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HSBC STUDY: CHINESE ENTREPRENEURS PRIORITISE TRANSFER OF VALUES DURING WEALTH SUCCESSION

- Joint study by HSBC and the Research Center for Global Family Business, PBC School of Finance, Tsinghua University
- Family trusts are the most preferred succession planning tool among surveyed centimillionaires in mainland China

Chinese entrepreneurs are increasingly looking to pass on 'values' alongside the transfer of business and human capital, says a new study on wealth succession and family trusts, jointly published by HSBC and the Research Center for Global Family Business, PBC School of Finance, Tsinghua University. The study also revealed that young second-generation entrepreneurs are more willing to participate in new economy industries in response to market trends.

The "2023 China Family Wealth Management – Beyond Uncertainty: The New Wave of Succession Planning and Family Trust" ("2023 中國家族財富管理——穿越不確定性：傳承浪潮與家族信託調查研究"), examined the wealth transfer needs and application of succession tools of Chinese ultra-high-net-worth entrepreneurs from the perspectives of cross-generational wealth transfer, corporate governance, family governance and philanthropy¹.

Jackie Mau, Head of Global Private Banking, HSBC China, said: "China's economy has experienced exponential growth and massive wealth creation in the past few decades and as a result, we expect significant waves of wealth transfer, particularly from private entrepreneurs, within 10 to 20 years. Data shows that the proportion of entrepreneurs aged 50 or above in China's largest private enterprises has reached 82%². From passing on wealth to managing the business, identifying the right talent and leaving long lasting values behind, succession is complicated and therefore requires a systematic process. Developing succession plans with support from professional institutions will help entrepreneurs better realise their succession goals and create positive wealth results for themselves, their families, their businesses, and society."

Wealth creators focus on building from original businesses while next generations look to new economy sectors

The study finds that Chinese entrepreneurs create wealth faster than their counterparts in overseas markets and are currently undergoing or will soon begin their first cross-generational transfer. They tend to start their planning relatively late and place a greater emphasis on business growth, and the process is commonly led by the wealth creators themselves.

Despite these findings, the study also discovered that in China, where there is strong economic growth momentum and an increasingly innovative culture, the second generation is usually introduced to innovation and transformation during the succession process. Growing up in different eras with diverse educational environments, second-or third-generation entrepreneurs are more receptive to new technology and new economy industries. They are more willing to invest in or attempt to enter emerging industries, such as biotechnology, artificial intelligence, and new energy.

Hao Gao, Director of Research Center for Global Family Business, PBC School of Finance, Tsinghua University, said: "Cross-generational transfer has always been a global challenge, and it is not a one-off event but a long-term process that often takes five to ten years, with the need to plan

ahead professionally. In addition, succession is always accompanied by innovation. Young second-generation entrepreneurs have huge potential to lead the development of new technology and new economy industries and the digital transformation of private enterprises. It can be said that the transformation and orderly succession of private enterprises will have a favourable impact on the sustainable development of China's economy."

Successful succession depends on both tangible and spiritual wealth transfer

The study shows that Chinese entrepreneurs not only focus on the succession of business and financial capital, and other forms of tangible wealth, but also value the succession of spiritual wealth, such as positive values. Over 40% of respondents indicated that they attached great importance to fostering the entrepreneurial spirit of the next generation and passing on the value of giving back to society. Some respondents said they would set incentives and limitations in their succession plans, requiring their heirs to contribute to their businesses, families and society.

Meanwhile, the study also notes that the principle of directing wealth to a good cause has taken hold and become an important part of cross-generational transfer. Almost 80% of respondents indicated their willingness to take part in achieving common prosperity. They may create jobs and tax revenues through the development of their businesses, or actively assume their social responsibilities through donations and impact investments.

Family trusts are the most preferred succession tool among surveyed centimillionaire

A combination of professional financial and legal tools is key to effectively realise succession goals. The study finds that family trusts are the most preferred succession tool among surveyed centimillionaires because of the benefits of risk isolation, asset appreciation, will continuity, taxation planning and philanthropy. About one-fifth (19%) of the above respondents have set up family trusts³.

The study further indicates that more than half of respondents (56%) hoped to achieve risk isolation through family trusts; 44% believed a proper trust design can help start a new business; and 39% of respondents stated that amid uncertainties in business succession, they hoped to help their heirs develop personal abilities and good character through the design of family trusts, so that they can have more career options and independent development pathways.

The study finds that China's family trust business entered the stage of rapid growth in just three years from 2019 to 2022, with the assets under management increasing from more than RMB\$100 billion to over RMB\$400 billion⁴. The new regulations on trust classification announced by the China Banking and Insurance Regulatory Commission⁵ will take effect from this June, indicating that the regulatory environment and legal system for family trusts are improving to better serve the public needs for wealth management, succession, education and elderly care.

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Notes to editors:

1. The study interviewed 18 ultra-high-net-worth entrepreneurs with a net worth of more than RMB\$3.5 billion, as well as nine local and international industry experts from family offices, trust companies, consultancies, law firms and banks, who have profound knowledge and extensive experience in succession
2. 2022 New Fortune 500 Rich List
3. According to a survey involving 2,618 Chinese private banking clients conducted by China Banking Association and Chinese Private Banking Department, Global Family Business Research Center, PBC School of Finance, Tsinghua University

4. “2022 中國家族信托可持續發展報告” by China Foreign Economy and Trade Trust
5. China Banking and Insurance Regulatory Commission officially published the Notice on Standardising the Classification of Trust Business of Trust Companies in March 2023, which will take effect on 1 June 2023

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