The destructive power of family wealth by Philip Marcovici

Book review by Tim Bennett, Belgrave

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Hong Kong based international tax lawyer Philip Marcovici's new book - *The Destructive Power Of Family Wealth* - is a thought-provoking and fascinating reflection on the author's years of practice both in Hong Kong and in Switzerland, and (unintentionally) marks the end of the free-for-all era in the offshore world and its recent inundation by the twin imperatives of modern compliance, in the form of the OECD's Common Reporting System (CRS) coupled with the inclusion of tax evasion within the panoply of money-laundering offences (AML).

CRS is new and still currently unfolding, whereas AML laws and regulations have been around in one form or another for decades, albeit only recently extended to tax offences.

Mr Marcovici's many observations and comments cover a wide range of human activity, including the behaviour of families, their advisors, and of the wealth management/ private banking industry. Mr Marcovici also looks carefully at private sector regulation (pointing to some of its failures); and also, the ambitions of tax gatherers, governments, and the related about-to-be automatic exchange of information initiatives of supra-national bodies such as the OECD (the CRS, as mentioned above).

Mr Marcovici also criticises the scope of the CRS information exchange [pages 69-71] in relation to both Singapore and Hong Kong, which operate a territorial basis of taxation [and which Mr Marcovici notes are as attractive midshore locations - page 186]

Amongst Mr Marcovici's many insights, the following specific areas of comment and observation did particularly chime with the reviewer's own area of professional focus:

1. The loudest and most consistent message Philip proclaims is the need for wealth owners (and their advisors) to "Play by the Rules or Get Out" [pages 75, 85 et seq.]. In relation to this, Mr Marcovici castigates secrecy as a defective basis tax for planning (the "how will anyone find out?" approach) [page 79], and likewise the dangers of fudge solutions such as hiding one's undeclared wealth with a friend, which merely transfers the problem to someone else [page 87]

2. Mr Marcovici's second theme (see chapter three - *The Move to Transparency*) is how the wealth management industry has failed to lead or to work out how best to cooperatively address the needs of all stakeholders, so that the future of the industry is now being dictated not by the industry itself but by others including onshore governments.

3. Mr Marcovici's chapter seven is on advisors, and includes detailed analysis of the role and function of private banking, both in the past and (to a much more limited extent) in the future.

I enjoyed learning about private banking "Hunters" and "Farmers" [pages 203 on]; having my views reinforced on private banking's excessive costs/charges [page 205]. Mr Marcovici discusses private banking's abuse of bank secrecy [pages 206-207]; their internal politics [page 208] whereby a relationship manager may be reluctant to introduce a client to his/her wealth planner or trust officer colleague, for fear that the client "may actually like the wealth planner or trust officer" colleague! [page 208].

And Mr Marcovici's statement of the blindingly obvious, that wealth management is a long-term relationship business, whereas private banks all too frequently change strategy and team members [page 228], to the extent that Mr Marcovici has not been impressed with the wealth-management industry and the leadership of many private banks, trust companies and other players, or indeed with the regulators in many financial centres [page 222].

Somewhat self-servingly, but by no means the less true for stating it, Mr Marcovici notes the need for private banks to manage and maintain an external network of experts [page 231]. It is also worth quoting in extenso Mr Marcovici's Golden Rule [page 199] namely that a first step for the wealth owner is to understand that no accountant or lawyer will be an expert on everything, and particularly when matters cross borders (which they almost always do).

Mr Marcovici closes the review of private bankers with some words of caution, worrying that "..we are coming into a period of greater and greater danger for families, of fraud and other risks that increase when those involved in the industry see little security for their own futures".

The reviewer also particularly enjoyed reading Mr Marcovici's comments on issues specific to art, jewellery, classic cars and other valuable special assets [pages 150-153] since these are asset classes that are frequently encountered in succession planning assignments.

Mr Marcovici notes the trade-off between privacy and confidentiality and how the current moves towards tax transparency [page 138] are compromising the human right to privacy. The reviewer has shared this sentiment since 2002, writing in the *Taxpayer Protection and Human Rights* chapter of *International Initiatives affecting Financial Havens* the reviewer asked who would champion privacy initiatives, and pointing to the United Nations as the obvious body to take up this task.

Extrapolating what the offshore landscape will look like in three years' time (as we enter 2020) points to a radically changed environment. We can safely predict the demise of large chunks and geographies of the traditional "offshore trust sector".

The reviewer estimates that up to 50 percent of what was previously "hidden wealth" will have exited the offshore scene within this time-frame, and up to 75 percent of the related "paid hiders of wealth" will likewise no longer be around. The positive aspect for those remaining in the industry lies in the consolidation and flight to quality at the top end, which continues apace.

Finally, Mr Marcovici's chapter six - The Tools of Wealth Planning - provides a helpful (albeit somewhat academic) overview of wills, trusts, foundations, partnerships and companies.

Mr Marcovici is a master of diplomacy and understatement, and his views are expressed with political correctness. Nevertheless the core message (as reflected in the title) shines through clearly, namely that families all too frequently destroy the wealth that an earlier generation has curated, by bickering and quarrels between siblings or rival blood-lines: this is all too often "nothing personal" to the parties involved, but is rather a trait of human nature exemplified by the universal adage *fu bu guo san* dai (literally: "Wealth does not pass three generations"), and rendered in the Lancashire proverb as *"Clogs to clogs in three generations"*.

This book will appeal to a broad cross-section of professionals involved in private client work, and also to the lay clients and families that they advise. As such the reviewer can wholeheartedly recommend it, even as a belated Christmas gift, but better as a thoroughly sobering read for the aftermath of the festive season!

The Destructive Power Of Family Wealth can be purchased here as well as on Amazon, Foyles and other online bookstores.

The reviewer is founder of Belgrave, was one of the 14 founder members of STEP and sat on the Council of STEP for a number of years and s the author of International Initiatives Affecting Financial Havens (Butterworth/Tolleys, in second Edition); A Practitioner's Guide to Money Laundering Compliance (LexisNexis Tolley); and Money Laundering Compliance (Bloomsbury, now in its third Edition).