

Jointly Organised by :



CONFERENCE ON  
**ISLAMIC WEALTH MANAGEMENT**  
*Islamic Wealth Management for A Brighter Future*

11-12 June 2014 | Auditorium, Sasana Kijang, Bank Negara Malaysia

**Session 7**

**Islamic Private Wealth Management & Business Owners  
- Challenges and Issues**

**Dr. Haji Abdul Aziz Hassan, Founder, Aziz Hassan & Co**

**From an Islamic  
perspective, everything  
belongs to Allah and we  
are but mere trustees..**

***( To Him Allah belongs all that is in the heavens  
and all that is in the earth for He is the Most High  
and Most Great ) Al Quran - Surah Ash (42:4)***



# WHAT IS PRIVATE WEALTH?

Private wealth is wealth owned by *'High Net Worth Individuals'* (HNWI) as opposed to corporate wealth which are assets owned by large corporations and invested through specialist fund managers.



# WHO ARE HIGH NET WORTH INDIVIDUALS?

According to a report by a financial Institution, HNWIs in Malaysia constitute only a small fraction of the total population and will amount to almost 27,000 individuals by 2015.



# WHO ARE HIGH NET WORTH INDIVIDUALS?

The HNWI's in Malaysia are considered difficult to service compared to others in the region because:

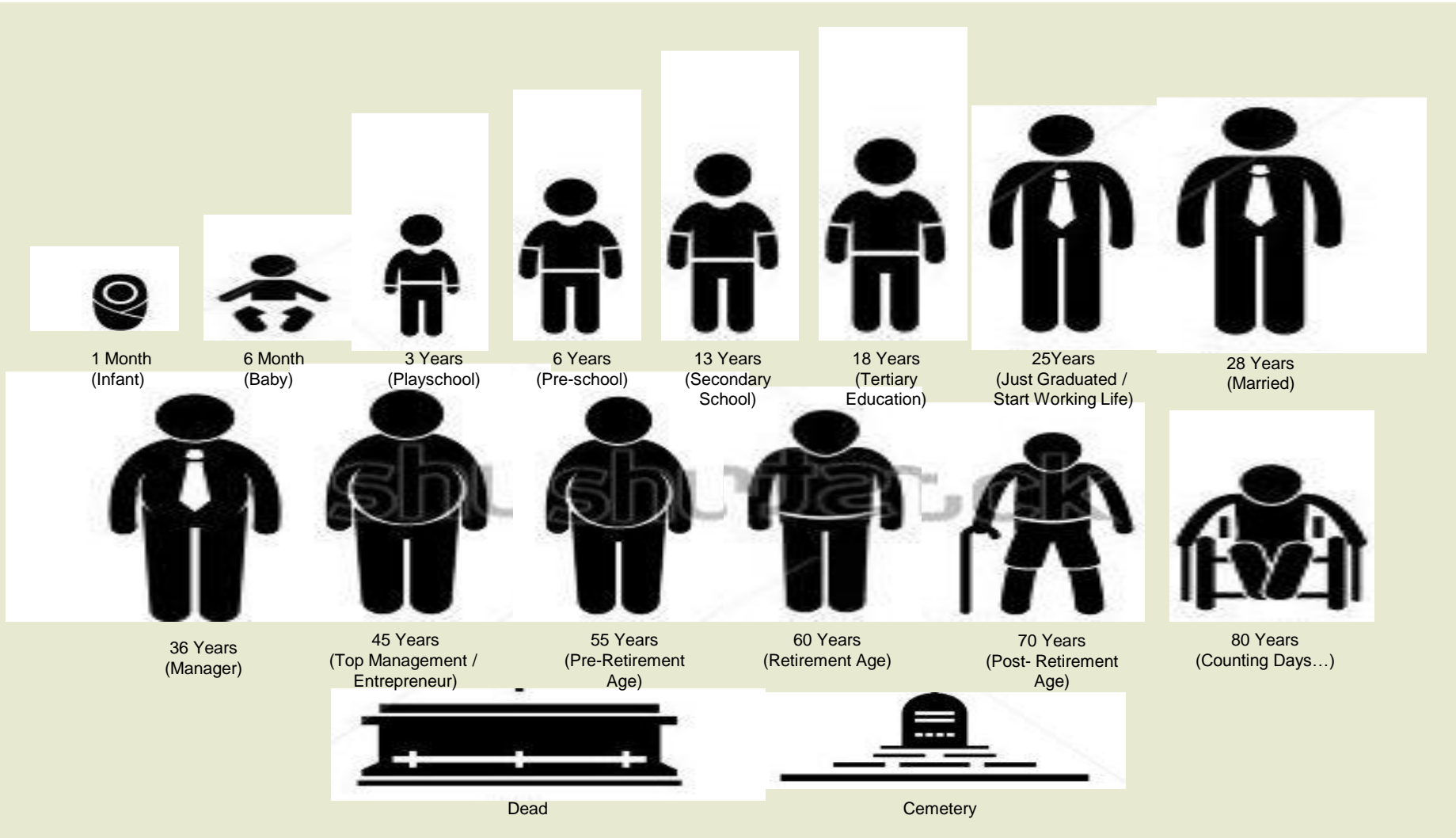
- they have only moderate knowledge in financial matters – high degree of financial illiteracy.
- their conservative attitude.
- they place high premium on face – to – face contact.



# WHO ARE HIGH NET WORTH INDIVIDUALS?

HNWIs are normally persons with high net worth or family business owners who normally have liquid assets (excluding residence) over USD 1.0 million.

# INDIVIDUAL LIFE CYCLE





# CHALLENGES & ISSUES FOR WEALTH MANAGEMENT OF HNWIS

- Managing family conflicts.
- Sustainability of family wealth through legacy planning.
- Legacy planning for business families





# MANAGING FAMILY CONFLICTS

- Heirs given money typically have a strong inclination towards spending the money on possessions and pleasures instead of purposes with lasting significance.



# MANAGING FAMILY CONFLICTS

- Heirs may lack the purposeful pursuits needed to cultivate self – esteem, self worth, motivation, self confidence and personal identity.
- The presence of “huge” money catalyses personality disorders.



# MANAGING FAMILY CONFLICTS

- Apart from succession planning, family conflict is the other major reason why 65% of family businesses are lost in the second generation (G2) and 90% of family businesses are lost in the third generation (G3).



# SUSTAINABILITY OF FAMILY WEALTH THROUGH LEGACY PLANNING

- Identifying Hot Buttons
- Thinking of Potential Solutions
- Listing of Assets & Corporatization of Wealth
- Creating a Wealth Preservation Model

# SUSTAINABILITY OF FAMILY WEALTH THROUGH FAMILY

## Identifying Hot Buttons

- Issues that keep you awake at night.
  - ❖ Existing problems
  - ❖ Future potential problems
  - ❖ Consulting a Family Psychologist / Independent 3<sup>rd</sup> party expert.



10<sup>th</sup> Anniversary Celebration | Decade of Excellence



# SUSTAINABILITY OF FAMILY WEALTH THROUGH LEGACY PLANNING

## Thinking of Potential Solutions

- Creating a Memorandum of Wishes (to be attached with a will / testamentary document) containing :
  - Personal and specific advice to individual family members
  - General advice to all family members
  - Identifying charitable intentions



International Business  
and Financial Centre, Malaysia

# SUSTAINABILITY OF FAMILY WEALTH THROUGH LEGACY PLANNING

## Listing of Assets & Corporatization of Wealth

- To distribute - to whom and how much, either during the life time (by the way of direct gift or through a living trust) or after death (through a will or testamentary trust).
- To preserve - for future multi generational beneficiaries.
- Transferring assets from personal name to a company



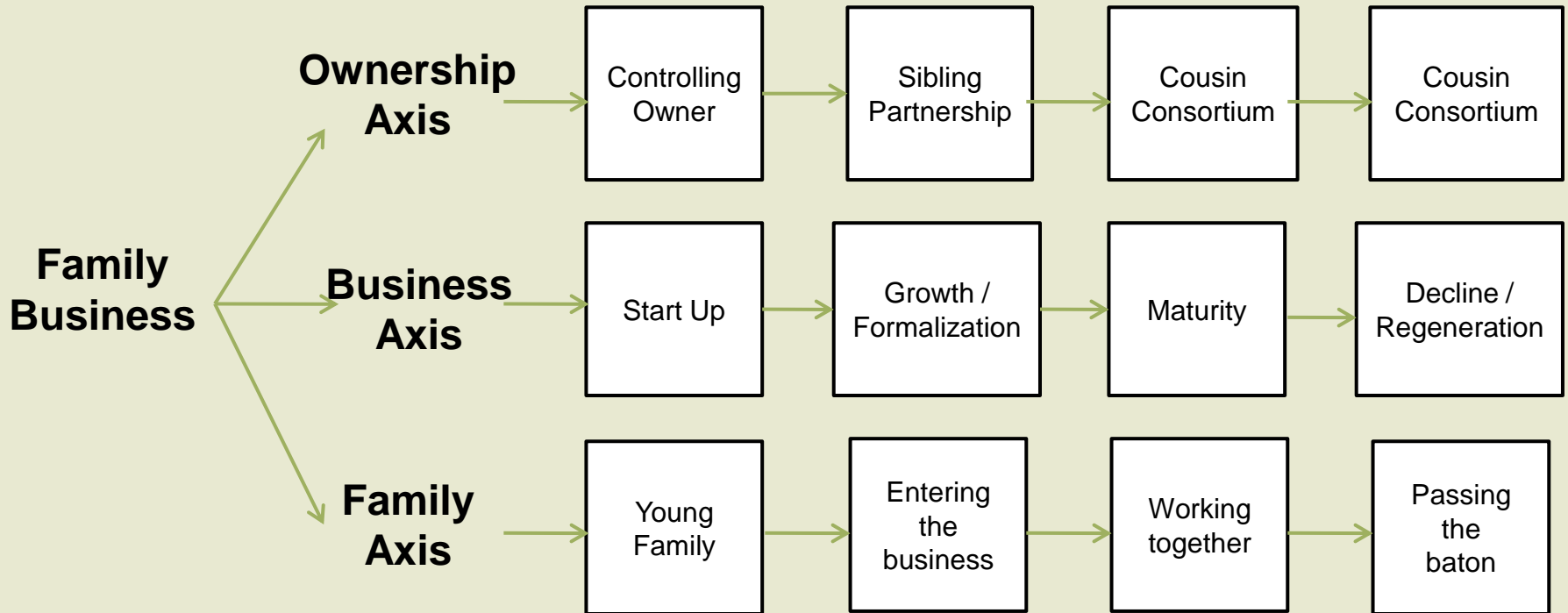
# LEGACY PLANNING FOR BUSINESS OWNERS

## Family Business Involved 3 Axis

- **Ownership**
- **Business**
- **Family**



# LEGACY PLANNING IN FAMILY BUSINESS





# OWNERSHIP IN FAMILY BUSINESS

- Controlling Owner / Founder
- Sibling Partnership / G2
- Cousin Consortium / G3
- Distant Relations / G4 onwards



# FAMILIES BUSINESS LIFE CYCLE

- Start Up (1 – 2 years)
- Growth / Formalization (3 – 12 years)
- Maturity (13 – 25 years)
- Decline / Regeneration (After 25 years)



MFPC 10<sup>th</sup> Anniversary Celebration | Decade of Excellence



# GROWTH IN FAMILY BUSINESS

- Young Family ( School / Tertiary Education)
- Entering the Business
- Two Generations:
  - i) Working Together – Grooming the Successor
  - ii) Passing the Baton  
(Business Founder handing over and retiring)



# CREATING A FAMILY PRESERVATION MODEL FOR HNWIS

- Appointing a Family Wealth Management Advisor
- Setting up a Family Office
- Establish a Trust or Foundation
- Create a Family Governance Structure



# APPOINTING A FAMILY WEALTH MANAGEMENT ADVISOR

- Also known as a Family Business Consultant
- Can be either (or all) of the following professionals:
  - ❖ a financial planner
  - ❖ a lawyer
  - ❖ an accountant
  - ❖ a family psychologist



# SETTING UP A FAMILY OFFICE

- This is the ultimate family asset holding company.
- The transfer of assets to the family office can be done during the life time or after death. It is a tax efficiency issue.
- Upon transfer of assets to the family office, the dividend policy must be in place from the subsidiaries companies / assets so that the Family office can declare dividends to the Family Trust / Foundation.



# CREATING A FAMILY GOVERNANCE STRUCTURE

- 1.The Business Founder creates the Family Constitution
- 2.The Family Constitution establish the Family Council and its membership
- 3.The Family Council determines who sits in the Foundation Council or the Board of Trustees (depending on whether the Wealth Preservation structure is a Foundation or a Trust)





# CREATING A FAMILY GOVERNANCE STRUCTURE

4. The Chairman of the Family Council will also be the Chairman of the Foundation or the Chairman of the Board of Trustees, and shall also be the Managing Director of the Family Office
5. During his life time, the Business Founder shall be in absolute control



# CREATING A FAMILY GOVERNANCE STRUCTURE

6. After the demise of the Business Founder, the Successor shall take over the Chairmanship of the Family Council ,of Board of Trustees or the Foundation and the Family Office .



# DISCLAIMER

This presentation should not be regarded as offering a complete explanation of the matters referred to and is subject to changes in law. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Labuan IBFC and MFPC cannot accept any responsibility for loss occasional to any person acting or refraining from action as a result of any material in this presentation. The republication, reproduction or commercial use of any part of this presentation in any manner whatsoever, including electronically, without the prior written permission from Labuan IBFC Inc. and MFPC is strictly prohibited.