Secrets to successful succession

by Rajmohan Krishnan, 16th Jan, 2017

Succession Planning

The best time to create a succession plan was yesterday. The second best time is today.

It's astounding that so many high net-worth individuals (HNIs) don't even prepare a basic Will. As a financial adviser, I always ask my clients to put a foolproof succession plan in place and avoid great misfortunes.

In 2011, I visited the Hyderabad branch of a top bank, where I was working. My relationship manager took me to meet an entrepreneur with a dazzling ambition. He ran his goods distribution business with rigour. He was in his early 40s and seemed poised to become an industry leader before he retired. We struck an instant rapport, and I found myself asking questions about his welfare. Having realised he had done nothing to safeguard his family's future, I pressed him to create a Family Trust, which has two advantages. One, it would take care of the worst-case scenario (death or disability). Two, if his business loans remained unpaid, his assets could get attached, but not an irrevocable Family Trust. He agreed wholeheartedly, but didn't take any action. He asked me to talk to him after 2 years. I reluctantly accepted his decision.

A few months later, my relationship manager called to tell me that my client was no more. He had suffered a massive heart attack, leaving behind a young family with zero inheritance. The children were not old enough to take over the business. Overnight, their lives became a nightmare.

The moral of this true story is clear. The best time to create a succession plan was yesterday. The second best time is today.

Everyone should be wary of the dos and don'ts in succession planning. And my explanation exposes the many myths that surround this process.

Myth 1: A model succession plan exists

Every successful person belongs to a family with a unique structure and therefore unique needs. Moreover, every successful person has widely different formulae for social causes. So, design your succession plans prudently.

Myth 2: I can keep my family happily integrated after my death

Sometimes, a wealthy person ensures that future generations work together, unaware that this unity comes at the cost of lucrative business opportunities and/or loss of autonomy in business as well as professional spheres.

Succession plans must ensure that an ideological stance on family values does not hinder the happiness of future generations.

Myth 3: All it takes to create a Will is a lawyer

Lawyers are great at interpreting the law and ensuring that the succession plan will hold in a court of law. But are they the best professionals to determine what goes into the document? Think again.

Some families might be fortunate enough to have a lawyer confidante who can grasp the complexities of a family's relationships. But every other wealthy doyen needs a succession planner who is privy to the unique dynamics and needs of the family.

The succession planner is that objective expert who is paid to minimise the role played by emotions and ideologies. She will also be your commanding general.

Choose yours wisely.

Myth 4: A succession plan must focus only on future generations

Succession plans are not just about Wills and family Trusts. They can also be soundproof instruments to combat business risks and protect wealth against future estate duty, so that inherited wealth is not taxed more than needed.

It is equally important for the succession plan to protect the needs of the benefactor while he or she is alive.

As part of the succession plan, you can appoint a corporate trustee who will be responsible for your medical needs, and be able to sign cheques on your behalf.

Measures can be implemented to ensure that this trustee has no vested interest in the family's affairs.

Myth 5: Trusts cannot be managed efficiently

Financial experts who have been exposed to Trusts while overseas, understand the true power of this structure.

- Trusts are easily managed and regulated. You can create a succession plan for control of a Trust too, ensuring that you are protected in your own lifetime as well.
- Trusts also can be made free of stringent conditions (this relates to Myth 2 above). A Trust safeguards the interests of the family, without compromising on the wellness of loved ones after you pass away.

The power of the Trust is underestimated. And, yes, since most HNIs have at least one US-based beneficiary, it is imperative to make their Trusts tax-efficient in the US as well.

Grand wealth can often feel like a crown of thorns. I'm honoured to know many wealthy people who accept with grace the intense scrutiny and demands made of them. These graceful people understand that passing on the wealth to the next generation is not just a privilege but also a responsibility. And it goes without saying that they can succeed in this endeavour, just as they've succeeded in so many other arenas of life.