Crafting a legacy of security and prosperity for a new generation

HSBC Life

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Foreword

In the past, the passing on of family wealth was a relatively simple affair. People allocated their assets in a way that was reasonable and consistent with their own wishes. As long as family harmony was maintained, the transfer process was considered to have a happy ending.

In today's rapidly changing world, wealth transfer is a much more complex undertaking, with a multitude of factors that need to be considered. It's no surprise, then, that legacy planning is growing in importance. People who have worked hard for years building career and wealth are now parents or grandparents, faced with the challenge of putting in place an effective wealth succession plan. Will the inheritance continue to grow under the stewardship of the next generation, or will it be squandered and lost? A lot of caution and deliberation are needed.

Hong Kong's average life expectancy is among the highest in the world. A good wealth transfer plan must therefore take into consideration the longevity risk. At the same time, how well different family members get along with each other may also affect how assets should be allocated. Hong Kong has a high divorce rate. If the head of a family divorces or even remarries in their old age, the wealth reserved for the next generation may be reduced substantially. That's why legacy planners should not only be concerned with family relations. Managing a number of potential risks in advance is equally important.

Thanks to technological advances, wealth can now be transferred in more ways, and with the help of more mainstream and alternative legacy planning tools, than ever. This booklet looks at the pros and cons of the available options, including the controversial digital assets that have emerged in recent years.

With its combination of people-centric wealth transfer strategies and useful case studies, this booklet is designed to help get you started on your legacy planning journey.

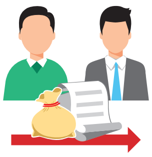
Global trends in legacy planning

Millennials – the most affluent generation in history

Since time immemorial, the transfer of wealth has been a natural part of the transition from one era to the next. Now, living in the 2020s, we're also witnessing what has been dubbed The Great Wealth Transfer – the greatest intergenerational wealth migration in history.

It has been estimated that, in less than 10 years, a total of USD31 trillion[1] (HKD240 trillion[2]) will have been relayed to the next generation globally. The main regions involved in this massive wealth movement are:

Estimated amounts transferred by **2033**[1,2]



Asia	North America	Europe	Middle East
Approx. USD6.1 trillion (approx. HKD48 trillion)	Approx. USD14 trillion (approx. HKD110 trillion)	Approx. USD7.4 trillion (approx. HKD59 trillion)	Approx. USD1.3 trillion (approx. HKD10 trillion)

Referencing the above data and taking into account future wealth growth as well as other global factors, the magnitude of the worldwide wealth transfer may even exceed current projections.

1. Altrata: Family Wealth Transfer 2024 (global data encompass Asia, the Pacific region, Europe, North America, Latin America, the Middle East, Africa, etc.)
2. Approximate HKD amounts calculated based on HSBC exchange rates (based on banknote bank sell price on 20 June 2024).

The baby boomers born after the Second World War (around 1946 to 1964) came of age in an era marked by the rise of globalisation, sustained low interest rates and increasing asset value. Collectively, they were able to amass a vast amount of wealth. Now, in their old age, they are gradually passing on to the next generation the accumulated rewards of their economic achievement. And the biggest beneficiaries of this massive handover of wealth will likely be the millennials born between the 1980s and 1990s.

RECORD HOLDER

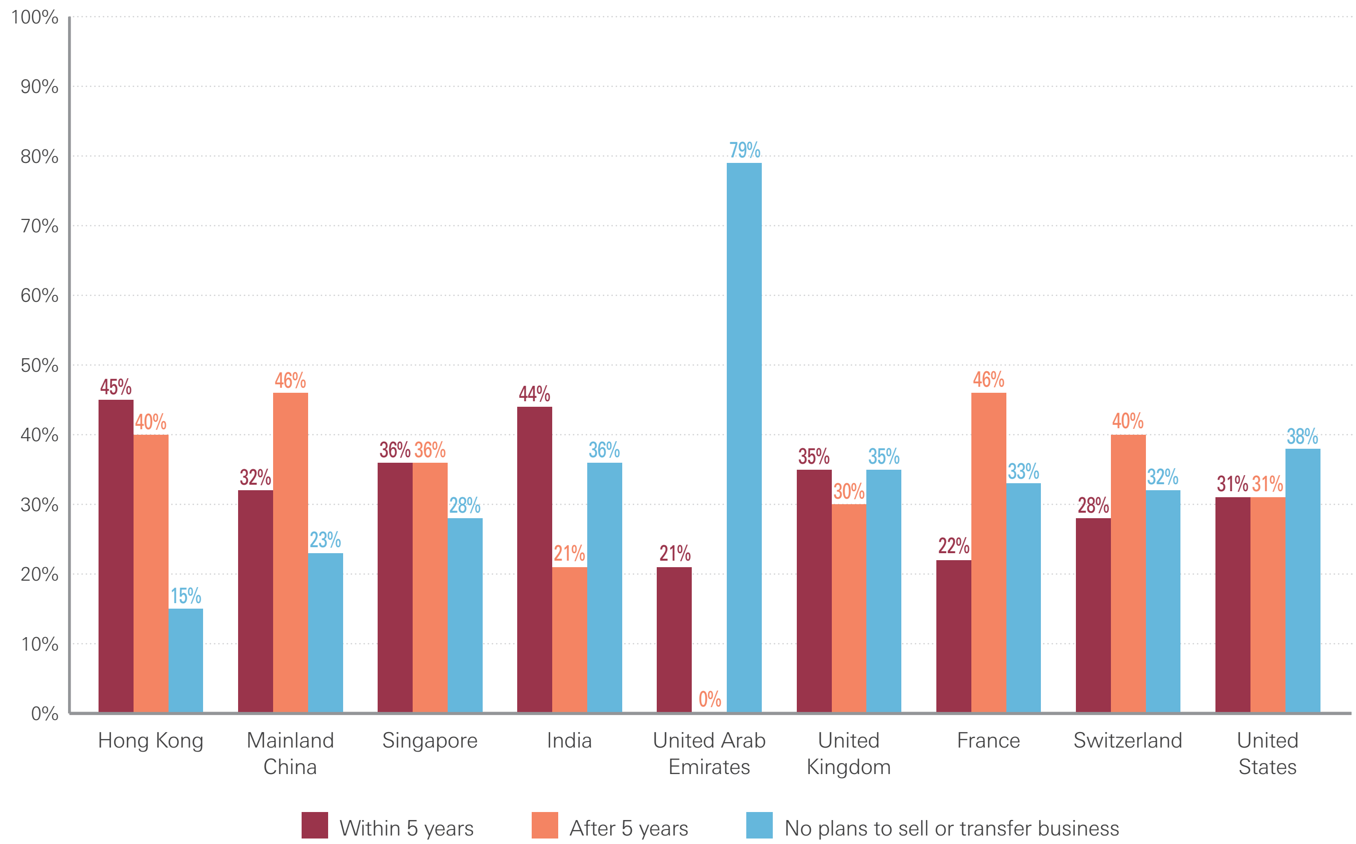
This trend is reflected in a new world record: in January of this year, an individual life insurance policy issued by HSBC Life in Hong Kong set a new world record in single-policy life insurance value[3]. This indicates a growing emphasis on legacy planning through the use of different tools and strategies.

Entrepreneurs make wealth transfer a priority

Even though this wealth transfer wave is expected to sweep across the globe over the next 10 years, many forward-looking individuals may in fact take the lead and initiate the wealth transfer process within the next 5 years. The options and opportunities for doing so will therefore demand careful consideration.

For entrepreneurs, one of the key assets inherited from the previous generation is the family business. According to the 2023 HSBC Global Entrepreneurial Wealth Report[4], 85% and 78% of entrepreneurs in Hong Kong and mainland China respectively are planning their succession. In particular, 45% of Hong Kong entrepreneurs plan to pass the baton within 5 years, a higher percentage than in the other countries covered by the report.

Succession time frames set by entrepreneurs in different countries[5]



3. Once the life insured of the relevant whole life insurance policy passes away, the death benefit received by the beneficiary will set a new world record.
4. HSBC Global Entrepreneurial Wealth Report (November 2023) (Entrepreneurs include those who have founded and inherited enterprises. Respondents are from 9 countries and regions, including Hong Kong, mainland China, Singapore, India, the UAE, the UK, France, Switzerland, the US and other countries and regions).
5. The percentages for some countries have been rounded off and therefore may not add up to 100%.

Passing on family achievements

Something else that is noteworthy: even though many Hong Kong entrepreneurs are hoping to pass on their businesses to their children or other family members within a few years to extend the solid foundations they have laid, some of them have not yet discussed the topic with their families. The reasons include[1]:

One of the solutions available to them is therefore to seek professional advice and set their own wealth transfer strategies. A survey conducted in recent years has found that 87% of investors in developed markets within Asia say they are willing or maybe willing to pay advisory fees to ensure a smooth and effective legacy planning process[2].

No matter which successors or tools you prefer, it is important to tailor your plan to your priorities as well as your family members' needs to ensure a smooth wealth transfer process, and to amplify your family's values and financial wisdom.

1. HSBC Global Entrepreneurial Wealth Report (November 2023).
2. McKinsey & Company: Digital and AI-enabled wealth management: The big potential in Asia (2 February 2023).

Evaluating risks to preserve wealth for future generations

Having achieved financial success after decades of hard work, it's only natural that you would want to ensure an orderly succession and a secure future for the next generation. But hopes and reality are seldom a perfect match. There will always be risks to contend with. These risks could undermine the value of your assets directly or indirectly. That's why a wealth transfer strategy should take into consideration a full range of potential risks[1]. A look at Mr Ding's case below will show the various risks we could be exposed to.

Reference case[2]

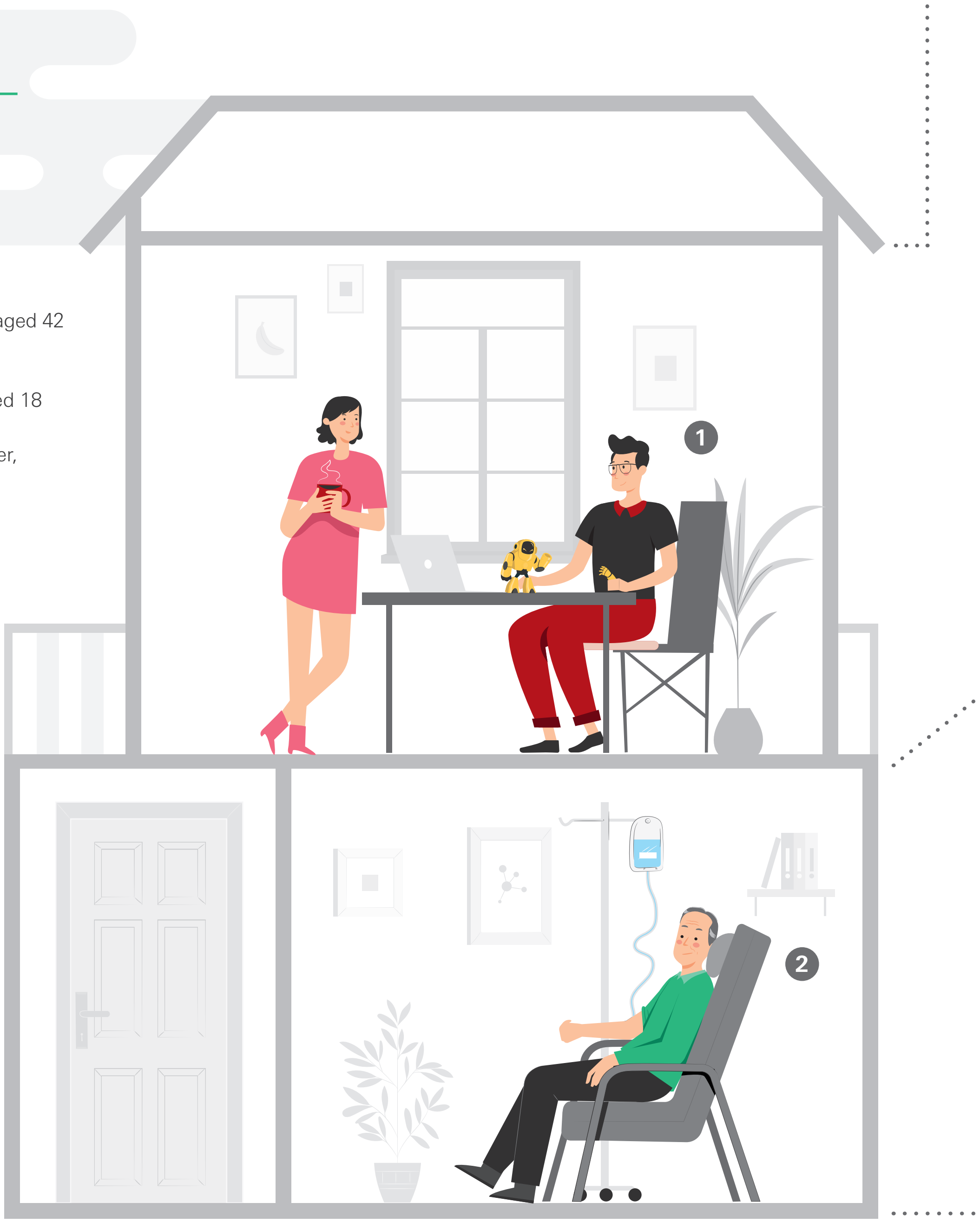
Mr Ding
Designer and manufacturer of toy models

Age: 50

Marital status: Married to his second wife, aged 42

Children:
Older daughter, aged 20, and older son, aged 18 (from previous marriage)
Younger son, aged 15, and younger daughter, aged 12 (from current marriage)

Assets:
Detached house, factory in mainland China

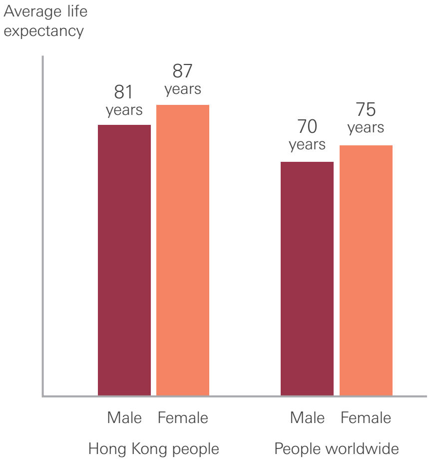


1. EY: EY Family Office Outlook (5 May 2020).
2. The above case is hypothetical and for reference only.

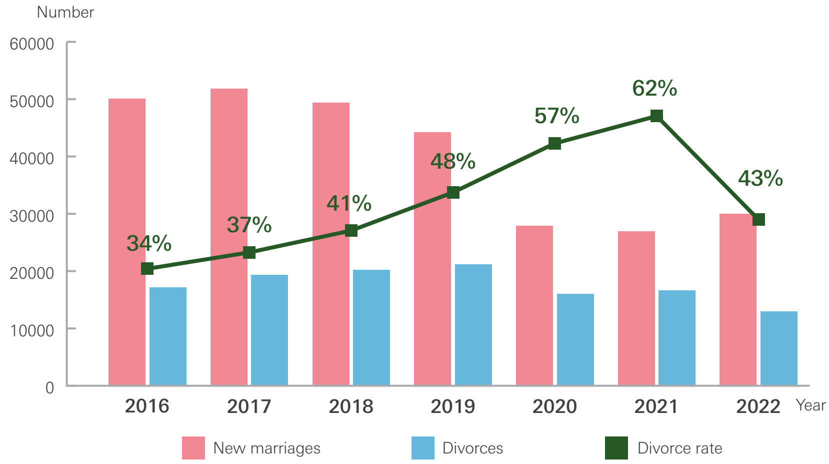
Risk 1 Changing marital relations

A marriage may last a lifetime, but relationships can change in an instant. The result is a consistently high divorce rate. If you or your children have a divorce, a hefty alimony might have to be paid, which could in turn affect any legacy plan that has been put in place. In Mr Ding's case, making the necessary arrangements as early as possible can help minimise the possibility of future dispute.

Hong Kong people's life expectancy among the longest in the world[3]



Hong Kong divorce rates[4]



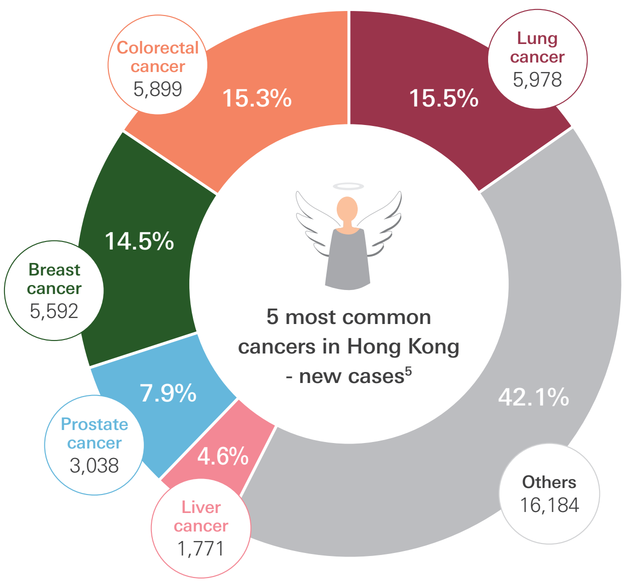
The issue of divorce between elderly couples has received much attention in recent years. "Grey divorce" is indeed becoming increasingly common. And the more assets elderly couples have, the more likely the wealth that can be passed on to the next generation will be greatly reduced after their divorce.

Longevity + high divorce rate ⟶ greater need for legacy planning

Risk 2 Family members' potential health problems

Serious illness can seriously disrupt your wealth transfer plan. Some chronic conditions or critical illnesses even have a hereditary basis and require costly, protracted treatment. If the patient is a key member of the family business, the family's business operations might be affected.

Life can be unpredictable. Let's look at the example of cancer, one of the biggest health threats worldwide. In 2021 alone, there were 38,462 new cases and 15,108 fatalities in Hong Kong. Adding relevant protections to your legacy plan as a risk management measure is therefore an option worth considering.

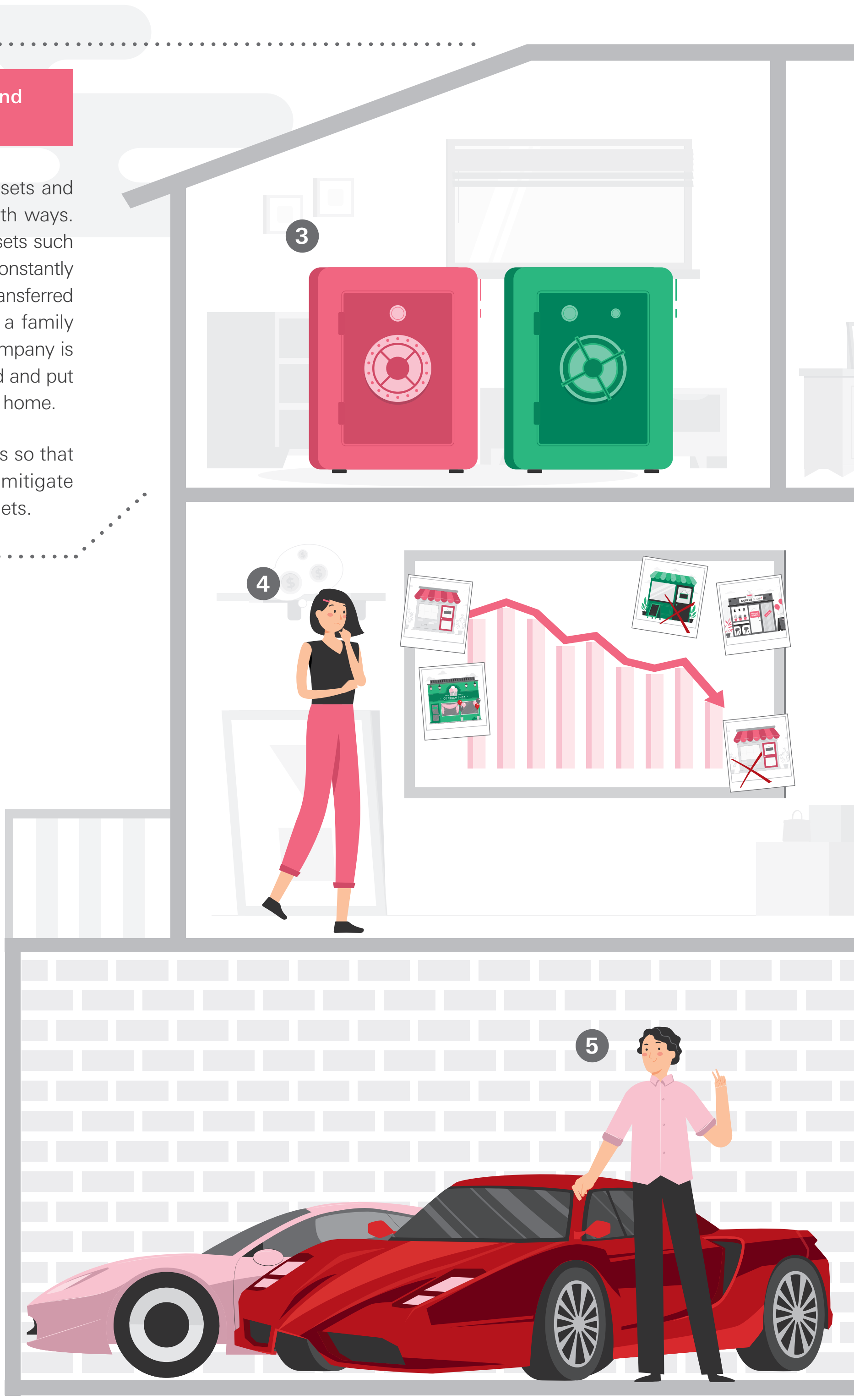


3. World Bank: Life expectancy at birth.
4. Census and Statistics Department: Women and Men in Hong Kong – Key Statistics (2020, 2021, and 2022 editions).
5. Hospital Authority: Leading Cancer Sites in Hong Kong in 2021 (October 2023).

Risk 3 Blurring of the line between company and personal assets

If there is no clear distinction between family business assets and personal assets, the resulting negative impact may go both ways. For instance, if a family member appropriates company assets such as cash and vehicles for their own use, their actions may constantly be eroding the value of the family wealth which could be transferred to future generations. In a similar scenario, let's assume a family member has been living in a company property and the company is poorly managed. Eventually, the company may be liquidated and put up for public auction, and the family may end up losing their home.

Mr Ding can try to find a way to isolate some of his assets so that they can be managed independently. That would help mitigate corporate risks and prevent appropriation of company assets.



Risk 4 Personal indebtedness

If, in an attempt to solve personal problems, a family member incurs debt which they are subsequently unable to repay, the family might need to sell its assets to settle the debt on their behalf. That's why, to prevent a crisis, you should consider assigning a portion of your wealth to an outside expert for independent management.

Risk 5 Reckless spending by heirs

If Mr Ding transfers too much wealth too early to family members who are not yet financially competent but have bad lifestyle habits, the inheritance may be exhausted in a short time. With the help of appropriate legacy planning tools, you can arrange for regular payments to be made to your heirs to help train them in proper wealth management.

Risk 6 Inheritance dispute

Inheritance disputes involving wealthy families are all too frequent. The most common case is to challenge a will in court. The money, time and energy often consumed by these protracted litigations between family members are hard to estimate. Deploying effective wealth transfer tools and strategies may help prevent dispute and maintain family harmony.

Risk 7 Failure to appoint a successor

The previous generation's work may not interest younger family members. For a family-owned company that lacks a successor, it may risk its reputation and the continuity of business operations. In either case, suppliers may take the company to court over outstanding payments, or creditors may apply for liquidation. That's why Mr Ding should start nurturing the interests and abilities of potential candidates as early as possible, which will help him pick a successor eventually.

Risk 8 Issues arising from successors' immigration

Do you have family members who are planning to emigrate? If the intended destination has an inheritance tax, the heir may end up losing a substantial portion of their wealth. It's therefore always a good idea to seek professional wealth management and tax advice to ensure greater protection for your heirs.

Life is full of risks. Some we know, some we don't. Having the foresight to make the necessary preparations will help safeguard the family's legacy and values in the long run.

Setting the direction with thorough legacy planning

Legacy planning is the use of different tools to establish a process for transferring your accumulated wealth, so that whatever happens in the future, your wealth will still be passed on to the heirs of your choice and in accordance with your wishes. The life cycle is universal and unchanging. As long as you have a good legacy plan in place, you can ensure your loved ones will be provided for and their financial burden alleviated even if anything unexpected happens.

Why is asset planning so crucial in the wealth transfer process?

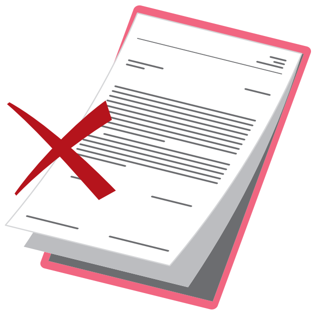
Some people think legacy planning is all about making a will. The more traditionally minded may think that legacy planning is only for the wealthy. They may, in fact, only use simple, everyday financial tools to leave their savings for their family members.

In fact, legacy planning is relevant to everyone. More than that, different people have different legacy planning needs. Below are some frequently asked questions to provide more ideas on the topic.

What is the difference between having a will and not having a will?

With a will

- Can allocate assets according to personal wishes.
- Can designate any successor, allocate wealth precisely, and include anyone among the beneficiaries, including people who are not related to the family or even charities.



Without a will

- Generally speaking, when a will has not been made, the heirs to an estate are prioritised in the following order: Spouse > children > parents > siblings > grandparents > elder paternal uncle / younger paternal uncle / maternal uncle / paternal aunt / maternal aunt
- Property, stakes in a company, objects with commemorative value, etc. may be difficult to divide evenly and therefore have to be sold to be split into equal shares.
- Probate takes time. In the absence of a will, it may take even longer.

Note:
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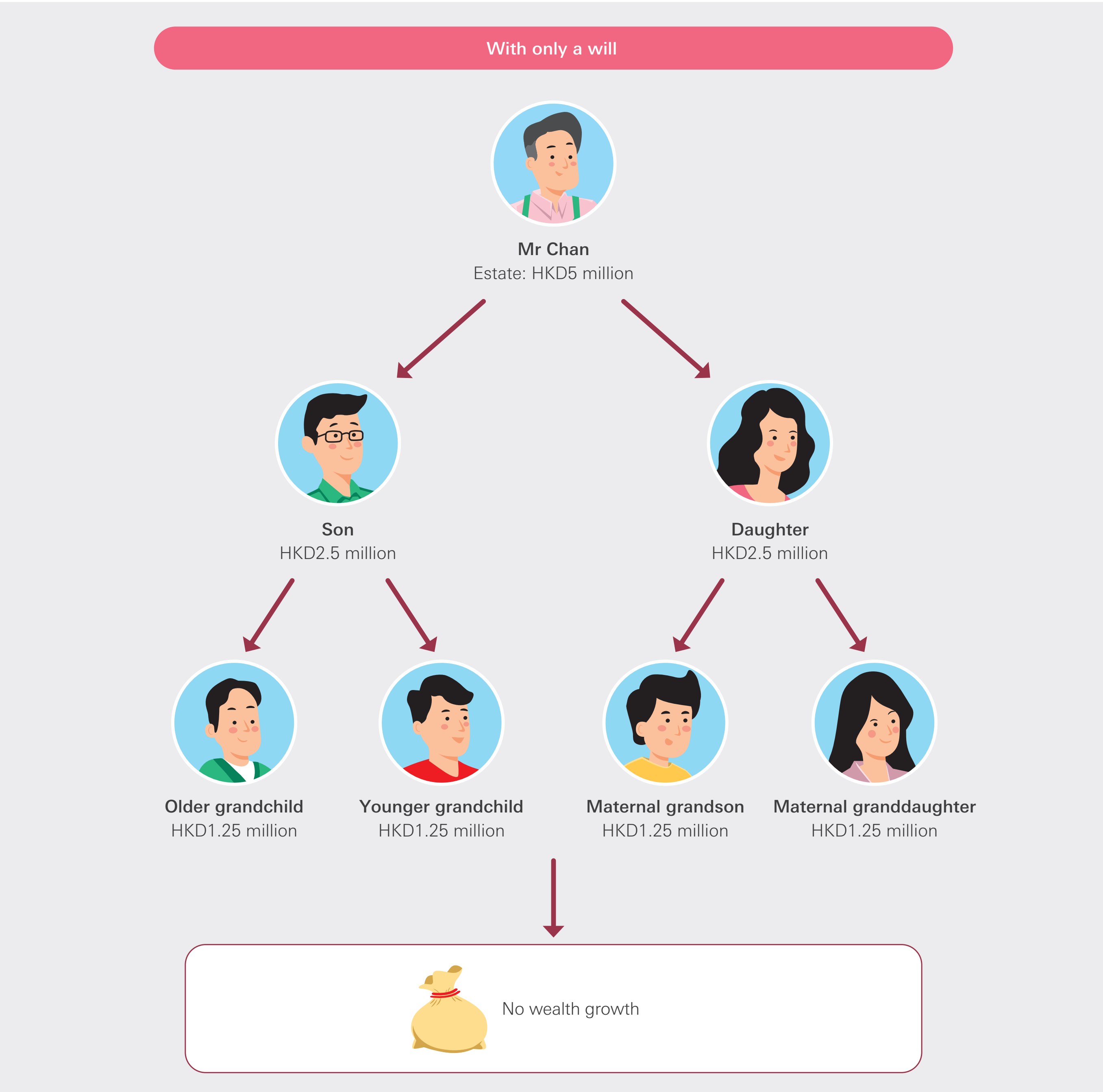
If I have already made a will, there would be no need for legacy planning?

A will is only one of the basic legacy planning tools available. And legacy planning is not only about the allocation of resources based on the testator's wishes. It's also about preserving and growing the wealth in the estate. A will alone may not be enough for fully achieving your goals. Chapter 5 of this booklet covers a range of legacy planning tools to explain their respective merits and help you choose the right wealth transfer solution.

Is a will not enough?



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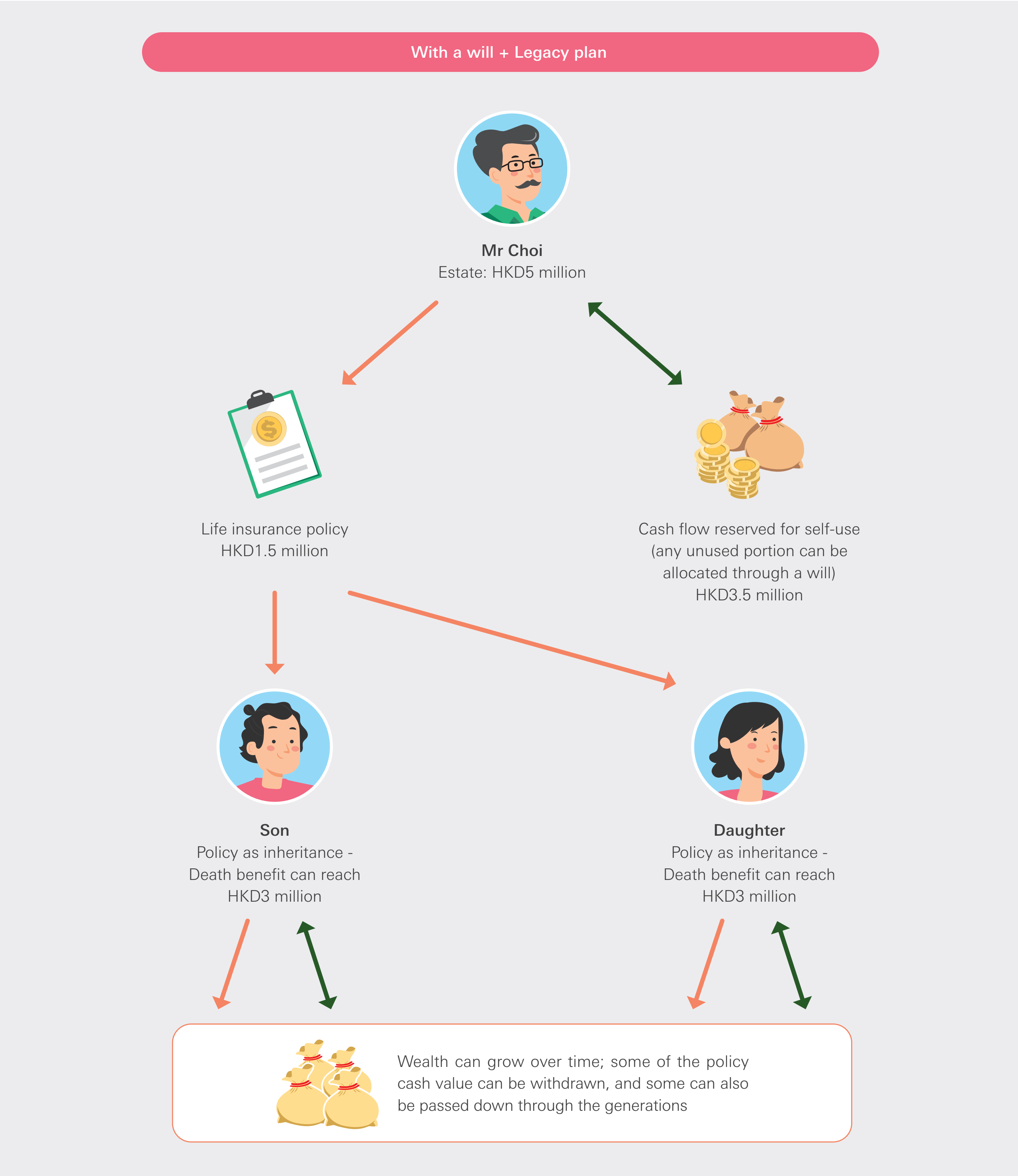

Looking at the cases of Mr Chan and Mr Choi, we can see that a will should only be one component of your legacy plan, and deployed in conjunction with other indispensable legacy planning tools.

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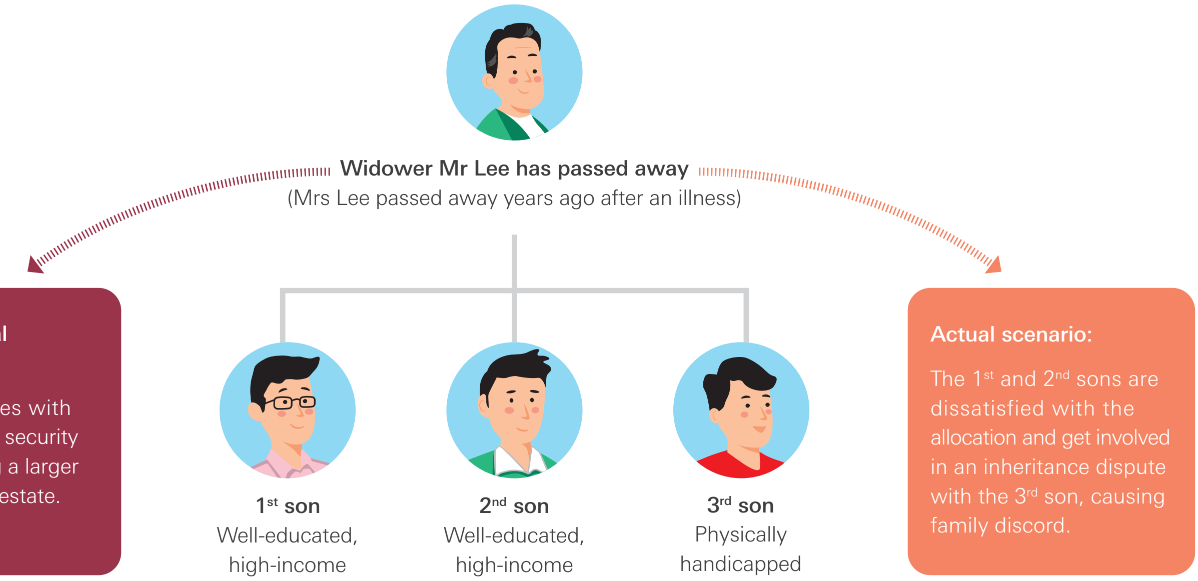
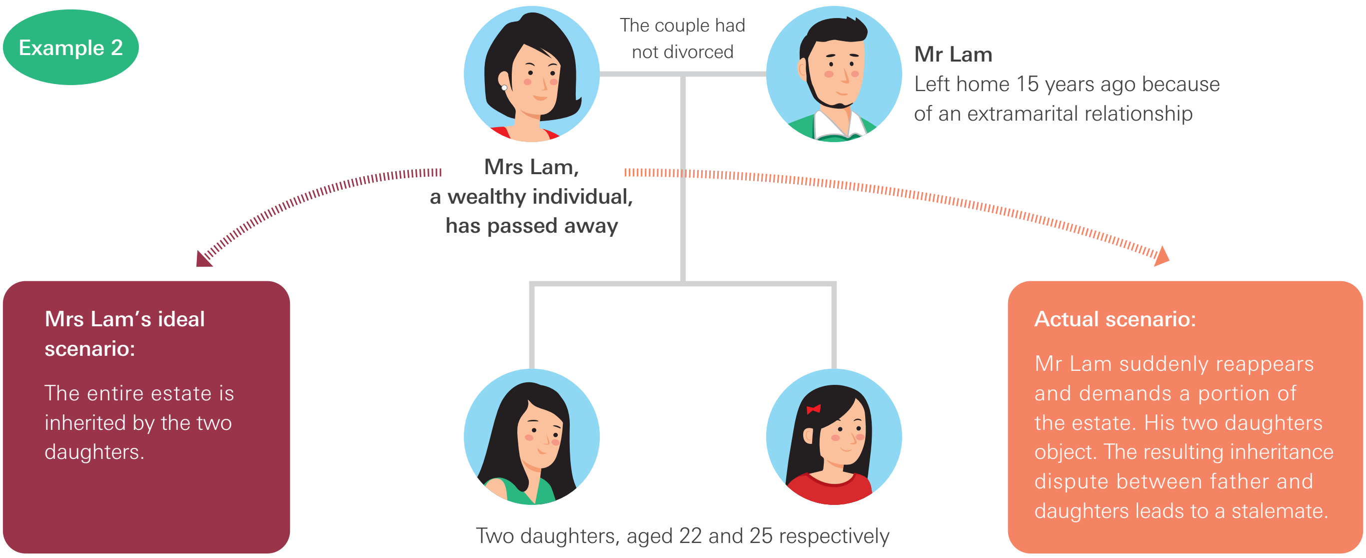
If I have left instructions regarding who gets what, will my assets be allocated in accordance with my wishes?

There will always be uncertainties in life. In situations involving complex family relations, even if arrangements have already been made, the wealth transfer process can still be held up by unforeseen incidents such as family dispute. The ensuing process may require the assets to be frozen, costing time and money.

Example 1



Example 2



How should the above situations be resolved? The issues surrounding the inheritance process can be very complicated. It is best to seek independent professional advice. At the same time, various legacy planning and wealth management solutions can be considered to ensure the right assets will go to the intended successors.

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Should I open a joint bank account with my family members for wealth transfer purposes?

Generally recognised advantages of a joint account:

- When I pass away, my family members can withdraw cash from the account without paying lawyers' fees or going through complicated procedures. My wealth can be transferred simply and directly.
- I'll only need to reserve part of the funds for my medical expenses and long-term care, then open a joint account with my wife. Even if I have a serious illness, my wife can withdraw cash anytime to cover expenses.

Risks of using joint account for wealth transfer:

- Assumption: A very large sum is in the joint account when you pass away. If the joint account holder withdraws funds from the account but is accused by other family members of appropriating the money, an inheritance dispute will likely ensue.
- You can designate the deposit as a gift in your will to protect the interest of the joint account holder and shield them from legal challenges, but it would be difficult to avoid disrupting family harmony.
- If a joint bank account is used and it does not require the signature of both account holders for withdrawals, there is a risk that the gift recipient might unilaterally withdraw all the funds during the donor's lifetime.

Simple questionnaire for assessing your legacy planning needs

Legacy planning is not something only wealthy people do. It is needed by practically everyone. If you tick any of the below items, it's especially important to put a legacy plan in place as early as possible to lower risks.

Please tick ✓ the items applicable to you

1. Hope to gift your assets to a designated heir ◯
2. Unusual family structure ◯
3. Own local and overseas assets ◯
4. Have young children who have limited assets and are currently accumulating wealth ◯
5. Don't want your heirs to cope with the burden of an high inheritance tax ◯
6. Hoping to maintain a steady cash flow to protect your family's quality of life ◯

Legacy planning is not only about how much wealth or how many assets. It's also about using the appropriate tools to formulate a comprehensive plan for the future based on your own circumstances and needs, and in doing so, preserving the family wealth for future generations.

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Choosing the right legacy planning tool

Whatever your legacy plan of choice, you have to have assets to begin with. What is an asset? It is a resource or possession that has economic value and the potential to provide future gains.

What are the different types of assets, and which types are most suitable for inclusion in a legacy plan? In the past, there were basically only two types of assets: tangible and intangible. But because times have changed and technology has developed by leaps and bounds, there are now two new categories: traditional and digital. The following summary shows the different asset types with regard to the demands of wealth transfer. Understanding the differences will make it much easier for you to choose the right asset type for your needs.

9 key types of assets

Cash

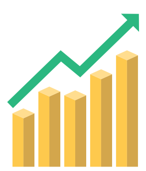
Cash is one of the most common types of assets. Everyone knows that its value can be eroded by inflation, but one of its key advantages is that you are not exposed to risks during an interest rate hike cycle and can enjoy potential wealth growth. Over the long run, it is a good strategy to diversify and seek wealth growth through different wealth management solutions.

Collectibles

Art pieces, jewellery, antiques, luxury timepieces or even designer handbags are all collectibles. These are typically sought-after because of the collector's deep personal interest. One main disadvantage is that, because there are many counterfeits, experts often have to be hired to appraise and authenticate new acquisitions, which require considerable time and money. And if you want to sell a collectible, you'll have to wait for a good bid from a discerning buyer. For wealth transfer purposes, it's better to limit the percentage of your wealth represented by collectibles.

Property / Land

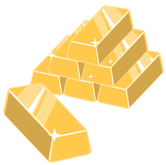
Property is a common tangible asset that can provide long-term appreciation value. Because property can also generate a stable rental income, it has always been a popular wealth transfer tool. One of its biggest disadvantages is that it cannot easily be converted into cash. That is especially true of land holdings. If a family member needs cash urgently but the market is sluggish, liquidity problems may arise.



Stocks / Bonds / Funds

Of these 3 types of assets, stocks are the most cashable. Bonds have relatively stable prices, and are mainly used to generate stable long-term incomes. Funds can be either bond funds or equity funds. Because funds are traded as units, it is easy to divide them fairly and evenly among different family members.

For legacy planning purposes, equity funds are especially worth considering, since they offer long-term growth potential. Bond funds, on the other hand, can generate a stable, long-term income. Pairing the two types of funds can be a useful strategy. But be sure to stay up-to-date on market developments. A falling market may shrink your net worth.



Precious metals / Commodities / Futures

The prices of gold and silver and other precious metals have been hitting new highs in recent years. That's why these tangible assets have attracted a lot of attention. Asians have always had a soft spot for gold, but its price cycles are too long and hard to predict. An added disadvantage is that it doesn't provide any interest income. For wealth transfer purposes, gold is best held in moderate quantities.

As for sugar, rice, petroleum, cotton and other such commodities and futures, it is very difficult to predict their price cycles, and buying and selling them requires plenty of specialised knowledge, which may not be suitable for legacy planning.

Virtual currencies

The most well-known digital asset. Prices have been reaching new highs in recent years, and many prospective buyers are confident that it will further appreciate in value and can be a good asset for wealth transfer. But keep in mind, theft, fraud and outright robbery involving virtual currencies are not uncommon. That's why many families are hesitant about including them in their wealth succession plans. Moreover, the heir is required to obtain and present a secret key for verification, which further complicates the legacy planning process.

Non-fungible token (NFT)

NFT took the world by storm just a few years ago, changing hands at astronomical prices and becoming highly coveted digital assets. Works by famous artists are always in demand. But more recently, the prices of many NFT products have been dropping, so investors are generally adopting a wait-and-see attitude. Some people think that since NFT is in essence a new technology and not limited to artistic creations, it may still have a lot of potential. As there are different schools of thought on NFT, those who are interested will have to reach their own conclusions.

Virtual real estate

Another digital asset – virtual real estate – originates from the metaverse. Its prices have been on a roller-coaster in the last few years; a square metre of virtual real estate priced at tens of US dollars can suddenly skyrocket to several thousand, then plummet to a few dollars. With that kind of volatility, it's far from an ideal asset for preserving value. Also, virtual real estate is in reality only a membership that entitles you to certain digital services. If these digital service providers encounter difficulties, the result may be financial losses.

Brands / Patents / Patented formulas

Classic intangible assets. Trademarks, brands, patented formulas for foods / beverages / medicines all belong to this category. There is no shortage of brands in the world that, on the strength of a unique formula, have generated enough wealth to enable a family to prosper and grow through many generations. This type of assets is eminently suited to intergenerational transfer, provided that the descendants are interested in running the family business.

Looking at this list, we can see that, since the members of a family will always differ from one another in terms of risk appetites, investment know-how and wealth management experience, there is no single type of assets that fits the planning needs of all families. The best thing to do is learn as much as possible about different assets and start planning early.

Meeting your family's needs with carefully chosen wealth transfer solutions

Different families or ethnicities have their own traditions and cultural preferences. It's only natural that they would have different practical needs. This section summarises a number of wealth transfer solutions as references to help you make an informed choice and ensure an efficient wealth transfer process.

Guide to legacy planning: Overview of 6 common wealth transfer tools

Legacy planning tool		
Life insurance	**Key features**	• Some insurance plans offer a policy split option, which allows you to split the policy according to specific proportions and transfer the policy rights. This allows you to allocate wealth with more flexibility and control than you can with property or other assets. • The beneficiary does not have to be a member of the immediate family. Some insurance companies also recognise non-cohabitating partners and same-sex partners. • Can arrange for the death benefit to be paid by instalments to prevent heirs from overspending while providing them with long-term protection.
	Liquidity	• In Hong Kong, beneficiaries of life insurance policies can receive death benefits directly. Since probate is not required and assets don't need to be frozen, better cash flow can be maintained.
	Wealth preservation	• Some life insurance plans include a savings element and provide non-guaranteed dividends and special bonuses to help accumulate the policy's cash value. • Some life insurance plans allow the policyholder to secure their wealth by locking in part of the policy value.
	Cost	• Depends on the sum insured of the policy. The cost is already reflected in the policy value, and there are typically no additional processing fees.
	Processing time	• The death benefit claim process could be completed as quick as 1 to 2 weeks (depends on actual circumstances and the insurance company in question).
	Risks	• If the policy is surrendered or terminated before the paid premiums reach the breakeven point, financial loss might be incurred.

Legacy planning tool		
Will	**Key features**	• The testator can revise the content of the will to change the way their estate is divided and allocated.
	Liquidity	• During probate application, the assets in the deceased's estate may have to be frozen for auditing purposes. That means the heirs may not be able to access the assets immediately to meet pressing financial needs.
	Wealth preservation	• Not applicable.
	Cost	• The cost of making a will varies from case to case. For details, please consult a lawyer or seek professional legal advice.
	Processing time	• The executor of a will must first apply for a Grant of Probate before the estate can be accessed. Under normal circumstances, 5 to 7 weeks might be needed[1].
	Risks	• If the legality of the will is challenged, the beneficiary might be required to prove the testator's intentions and mental capacity when making and signing the will[2]. • Even if a will has been made, the court can invoke the Inheritance (Provision for Families and Dependants) Ordinance, and order the allocation of parts of the estate to other family members or dependants[3].

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1. High Court Probate Registry, Guide to Court Services (February 2023).
2. Cap. 30 of the Laws of Hong Kong – Wills Ordinance.
3. Community Legal Information Centre, The University of Hong Kong Law & Technology Centre: Probate.

Legacy planning tool		
Trust	Key features	• Entrusting an estate to a trustee or trustee company for management. • Can prevent the unauthorised sale of the assets by any person other than the trustee. • The estate can be made available to the beneficiary in different stages to prevent overspending[1].
	Liquidity	• In Hong Kong, a trust can be in force for up to several decades. Once it is activated, it is difficult to terminate it or withdraw cash[1].
	Wealth preservation	• Some trustees will seek to preserve the value of the assets by entrusting them to investment professionals. The settlor can specify the preferred investment types, such as stocks, bonds, real estate, etc[1].
	Cost	• The cost of setting up a trust depends on the bank or trust company. An ongoing management fee is charged annually. Please check with the relevant company for details.
	Processing time	• The time it takes to set up a trust depends on the complexity of the assets involved. Once the trust is set up, assets can be allocated, and the trust can continue to operate even after the settlor passes away.
	Risks	• Trust companies are characterised by limited transparency. Settlors should seek professional advice on services, fees and provisions. • If the trust company closes down, the trust deed will be severely affected. • Under the law, once a trust has been set up, even the settlor may not be able to change the trust agreement. Flexibility is therefore relatively low.

Legacy planning tool		
Insurance trust	Key features	• Assets can be allocated in accordance with the grantor's instructions, including how and when payments are to be made to the beneficiary to support different life stage needs. • Since probate is not required, assets will not need to be frozen. • If the heir is underage, the independent trustee can help supervise the custodian.
	Liquidity	• While the grantor is alive, the trust is in standby mode, and does not require any injections of capital. This makes it possible to maintain better cash flow and financial flexibility.
	Wealth preservation	• Depends on the performance of the life insurance policy.
	Cost	• The cost of setting up an insurance trust depends on the company involved. Fees are charged only after the trust is activated (approximately 1% or more of the net value of the trust assets), which makes it possible to save on costs.
	Processing time	• For relatively simple assets such as insurance policies, an insurance trust can be set up in as little as 1 to 2 weeks. The time it takes to activate a trust in standby mode is subject to the death benefit claim procedures involved.
	Risks	• The beneficiary of an insurance trust is the trust company. If the company closes down, the beneficiary will be impacted.

Note:
- The above information is for reference only. Each individual's actual needs and requirements are different. HSBC Life does not provide any legal or tax advice. If necessary, please seek legal or tax advice from independent professionals.

1. Institute of Financial Planners of Hong Kong: Legacy planning.

Legacy planning tool		
Gift	Key features	• There are no restrictions as to who can receive a gift. Generally, gifts can be given to any designated family members as a way to transfer wealth, or to charitable organisations to benefit society. • Please seek legal and other professional advice with regard to the applicable contractual requirements. • If a joint account is not co-owned, the donor can specify in their will that the funds in the account are intended as a gift. That would allow the funds to be freely gifted to the other account holder while preventing legal challenges[2]
	Liquidity	• Not applicable.
	Wealth preservation	• Not applicable.
	Cost	• If legal or other professional advisors are involved, please enquire with these persons about their fees.
	Processing time	• Since assets are gifted to the recipient directly, there is no need to go through probate.
	Risks	• During divorce proceedings, if one side attempts to cause the other side's financial aid application to be unsuccessful through the use of certain asset arrangements (including gift agreements), the court can order the asset arrangements to be invalidated[3]. • If the donor declares bankruptcy, the bankruptcy trustee may demand the return of gifted assets[4].

Legacy planning tool		
Enduring Power of Attorney (EPA)	Key features	• The appointment of more than one attorney is allowed. An EPA can help ease the difficulties and distress that may otherwise be suffered by the donor's family (e.g. elderly spouse) in managing their affairs[5].
	Liquidity	• Not applicable.
	Wealth preservation	• Not applicable.
	Cost	• An EPA is set up through a lawyer or registered doctor. The cost varies according to circumstances. Please consult an attorney or other qualified professionals for details.
	Processing time	• Since an EPA takes effect only when the donor becomes mentally incapacitated, processing time cannot be estimated.
	Risks	• An EPA signed in the presence of a doctor does not constitute a legally binding document. Only an EPA witnessed and signed by an attorney and registered at the High Court will be officially recognised[5]. • Generally, an EPA is activated only when the donor becomes mentally incapacitated, so it is suited to more unusual circumstances. If the donor recovers and mental capacity is restored, the authorisation might be rescinded[5]. • If the donor declares bankruptcy or passes away, the EPA will be invalidated[5].

When making a legacy plan, be sure to make good use of different tools and solutions to build a secure, prosperous future for your family.

Note:
- The above information is for reference only. Each individual's actual needs and requirements are different. HSBC Life does not provide any legal or tax advice. If necessary, please seek legal or tax advice from independent professionals.

2. Big Silver: The risks of joint bank accounts.
3. Cap.192 of the Laws of Hong Kong, Matrimonial Proceedings and Property Ordinance.
4. Cap.6 of the Laws of Hong Kong, Bankruptcy Ordinance.
5. Department of Justice: Enduring Powers of Attorney - General Information.

Case study

Transferring wealth to safeguard future generations

Richard, aged 45[1], is a medical specialist. He has an 8-year-old[1] son, Jerad. To give his family a comfortable home, he has bought an apartment, for which he is making monthly mortgage payments. Richard understands that life can be unpredictable, and wants to ensure that, even in the unlikely event that he has a serious illness and loses his income, his family will not have to worry about the mortgage or living expenses.

To build a strong safety net for his loved ones, he purchases an **HSBC Life Jade Global Generations Universal Life** policy and adds the Critical Illness Advance Payment option (including the additional Early Stage Critical Illness Benefit)[2].

Policyholder and life insured: Richard, aged 45[1], standard non-smoker residing in Hong Kong

Sum insured: USD2,000,000

Basic plan annual premium: USD101,685

Critical Illness Advance Payment (including the additional Early Stage Critical Illness Benefit) annual premium: USD54,633

Total annual premium: USD156,318

Premium payment period: 5 years

Total premium: USD781,590

Remarks:
- The above examples are hypothetical and all figures are subject to rounding adjustment. These figures are non-guaranteed and are for illustrative purposes only. Please refer to the relevant product brochure and policy provisions for details.

1. Age refers to the nearest birthday of the life insured or policyholder (whichever is applicable).
2. For a list of the illnesses covered by the Critical Illness Advance Payment and Early Stage Critical Illness Benefit, please see the [Critical Illness Advance Payment – Additional Protection Applicable to Jade Global Generations Universal Life] section in the relevant product brochure.

Scenario 1

At the age of 60[1], Richard is diagnosed with early-stage liver cancer, for which he receives the Early Stage Critical Illness Benefit, which ensures that his mortgage payments and living expenses will not be affected by his medical expenses. The peace of mind thus enables him to focus on his treatment and recovery journey. At the same time, his account value continues to accumulate.

15th policy year

Richard, aged 60[1], is diagnosed with early-stage cancer

Early Stage Critical Illness Benefit (benefit amount is the lower of the amounts below)[3]

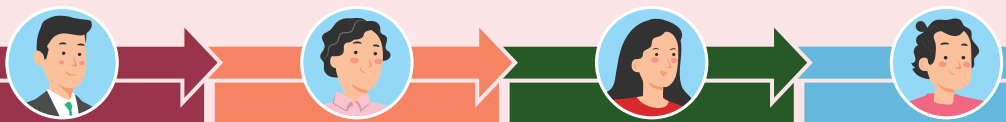
A 25% of sum insured: USD2,000,000 x 25% = USD500,000

B USD250,000

The benefit Richard receives is therefore B USD250,000

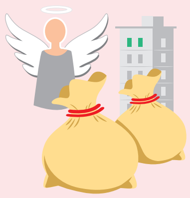
Account value: USD899,104

At the age of 75[1], Richard changes the policyholder and life insured to Jerad as a way to transfer the wealth and coverage to him. Several decades later, Jerad transfers the policy to his daughter Kitty, who in turn passes it on to her son Matt as a legacy of love. Matt, the 4th generation successor, decides to withdraw a portion of the account value to fund his new start-up.



	1st generation	2nd generation	3rd generation	4th generation
Policyholder & life insured	**Richard (Age[1] 46)**	**Jerad (Age[1] 38)**	**Kitty (Age[1] 30)**	**Matt (Age[1] 32)**
		Richard (Age[1] 75)	Jerad (Age[1] 68)	Kitty (Age[1] 60)
Policy year	At the end of the 1st policy year	At the end of the 30th policy year	At the end of the 60th policy year	At the end of the 90th policy year
Total death benefit	USD2,000,000	USD1,750,000	USD4,385,396	USD15,731,946
Projected account value	USD143,005	USD1,227,829 **157% of total premium paid**	USD4,385,396 **561% of total premium paid**	USD15,731,946 **2,012% of total premium paid**

Scenario 2



Richard designates his wife May and son Jerad as the policy beneficiaries, each of whom will receive 50% of the death benefit. He also owns a property valued at HKD6,000,000.

Subsequently, Richard passes away before his retirement at the age of 60[1]. Mother and son receive a combined death benefit of USD2,000,000 (approx. HKD15,736,000[4]) immediately, which enables them to cope with their most pressing financial needs without having to go through probate.

May inherits the property and pays off the outstanding mortgage with HKD1,000,000 from the death benefit. In that way, she ensures that her late husband's legacy is not one of debt, but of precious memories.

3. Based on the policy provisions, the upper limit for Early Stage Critical Illness Benefit is USD250,000.
4. Approximate HKD amounts are calculated based on HSBC exchange rates (referencing the banknote bank sell price on 20 June 2024).

Case study

Endowing future generations with talent and wealth

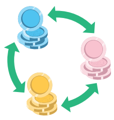
Jenny, 38[1], is a secondary school teacher. Her daughter Katherine and son Melvin are aged 3[1] and 2[1] respectively. At school, she is a wise and experienced mentor committed to helping her students become avid learners and critical thinkers. At home, she is a devoted mother focused on uncovering her children's potential and nurturing their talents. She understands that the next generation will face a lot of competition and challenges, and wants to start planning early for her children's and even grandchildren's long-term protection.

Based on her financial insight, she chooses **HSBC Eminent Goal Multi-Currency Insurance Plan** to meet her requirements

Policy Split Option[2] facilitates asset allocation

Designation of contingent policyholder ensures the policy is managed by a trusted individual

Change of Life Insured Option[3] enables flexible legacy planning



9 currency options with Currency Switch Option[4] for total flexibility anytime

Sustained wealth accumulation helps build a prosperous future

Policyholder & life insured	Jenny (Age[1] 38)	**Premium payment period**	5 years
Total premium	USD250,000	**Annual premium**	USD50,000

Remarks:

- The above examples are hypothetical and all figures are subject to rounding adjustment. These figures are non-guaranteed and are for illustrative purposes only. Please refer to the relevant product brochure and policy provisions for details.

1. Age refers to the age of the life insured or policyholder (whichever is applicable) at the next birthday.
2. Starting from the 3rd policy anniversary, or at the end of the premium payment period, provided that all premiums have been paid in full (whichever is later), the policyholder can exercise the Policy Split Option. Each policy can be divided into a maximum of 3 split policies, each with a new policy number. The policyholder of each split policy can apply to exercise the Policy Split Option to further divide their policy into a maximum of 3 split policies. The policy amount of each split policy must meet the minimum policy amount requirement determined by the Company from time to time. The policy amount cannot be increased during the policy term as a way to enable the exercise of the Policy Split Option.

Policy A (USD)
Policyholder & life insured:
Jenny (Age[1] 48)

At the end of the 10th policy year
Projected net cash value: USD293,618
Total death benefit: USD367,750

When she is 48[1], Jenny exercises the Policy Split Option[2] to divide the policy into two and make Katherine and Melvin the life insured[3] of each of the new policies respectively. Both policies are changed to juvenile policies. Since her children are still young, Jenny designates her husband Frankie as the contingent policyholder so he can take over the management of the policy if she unfortunately passes away.

After the Policy Split Option[2] has been exercised, the combined projected net cash value of policies B1 and B2 is equal to that of policy A, and no market adjustment is required. And after being split into policies B1 and B2, policy A is terminated.

50%

Policy B1 (USD)
Life insured: Katherine (Age[1] 13)
Policyholder: Jenny (Age[1] 48)
Contingent policyholder: Frankie (Age[1] 50)

At the end of the 10th policy year
Projected net cash value: USD146,809
Total death benefit: USD185,125

50%

Policy B2 (USD)
Life insured: Melvin (Age[1] 12)
Policyholder: Jenny (Age[1] 48)
Contingent policyholder: Frankie (Age[1] 50)

At the end of the 10th policy year
Projected net cash value: USD146,809
Total death benefit: USD185,125

By the time Jenny is 58[1], Katherine and Melvin have grown up. Jenny decides to transfer policy ownership to her children, who can then decide whether to make withdrawals from their respective policies for their own use or continue to accumulate policy value. Also, Jenny exercises the Currency Switch Option[4] for the policy transferring to Katherine, Policy B1, by changing the policy currency to AUD, as to support her daughter for her living in Australia. In this way, Jenny has used her original policy to pass on not just her wealth but her love and financial intelligence to her descendants.

Policy B1 (AUD[5])
Policyholder & life insured:
Katherine (Age[1] 23)

At the end of the 20th policy year
Projected net cash value: AUD372,696
Total death benefit: AUD403,424

Policy B2 (USD)
Policyholder & life insured:
Melvin (Age[1] 22)

At the end of the 20th policy year
Projected net cash value: USD260,334
Total death benefit: USD283,875

When Katherine is 63[1], she makes her daughter the new life insured[3] and policyholder.

Melvin, at the age of 62[1], exercises the Policy Split Option[2] and makes each of his two sons the life insured[3] and policyholder of one of the new policies. He also exercises the Currency Switch Option[4] to covert the two policy currencies to CAD and GBP respectively to help cover his sons' living expenses abroad.

After the Policy Split Option[2] and the Currency Switch Option[4] have been exercised, the combined projected net cash value of policies C1 and C2 is equal to that of policy B2, and no market adjustment is needed. After being split into policies C1 and C2, policy B2 is terminated.

100%

Policy B1 (AUD[5])
Policyholder & life insured:
Joey (Age[1] 30)

At the end of the 60th policy year
Projected net cash value: AUD3,707,752
Total death benefit: AUD3,797,585

50%

Policy C1 (CAD[5])
Policyholder & life insured:
George (Age[1] 25)

At the end of the 60th policy year
Projected net cash value: CAD1,681,768
Total death benefit: CAD1,721,700

50%

Policy C2 (GPB[5])
Policyholder & life insured:
Gilbert (Age[1] 23)

At the end of the 60th policy year
Projected net cash value: GBP1,035,969
Total death benefit: GBP1,060,795

3. After the 1st policy year, or at the end of the premium payment period, provided that all premiums have been paid in full (whichever is later), each policyholder can exercise the Change of Life Insured as many times as they wish. Any change of life insured requires proof of insurability and approval by the Company, which is based on the underwriting conditions of the life insured. Change of Life Insured applications will be assessed on a case-by-case basis and at the Company's discretion, taking into consideration multiple factors, including but not limited to the claims settlement risk, date of the policy change and the prevailing economic outlook.
4. Starting from the 3rd policy year, or at the end of the premium payment period, provided that all premiums have been paid in full (whichever is later), the currency switch option can be exercised to convert the policy currency to USD / RMB / HKD / GBP / CAD / AUD / EUR / SGD / MOP (MOP is applicable only to policies offered in Macau).
5. Projected net cash value and total death benefit paid are calculated according to the illustrative exchange rates USD to AUD = 1:1.41, USD to CAD = 0.77:1 and USD to GBP = 1.25:1. The illustrative exchange rate is for reference only. The actual exchange rate applied will be the prevailing exchange rate as of the effective date of exercising the Currency Switch Option as determined by the Company from time to time and at our sole discretion. Net cash value, total basic plan premium paid and policy value management balance (if any) will be switched into the converted currency using the prevailing exchange rate as of the effective date of exercising the Currency Switch Option, subject to rounding difference, and no market value adjustment will be applied.

Featured interview

Succession planning: Wealth transfer strategy and so much more

Dr Kenneth Kwong Co-Director, Chinese Family Succession Research Centre, The Hang Seng University of Hong Kong

As legacy planning grows in importance and continues to attract attention worldwide, family succession has emerged as a specialised field of academic inquiry. What is the current thinking on the topic? What insights do scholars have on the what, when and how of succession planning? We talk to Dr Kenneth Kwong to learn about some of the basics and get his perspective on the value of a family heritage.

What is family succession? Is it a separate area of study?

The goal of succession planning is to transfer a family's prized possessions from one generation to the next. Our research indicates that the process often involves more than valuable assets. It also encompasses a family's core values, teachings, aspirations, business interests, unique insights, social connections, human capital and more. So an inheritance can be both financial and intellectual.

Since succession planning requires different competencies, the research we do and the solutions we propose are related to more than one academic discipline. For instance, to help people develop their businesses and ensure a smooth wealth transfer process, you need to draw on the accumulated wisdom of marketing, sociology, psychology, business management, etc. And because the process often involves trust funds and tax strategies, knowledge in such areas as law and accounting is also indispensable. That's why succession planning has indeed become a cross-disciplinary subject in our time.

Why is it important to pass on experience and wisdom to the next generation?

As important as it is to transfer wealth, it's even more important to transfer insight on how to create wealth. That's how you can benefit future generations once and for all. As the saying goes, "Give a man a fish, and you feed him for a day. Teach a man to fish, and you feed him for a lifetime." In other words, a fish doesn't last. It is only by giving a man fishing skills that you can help him in the long run.

That's why we advocate FISH, a principle for managing Financial Capital, Intellectual Capital, Social Capital and Human Capital, the 4 key components of successful wealth succession. It's a step-by-step guide for helping young people inherit the best that their families have to offer.

4 key components of FISH

F

Financial Capital

Transferring assets to lay a strong wealth foundation for the next generation.

I

Intellectual Capital

Imparting all the wisdom, experience, professional insights and business skills that will give young heirs an advantage as they move forward.

S

Social Capital

Equipping them with personal connections and social networks for extending and expanding the family business.

H

Human Capital

Providing a holistic education to help groom successors; supporting them with a team of veterans.

Why should the average person learn about succession planning?

Most people want to leave their most cherished possessions for their loved ones. And how much something means to a person is not always determined by how much it's worth. One of our respondents has kept an old watch that was a family elder's treasured possession. The watch is not worth much and can no longer be repaired. But it's a repository of so many precious memories – all the love, hopes and dreams, family history – that it's unique and irreplaceable. Sometimes the heirloom is an old photo with an inscription on the back –an elder's wish or a maxim. Then it's also worth preserving for your grandchildren or even great-grandchildren.

Another scenario is, a person passes away without making a will or other arrangements. In that case, even if there aren't many assets left behind, family dispute is still a possibility. Even if a person is single or doesn't plan to have kids, there are probably siblings, cousins, etc. These individuals could all become lawful heirs. That's why everyone should find out how to ensure a smooth succession, so as to prevent disagreement and maintain family harmony.

When should we start planning? What are the tools available?

For general reference, we suggest starting the planning process after the birth of your first child. I have friends who have taken out life insurance policies, which will serve as their children's education funds. That's an option worth considering. But there isn't a standard timetable that applies to everyone. There are families that started passing down their assets several generations ago, and the descendants are just continuing with the same succession master plan.

There are many different legacy planning tools available. Common solutions include wills, life insurance policies, etc. Insurance plans are easy to understand and choose, and are designed for a very wide audience.

A successful wealth transfer starts with 3 basics, summarised as follows:

3 keys to successful wealth transfer

1	**Awareness**	Whether you're from a wealthy family or an average person, it's important to learn about and consider succession planning options as early as possible.
2	**Attitude**	Stay optimistic as you approach the later stages of life, and maintain a positive attitude towards succession planning.
3	**Action**	Choose your legacy planning solution carefully and then act on it.

Once the above foundation is in place, family members should communicate often and compromise where necessary in order to reach consensus, then work together towards their legacy planning goals.

People often say family wealth doesn't last beyond 3 generations. In reality, how many generations can a family legacy extend to?

Whenever our students ask about this, we often cite examples from the US and Europe. In the US, there are several prominent families whose wealth has passed through six generations or more. Every enduring legacy has its basis in a good succession plan and family protocol. European royalty and some of the most distinguished families in the world trace their histories back over many, many generations. The Japanese emperor's family records chronicle more than 100 successions.

In Hong Kong, there is no shortage of families whose wealth has passed through three or four generations or even longer. But they tend to keep a low profile and remain, despite their wealth, "invisible" to the public eye. So examples from both East and West show that successful wealth transfer is closely tied to a comprehensive legacy plan designed to connect generations through a family heritage.

How does Hong Kong differ from other countries with regard to legacy planning? What trends can we expect to see in the future?

Hong Kong is often compared to the West. Countries in Europe and North America prioritise equality. In the East, there is still a slight emphasis on male heirs, and many families prefer to hand over the reins of the family business to the eldest son or grandson. In Taiwan, for example, many families running an enterprise do plan to pass the baton to the eldest son and a son who has good chemistry with his father. Western families tend to be different. If no one in the family is interested or suitable, the family business is often entrusted to management professionals and the descendants would stay on only as shareholders.

Also, Asians generally have a stronger awareness of their roots, and would make a point of remembering their families' history and identity as part of the legacy to be passed on to future generations, much like a baton is passed on from one runner to the next in a relay race.

Looking ahead, we believe that, as more and more people turn their attention to the topic, succession planning will no longer be the preserve of those who are wealthy or have children. Meanwhile, more people will come to understand the cultural traditions and wisdom that are deeply embedded in the process of family succession.

Featured interview

Inheriting a priceless legacy Turning dreams into reality

Diana Wong Managing Director, Verde Jewellery & Director, Venchi

Every family is the guardian of a unique heritage. Encompassing experience, wealth and beliefs, this heritage is preserved and passed on from one generation to the next. How do young people draw inspiration from the past and follow their dreams into the future? Diana Wong has not only taken the helm of a thriving family jewellery business, but made successful forays into the premium chocolate and fine embroidery markets. She talks to us about her most cherished family heirlooms – the previous generation's legacy planning wisdom, business acumen and innovative vision.

What have you inherited from the previous generation?

Despite starting with limited means, my parents were able to establish a manufacturing, design and wholesaling jewellery company. Through their hard work, they laid the groundwork that empowered me to develop a jewellery brand and venture into other entrepreneurial pursuits. Witnessing their dedication and resilience demonstrated to me the importance of lifelong learning and determination.

Ever since I was a child, my parents have emphasised the crucial importance of keeping one's word, maintaining a humble attitude towards learning and having a kind heart. Acting as my role models, they have instilled in me the right values for doing business. They have expectations for me but also encourage me to choose my own path and pursue my dreams. Once you've set yourself a goal, stay focused on it. No matter what obstacles lie ahead, do your best to overcome them and believe in yourself. It is from them that I have learned and internalised these core values.

My parents are deeply committed to caring for their elders. They always remind me to be thankful for what I have, and to help the elderly and people in need. And I hope to pass on their compassion to the next generation by teaching my children to serve the community and contribute to society in the future.

From jewellery to chocolate to embroidery, you've forged many new paths even while you're following traditions. Why?

Dreams are what drive you forward. From a young age, I have already developed a keen interest in business and because I am the only child, I am determined to continue my parents' legacy. As our family's jewellery business became more established and accumulated significant experience over the years, I began to dream of creating an international jewellery brand. Doing so would allow us to expand our market reach and grow the overall scope of the business operations.

For the chocolate business, I encountered Venchi when I attended a jewellery exhibition in Italy many years ago. It made a lasting impression on me. Later, my persistent efforts were rewarded when Venchi granted me the opportunity to establish an exclusive franchise. Initially we focused on selling Venchi's products to hotels and corporate clients in Hong Kong. After several successful years in the business-to-business market, we expanded into the retail sector. Given our strong relationship and Venchi's trust in us, we started a joint venture with the Italian company. Venchi, which has over 140 years of history, is uncompromising when it comes to quality and its traditional recipes. At the same time, it is committed to continuous innovation. My vision for our family business is to embody the same values as Venchi and to become a centenary-old brand as well.

During the pandemic, our jewellery company couldn't attend overseas exhibitions and our wholesale business was severely impacted. Other than reaching our overseas clients via video calls, we shifted our focus to the Hong Kong retail market and discovered its potential. After negotiating a favourable terms for a suitable retail space, we opened the first store for a new brand, Verde Jewellery, which represented significant milestone in our business development. This initiative broadened our geographic reach and the overall scale of our jewellery operations.

Interestingly, it was also during the pandemic time when I met an accomplished local embroidery artist. Her work combined the finest traditional craftsmanship of both East and West. It was quite inspiring to us. I also had a friend who shared our goal of preserving our cultural heritage. That was how we started La broderie, an embroidery crossover jewellery project, with a shop in Causeway Bay.

Have you ever encountered obstacles that made you want to give up? How did you overcome challenges?

Every time I explored a new business opportunity, there was a lot of pressure. Sometimes it was difficult not only to manage my time, but to wear different hats, so to speak. At first, running the chocolate store was especially challenging because we didn't have any retail experience or related resources. When you're starting from scratch, you sometimes feel lost and can't find a way out.

But I never thought of giving up. Perseverance in the face of challenges is a core family value. With a combination of courage, passion and drive, I finally succeeded in opening the first retail store. As one of my colleagues jokingly said, trying to overcome obstacles is like playing a video game. As long as you're prepared to solve problems patiently, you'll level up eventually and find new opportunities waiting for you.

You've been chasing your dreams for years. What insights do you have to share with the younger generation?

We're not very successful yet, but after several decades in the industry, I can share some of my experience with the younger generation.

4 keys to success for young dream-chasers

1	**Give it all you got**	Controlling costs is important in doing business, but in life, don't get hung up on immediate rewards. Work harder, do more, and you'll eventually reap what you sow.
2	**Stay humble**	Every elder and colleague has their own strength and expertise. They can teach us a lot. Never stop learning.
3	**Be passionate**	Stay true to yourself, keep striving. Your passion will inspire others and bring you unexpected rewards.
4	**Be resilient**	Don't be afraid of failure. To succeed, we have to keep trying. Believing in what you're doing, keeping the faith – that's how you stay resilient.

Are you planning your succession? What are your expectations for the next generation?

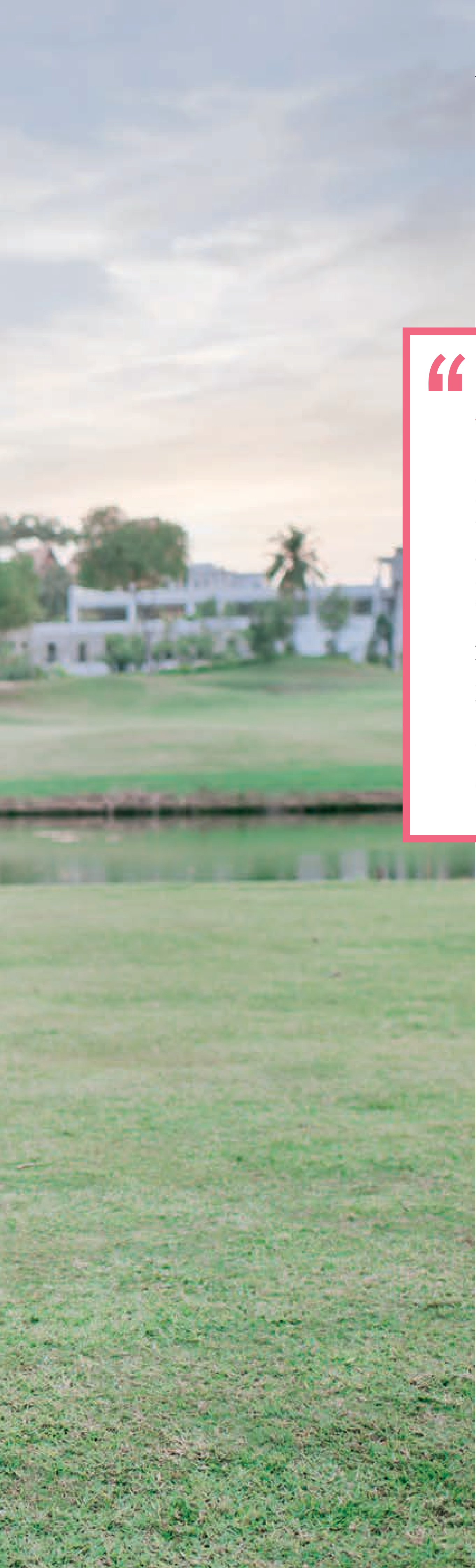
I'm still observing my children's personalities, talents and interests. If their dream is also to carry on the family enterprise, I would of course be very glad. But times have changed. In the past, parents always wanted their children to take over the family business. Now it's all about the children's personal wishes. If they don't want to do it, you can't force them. Otherwise, it would be difficult to make the most out of their individual talents.

As a parent, I want my children to grow up healthy and happy. I also want them to choose the right path for themselves. I hope the next generation will:

- Have strong values
- Achieve their aspirations
- Take responsibility
- Contribute to society consistently

What else do you want to do in life?

We all have different things on our to-do lists at different life stages. For now, managing the new brand is still my focus. Once the business is on the right track, I want to maintain personal wellbeing by developing my other interests, like travel, painting, exercise, public service, etc. I'm looking forward to trying new things and having new experiences that will nourish my for body, mind and soul.



Afterword

Legacy planning might appear to be a dispassionate exercise that involves only financial instruments, valuations, calculations. In reality, the cold logic of numbers is being used to support the warmest of sentiments. You are, after all, endowing future generations with the confidence to live well and dream big.

As long as you can overcome traditional taboos, face the task at hand with a clear sense of purpose, and start planning early, you will have time enough to find the right wealth transfer solution. And your enduring legacy will be a great future, prebuilt, ready to be inherited by many generations to come.

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