how the estate is managed by the trust company. Although you can choose your investment tools after setting up a trust, most trustees focus on capital protection with the objective of offsetting inflation, and do not advocate high-risk investments. That means trusts cannot always "balance the books" and the management fees charged by the trust company might diminish the principal in the long run[5].

Privacy

Family assets will be kept strictly confidential[6] under the trust deed as it is a private document which contents will under no circumstances be disclosed to third parties.

Fee

There will be different fees incurred, including approximately HKD40,000 for setting up the trust and an annual trust management fee that is equal to 1% of the estate's total value. If the settlor wishes to terminate the trust deed, a termination fee will apply. There are also service charges not stipulated in the trust deed. The total fee ultimately depends on the assets and terms in the trust deed[3].

Processing time

Depending on the complexity of the assets, the trust will be operational once the trust fund is established. There's no need to wait until the death of the settlor. It can also continue to run uninterrupted after the settlor passes away.

4 Institute of Financial Planners of Hong Kong legacy planning Website, 2020
5 https://www.thinkhk.com/article/2018-06/27/27737.html
6 Investor and Financial Education Council website, 8 February, 2018

Overview of 6 common legacy planning tools

Standby Trust – Insurance Trust

Definition

The settlor arranges for a trust to be the beneficiary of his/her life insurance policy. The trust remains in a standby state as long as the settlor is living, and is activated once he/she passes away. The death benefit from the life insurance policy will be credited to the trust, and the trustee will execute, manage and distribute the estate according to the settlor's wishes.

Characteristics

- Assets will be distributed according to the settlor's wishes, but different from ordinary insurance policies, a standby trust supports flexible arrangements for when and how the assets will be distributed to suit the needs of the heir(s) at different life stages.
- Trusts do not require a grant of representation. Trust assets will not be frozen, thus enabling the heir(s) to maintain solvency.
- If the heir is a minor, an independent trustee can monitor and serve as a counterpart to the custodian.

Challenges

Since the beneficiary of the life insurance policy is a trust, the heir(s) could be adversely affected if the trust company closes down.

Capital mobility

The benefits from the life insurance policy will be injected into the standby trust only after the settlor has passed away, allowing the settlor to allocate his/her financial resources more flexibly.

Value protection

Depends on the performance of the life insurance policy's underlying investments.

Privacy

A standby trust deed is a private document and will be kept strictly confidential under all circumstances.

Fee

An annual management fee will be charged only after the standby trust has been activated, ensuring greater savings. The cost of setting up a standby trust varies, depending on the trust company.

Processing time

If only basic assets like deposits and policies are involved, a trust can be set up in as little as 1 to 2 weeks[1].

1 https://hk.finance.appledaily.com/finance/daily/article/20120623/16452385

Gift

Definition

Gifts refer to actions taken by a living estate owner to transfer property rights to another person unconditionally[2]. A gift is only legally binding if it is formalised with a signed deed. The original and copies of the deed must be signed by all parties, stamped and properly delivered[3]. A common example is the gifting of a property to a son, daughter or spouse through a gift deed.

Characteristics

Gifting is not limited to family members[4]; a gift can also be given to a relative or charity, as a contribution to society.

Challenges

- In divorce proceedings, if one party has made arrangements for property disposal, including a gift deed, with the intention of preventing the other party (requesting financial support) from successfully obtaining the claim, the court can order that such property arrangements be made invalid[5].
- If the estate owner goes bankrupt, properties already given away in the past 5 years may be recovered by the trustee in bankruptcy[6].

Capital mobility

Not applicable.

Value protection

Not applicable.

Privacy

Details can be made public by court order[7].

Fee

Not applicable.

Processing time

A law firm generally needs 2 to 3 weeks to process a gift deed.

2 http://hk.finance.yahoo.com/news
3 http://www.singtaousa.com
4 The actual requirement and conditions of setting up a gift deed will depend on the particular circumstances in each case, please seek opinions from a legal or finance professionals.
5 Clause 17 of Cap. 192 Matrimonial Proceedings and Property Ordinance, Laws of Hong Kong
6 Clause 49 of Cap. 6 Bankruptcy Ordinance. Laws of Hong Kong.
7 Community Legal Information Centre, Law and Technology Centre, The University of Hong Kong Website, 2020

Overview of 6 common legacy planning tools

Enduring Power of Attorney

Definition

An enduring power of attorney (EPA) allows its donor (i.e. the person who wishes to give his/her power of attorney to someone), while he/she is still mentally capable, to appoint an attorney(s) to take care of his/her financial matters in the event that he/she subsequently becomes mentally incapacitated.

Characteristics

The appointment of more than one attorney is allowed. An EPA eases the difficulties and distress that may otherwise be suffered by the donor's family (e.g. elderly spouse) in managing the donor's affairs and enables them to avoid expensive and potentially distressing court proceedings.

Challenges

- An EPA signed in the presence of a medical practitioner does not constitute a complete and legally-binding document. The EPA must be signed by a solicitor before it becomes effective.
- The EPA is valid only when the donor is mentally incapacitated. Once the donor passes away or goes bankrupt, the EPA will be revoked.

Capital mobility

Not applicable.

Value protection

Not applicable.

Privacy

An enduring power of attorney is a legal agreement. Since it has been registered in court, it ensures privacy protection.

Fee

Depends on the lawyer or firm. Generally, the fee for setting up an EPA through a doctor and lawyer is HKD15,000 to HKD30,000.

Processing time

Not applicable. Since an EPA will only come into effect when the donor becomes mentally incapacitated, it is not feasible to estimate the processing time.

Life Insurance

Definition

A policyholder can purchase life insurance policies with specific sum insured for different insured persons. When the life insured passes away, the beneficiary(ies) will receive the death benefit from the policy. To do this, the policyholder must have an insurable interest in the life insured, ie the policyholder must have an economic interest in the survival or bodily condition of the life insured.

Characteristics

Separate management of retirement assets and estate; a solution for managing assets that are hard to divide.

Challenges

According to the Bankruptcy Ordinance, a trustee is entitled to transfer the assets of the bankruptee to himself/herself. Therefore, depending on individual cases, the ownership of the bankruptee's life insurance policy may be subject to enforced transfer to the trustee[1]. Also, if a policyholder surrenders a policy before it breaks even, he/she could lose his/her premiums paid and may even have to pay a penalty.

Capital mobility

A life insurance policy maintains the mobility of assets and avoids the issue of frozen assets during the application for a grant of representation.

Value protection

There are life insurance plans on the market which offer a savings element and long-term potential wealth growth. Generally, as long as all premiums are paid on time, the cash value of the policy will grow, while the policyholder can also accumulate wealth by receiving dividends and other benefits from the policy.

Some life insurance plans also offer a policy value management option for locking in the policy's value for even greater financial stability.

Privacy

A life insurance policy maintains the policyholder's autonomy in wealth transfer as well as confidentiality.

Fee

Depends on the sum insured of the life insurance policy. Generally, there are no extra service charges on top of the premiums. For details, please refer to relevant product brochures and policy provisions.

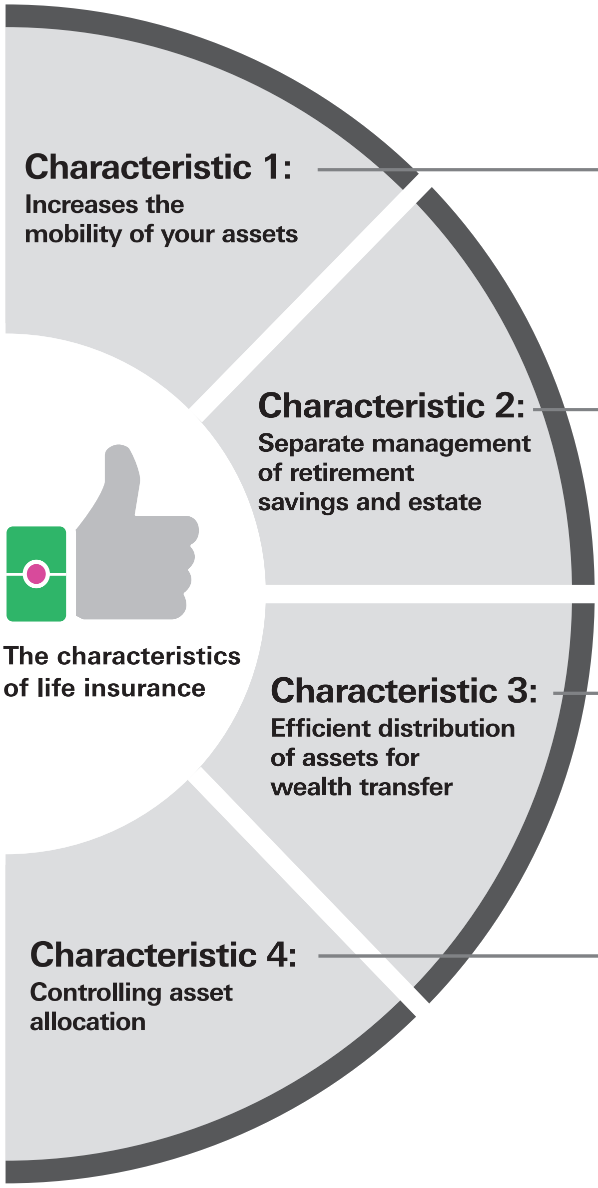
Processing time

The policyholder or beneficiary(ies) can file a claim by submitting the required documents. Compared to inheritance through a will, the claim process for a life insurance policy can be significantly shorter. After all required documents are handed in, the claim will be finished in about 1 to 3 weeks. For emergency cases (eg accidents), procedures can be completed within 3 to 5 days[2].

1 Bankruptcy Ordinance, Laws of Hong Kong website, 2 August 2012
2 The actual scenario will depend on the particular circumstances in each case, governed by terms and conditions of individual insurance company.

Life insurance as an instrument of wealth transfer

After reading our overview of different legacy planning tools, you should have a much better understanding of their relative strengths and weaknesses. Life insurance is unique in that it is designed to protect your family members while giving you an effective way of planning for your succession and allocating your assets to match different family members' needs.



With a life insurance policy, there is no risk of your assets being frozen during the probate process. In most situations, proceeds from a life insurance policy are not subject to the legal requirements of probate. That means the policy's beneficiary can receive the benefits within a relatively short period of time to meet any pressing financial needs. For emergency cases, life insurance claim process can take as little as 3 to 5 days to complete[1], significantly shorter than the 5 to 7 weeks required for the execution of a will[2], thus giving your assets much greater mobility.

Estate owners can first reserve sufficient funds to secure a preferred standard of living in their retirement. This enables them to manage their retirement savings separately and efficiently, without the complications arising from distributing their estates.

A policyholder can designate and change the policy's beneficiaries and the proportion of the benefit amount for each beneficiary in accordance with his/her wishes while maintaining confidentiality.

Many estate owners want their children to carry on the family business. When an estate includes indivisible assets, a life insurance policy can help increase the transferability of the whole estate or allow the estate owner to divide it into equal shares. For details, please see case studies on the following pages.

1 The actual procedures and requirements will depend on the particular circumstances in each case, governed by terms and conditions.
2 HKSAR Judiciary Probate Registry website, February 2020

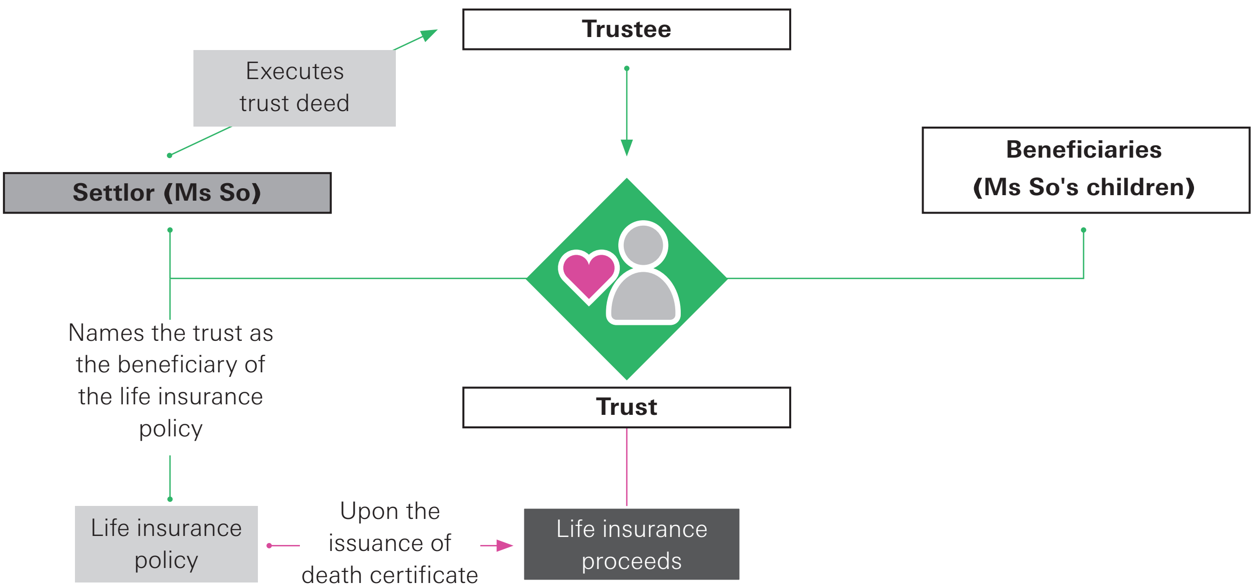
Chapter 8

Case studies

Case study 1 - Using a standby trust to pass wealth to young children

Ms So has been raising her two children on her own since her divorce. Feeling that life can be unpredictable, she has purchased a life insurance policy. She knows, however, that if she suddenly passes away, her children are too young to manage the lump-sum death benefit they would receive. In light of that, she set up a standby trust and designated a trust as the beneficiary of her life insurance policy and her children as the trust's beneficiaries.

As long as Ms So is still living, the trust, other than acting as the beneficiary of her life insurance policy, does not hold other assets. That means the trust is in standby mode. If Ms So passes away, her standby trust would receive the death benefit from her life insurance policy. The trust would thus be activated, and the trustee would execute the trust deed in accordance with her instructions and her children's best interest.



Remarks

1 The sum insured (also the benefit payable in the event of the life insured's death during the policy's term) of a life insurance is determined based on the life insured's gender, age, smoking habit, insured amount and other underwriting factors. See relevant product brochures and policy provisions for details. The above figures are hypothetical and are for illustrative purposes only.

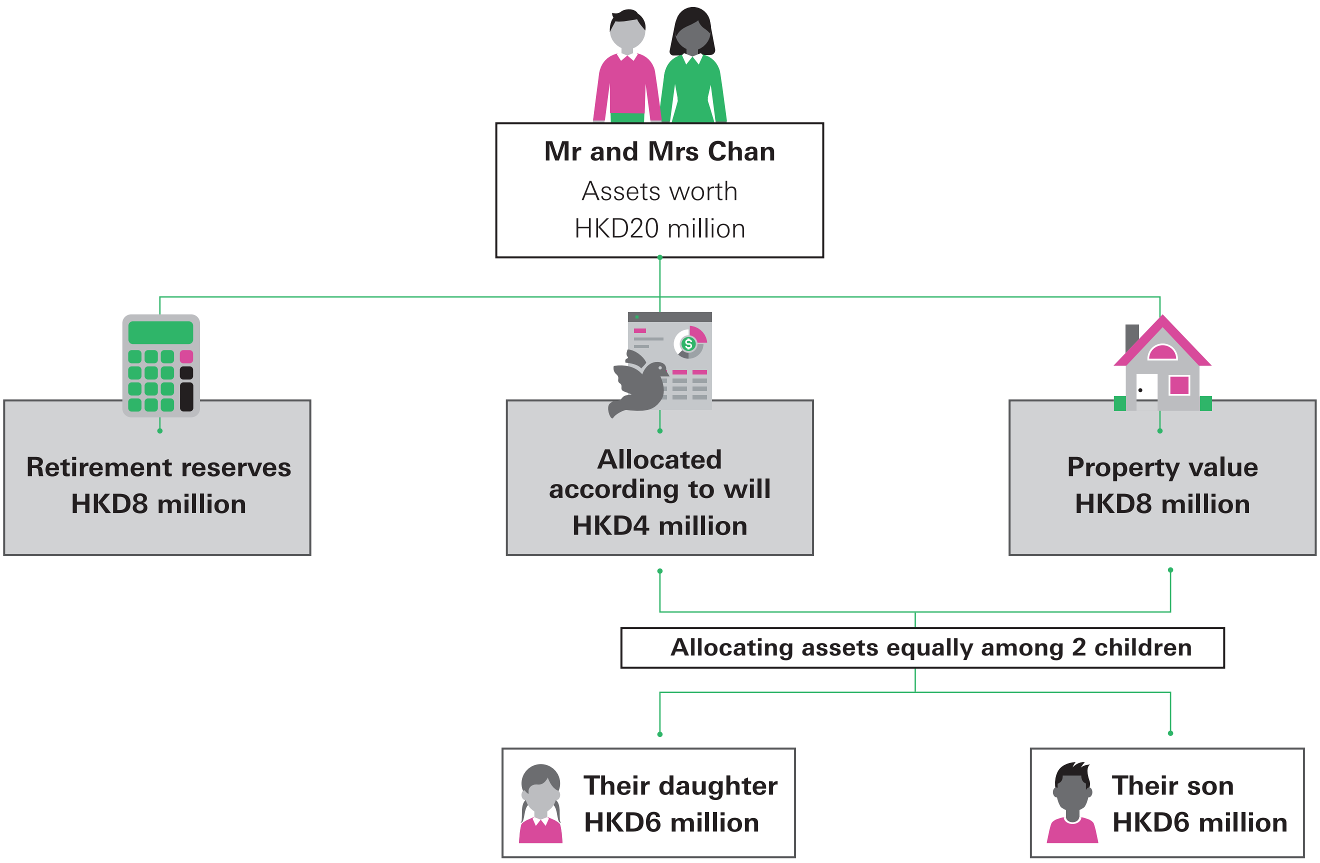
2 For the set-up and annual fees involved in the setting up of a standby trust, please enquire with trust/standby trust companies.

Case study 2

Mr Chan and his wife are middle-class professionals with assets worth HKD20 million, including a HKD8 million property. The couple is sparing no effort in nurturing their two children and want to maximise their chances of having fulfilling future careers. They also want to enjoy their retirement and allocate their estate equally among their two children.

Without insurance:

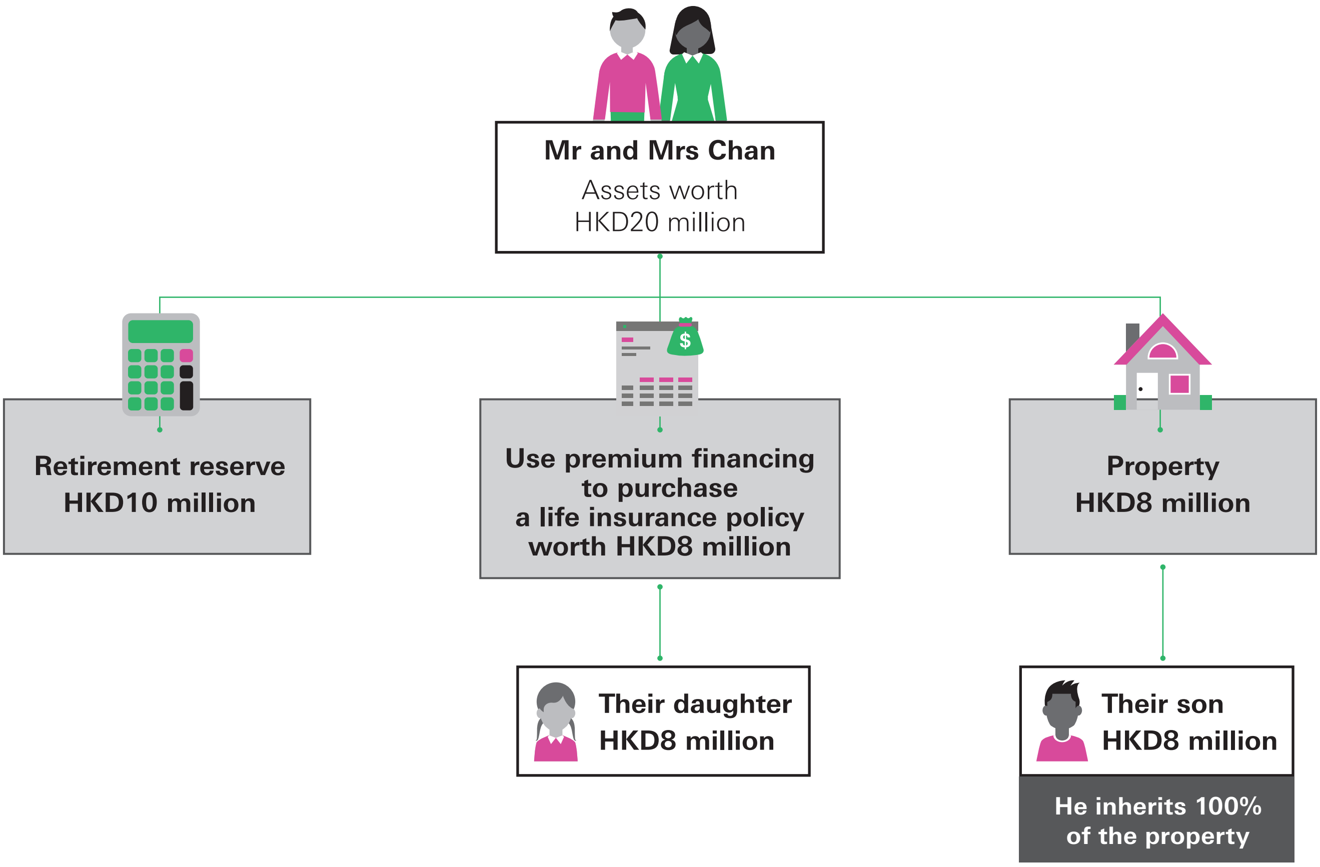
In this scenario, they have to ensure their total retirement living expenses don't exceed HKD8 million, so that they can reserve HKD12 million, including the property they own, for their children.



With insurance:

The couple can also use insurance as a legacy planning tool and enjoy greater flexibility through premium financing. In this scenario, Mr Chan purchases a life insurance policy with a sum insured of HKD8 million (depending on the proposal by their insurance company). They decide to use premium financing to pay their policy premiums. First, they pay 50% of the premiums with their personal assets, then pledge their policy to a bank to pay for the remaining 50%, expanding Mr Chan's cash flow in the process. If Mr Chan passes away before all premiums are paid, the HKD8 million death benefit will go towards covering any unpaid premiums, with the rest going to one of the children. If there are no unpaid premiums, the entire death benefit will go to one of the children, while the other will inherit the HKD8 million property.

This arrangement gives Mr and Mrs Chan a cash reserve of HKD10 million when they retire. At the same time, their two children will each inherit HKD8 million without having to divide the property. After all, family disputes might ensue if the two children cannot reach a consensus regarding the sale of the property or if extra legal fees are incurred.



Remarks

1 For details, please refer to relevant product brochures and policy provisions. The figures mentioned above are hypothetical and are for illustrative purposes only.

2 The requirements and procedures for applying for premium financing are set by individual banks or insurance companies and therefore vary. You should seek professional advice from related parties.

3 In the above example, it is assumed that there is no other loan under the insurance policy.

Keeping time, guarding a legacy

Mr Ng Ka Keung - Independent horologist

From an early age, Mr Ng has been influenced by his father, a master watch restorer, who passed on to him the craft of repairing timepieces at Lee Shing Watch Company. A graduate of Wostep in Switzerland, he received his formal training under the tutelage of the godfather of watchmaking, Philippe Dufour, and famed watchmaking artisan Kari Voutilainen. In recent years, he has expanded his business to timepiece appraisal and acquisition consultancy. Having inherited his father's business, he is now also helping clients to find collectible timepieces as family heirlooms.

Lee Shing Watch Company traces its history to 1959, when its venerable owner Ng Sap was running a watch repair business in a shop on the ground floor of a small building in the old Kowloon City. Inside the little shop, a repository for all manner of watchmaking paraphernalia and 50 years of history, Uncle Ng has restored countless watches, including many priceless, storied timepieces owned by prominent figures. Today, the business is thriving with his son, Ka Keung, at the helm.

The making of a master craftsman

When did you discover your passion for watches?

My father was repairing watches night and day, and I was hooked when I was about 6 or 7. So I started watching him work and learning the basics. It was fascinating, watching him turn a watch into dozens of tiny parts, then back into a watch again. I still remember the first time I decided to try my hand at it, I took apart a discarded Japanese ladies' watch in the shop, but then couldn't put it back together. But my passion for watches had been kindled. When I was 16, I enrolled at the Lee Wai Lee Technical Institute, a watchmaking school for professional training.

How did your father's enthusiasm for watches influence you?

My father used to say, "If others can design and manufacture all these wonderful watches, why can't we even repair them?" That inspired me to eventually learn the craft myself. A watch is a client's prized possession. We have to treat it the same way. Ultimately, what I do is not just to fix a mechanical problem. It is to return a better watch to the client. Father taught me not to treat this as a job. It's a commitment. Respect what you do, and do it as well as you can. That's the most important value I inherited from my father.

On legacy

Heritage and innovation. Can you have both in your business?

Watchmaking is a craft and an expertise passed down from generation to generation, but it can be innovative as well. I learned the importance of creativity from my father. On the other hand, what I learned in Switzerland was the art of traditional watchmaking. The two are like Western and Chinese medicines, complementing each other. I often solve problems with a combination of the two. If, for example, the parts we need have been discontinued, we have to be creative and find a new solution.

On legacy

How do you add value to your business?

Since I left my father's company, I have been looking for ways to build on his legacy. Watch appraisal, for example, and opening a watchmaking school. There are no formal business proposals, but I have some ideas and I'm implementing them one by one.

Since you inherited your father's business, have you had any development plans?

Opening a watch repair school is a way of keeping his legacy alive. In Switzerland, I learned that many industries have an apprenticeship system, like cheesemaking, watchmaking, pharmaceuticals. Hong Kong has an apprenticeship system too, but I want to provide students with an environment where they can learn both theory and practice.

Have you thought about passing the business or other assets to the next generation, like your father passed his business to you?

The first step is to do what my father did. The family assets he left me are watches. I've also put aside a number of valuable watches for my children. As for the shop, I hope my children will follow in my footsteps and carry on the family tradition. But they are still young. We'll see. I won't insist on it if they want to pursue other interests. I believe anything worthwhile should be left to the most capable hands, and I might end up handing the business over to someone with the talent and the passion for the craft.

A watch is a family treasure

Watches can be priceless and have a lot of sentimental value. Have you repaired a family treasure for a client?

A client once asked me to repair a very valuable antique watch. He had sent it back to the factory for repairs, but even they couldn't figure out a solution. I learned that the client's father had just passed away, and the watch was an heirloom, so it had a lot of sentimental value. I managed to fix in the end. The client was wearing the watch when he had his picture taken with his winning racehorse at the racecourse. He said it was a lucky watch. It meant a lot to him.

Have you recommended watches to clients for investment? Any interesting story?

I advise clients on watches, making recommendations based on resale value, rarity and the reason for making the investment, but the decision is theirs. I once recommended a watch to a client, who, after thinking it over, decided not to buy it. The watch soon appreciated in value, many times over. In the end, even though it was costing a lot more, he still bought it.

Watches and life insurance can both be passed on to the next generation. How similar do you think they are?

One similarity is, the earlier you buy it, the more you get out of it. That's certainly true of watches with market potential. I tell my clients that the longer you wait, the more expensive they get. Both watches and life insurance are long-term investments, you can't expect to buy it today and enjoy a high return tomorrow. And both are investments that require the advice of reliable professionals. Watches are like insurance. You have to choose the right option for you. I have younger clients who don't have a lot of money yet, and I'd advise them to invest in watches that fit their budgets but have a lot of potential. In a way, a watch consultant is like a bank's relationship manager. I have to understand what a client likes and needs before I can make the right recommendations. And after-sales service is equally important in my line of work. When there's a problem with a watch, we have to find a way to fix it. That's how we give clients peace of mind, by making sure their assets don't lose value.

Savouring life through coffee and art

Vincent Wu - Former art specialist at an international auction house, founder of Lex Coffee and Curator

Vincent Wu was once a Chinese art specialist at an international auction house. His experience in fine art and his love of coffee culture inspired him to open Lex Coffee, a showcase for his innovative Art-fé concept, which brings together gourmet coffee, Western cuisine and art in a multi-sensory experience. In late 2019, he was being invited to open Curator, the flagship cafe in K11 Musea.

A café, restaurant and art gallery, Lex Coffee features a collection of art pieces curated by Vincent himself. It includes works by artists well-known in Hong Kong, such Andy Warhol, Kusama Yayoi, Murakami Takashi, Banksy, KAWS. Customers can pamper their taste buds with artisan coffee while feasting their eyes on the wonderful art creations. For Vincent, the café is not only a platform for artistic exchange but a gathering place for an aesthetics community cultivating a more stimulating, textured lifestyle.

Sowing the seeds of a new idea

How long have you been an art lover?

When I was small, we had family friends who were artists and painters, so I grew up in quite an artistic environment, but it wasn't like formal training. I majored in archaeology and museum curatorship at university, which involved a lot of art history. That's how I built my foundation in art. After that, I came back and got my master's degree in anthropology at the Chinese University of Hong Kong and decided to stay. My first job was an assistant to the director of investment for a prominent family. My boss was in charge of large art and red wine collections. That was when I came into contact with auction houses. I soon realized both my experience and interest revolved around the arts, so I quit my job and went to work at an auction house.

Did it change your life?

It turned out to be a very crucial learning experience for me! It was a UK auction house that I worked for, and they dealt in classical art, near-modern Chinese paintings, contemporary art from oil paintings, lithographs to sculptures. The company later split into two departments: Chinese Paintings and Contemporary and Modern Art, and I ended up specialising in Chinese paintings. While I was there, I came across a lot of very important works, working on the valuation of a few thousand pieces every year. Some were authentic, some were fakes. That's how I developed my eye for art in a short time and an instinct for market trends. The work was also very useful for building your social network.

How did Art-fé come about?

Because of my job at the auction house, I travelled a lot to visit art galleries and collectors around the world. One time, I went to the home of a Taiwanese collector of paintings. The cup of coffee he made me was unforgettable. I've been interested in coffee ever since. When I got my qualifications such as World Cup Tasters, I realised I could merge art, food and coffee, and that was the seed of the idea for Lex Coffee, a place where people can indulge their cravings for gourmet coffee and art.

Combining aesthetics and economics

You have two daughters. Have you thought about passing your business to them?

I'm open about that. I'll give them all the training they need in whatever they're interested in. If necessary, I'll provide a financial foundation for them by putting aside a sum of money. If they ever want to start their own businesses, the fund is there. But giving them money is not enough, because you can always just spend it all. That's why I think helping them discover their passions in life is more important.

Will you teach them your aesthetic values?

Sometimes my daughters want to go to Lex Coffee and Curator for the food and the artworks. It's something they enjoy and take pride in. I've immersed them in this environment since they were young, to enable them to appreciate the inherent beauty in life. That's like passing my aesthetics to them. I think, in daily life, both the rational and the emotive are important. And emotive sensibilities are essentially an aesthetic sensitivity. It's the fountain of innovation, what enables us to break through the uniformity and rigidity of rationality.

Do you have art pieces that you've earmarked for your daughters? Have you done any wealth management planning as a way to pass your assets to them in the future?

I have been collecting. My collection includes some classic Chinese paintings and calligraphy. This category tends to retain value on the market and stand the test of time. I think when it comes to wealth transfer, art is an excellent idea. I also think insurance is a valuable legacy planning tool. Whether it's savings, trusts or something else, it's a great way to pass your wealth to future generations. Insurance can help you buffer your assets against risk and minimise tax liabilities legally. With a life insurance policy, your family will have the added security of a sizable sum of money.

Art as investment

Do you invest in art for clients? Any interesting stories?

I once represented a corporate client and acquired a painting with a Nanjing theme worth almost HKD10 million from a private collector in Taiwan. This piece has since doubled in value. The artist specialises in inkbrush paintings and calligraphy. There aren't many oil paintings by this artist on the market so they are valuable. And most of them are in museum collections, with only a few in private hands. I was the go-between for the client, who owns a shopping mall in Nanjing, and the collector. I did extensive research on the piece, including its background, the inspiration behind, ownership history, price estimates. The client loved it so much, he hung it up at his company headquarters.

What's the key to investing in art?

You have to do a lot of homework. The art categories, how history drives the evolution of art, the potential of an artist's works, his impact and contribution to the art world, the key players. It's also important to know who owns what. The collections of movie stars and political figures, for example, can have an influence on the market. If you want to skip all the hard work, you can. Just make sure you get recommendations from experienced, reputable dealers or art experts.

As for the art pieces in our restaurant, they are the works of famous artists but belong to the affordable art category. Even if you don't have the financial capabilities to buy famous artists' masterpieces, it is possible to acquire their entry-level or minor works, because they have an established market and a large fan base. If you can get one of their new works, don't hesitate. No one knows how much the price will go up, but at the very least, it'll keep its value.

Conclusion

Legacy planning encompasses not only physical assets but the estate owner's or even a family's values, beliefs and principles. Whatever the value of your assets, legacy planning is an important part of your wealth management journey. No one knows what the future holds, but if you start planning early enough, you can look forward to getting the most out of your golden years while the next generation builds on your inspiring, enduring legacy.

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