The Model Choice and Development Strategy of Chinese Family Trust

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Abstract: With the continuous development of China's economy, the demand for family trust is increasing year by year. At present, China's family wealth management model is not perfect, there are still some problems in some areas. Therefore, in order to develop rapidly, the family trust enterprises need to explore their own advantages, to establish family wealth management model with Chinese characteristics.

Introduction

After more than 30 years of rapid development of market economy, the number of rich people in China continued to grow. According to UBS November 2014 report, China now has over 11070 rich people with net assets of over $30 million. With the age increase of wealth holders, the operation of these family businesses is faced with the double important challenges: transfer of management rights and property inheritance. If there is no relatively stable property inheritance mechanism to support, it may erode the entire family property interests and long-term stable development of enterprises.

Family trust, as a special kind of trust, has both the general characteristics of trust and its special side. The purpose of family trust is to maintain the continuity of family property, therefore the principal of a family trust is usually a family firm or individual with great assets, and the beneficiaries are often family members. In essence, family trust is an effective way to solve the problem of property inheritance which guarantees the family or personal property in the intergenerational transmission to a certain extent.

In the developed countries of Europe and America, the family trust is flexible and easy to operate, which can realize the separation of property security, the construction of property firewall, and the formation of a strict information security mechanism. In addition, the independence of the trust property can legally avoid the inheritance tax and gift tax and protect the net inheritance of property.

The Comparison of Family Trust Model

The family trust model in China has formed several typical patterns through the preliminary exploration.

The first model is based on trust company dominance. The trust company has the unique foundation and the superiority to provide family trust services. Because of the high threshold of trust products, trust companies always serves directly to high net wealth clients. In the process of long-term cooperation, Trust company's good reputation and trust products Rigid honor help the company successfully win the confidence of customers. In the process of product development, trust companies can play the flexibility of the trust mechanism in order to serve the family trust business diversified needs of customers.
The second model is the integration of private banks and trust channels. Major commercial banks or private banks have gradually become a main force in the family trust business due to the advantages of large customer data, rich personal information and the flow of funds. Due to the restriction of trust license, private banks or commercial banks temporarily unable to carry out discretionary service under the current management mode of trust supervision system, but they can design a private family trust management system for their customers. But private banks must also need help from the trust company during the operation of specific business. The cooperation between China Merchants Bank and some foreign investment trust companies is a vivid example of this form.

The third model is the cooperation between private banks and trust companies. Under this model, private banks and trust companies form strategic cooperation, which jointly manage the trust assets based on the analysis on the customer demand, product structure designing and the specific investment strategy. On the one hand, private banks play fully to their customer resources so as to form an objective market demand; On the other hand, the mature capital operation mode of trust company helps to enhance the scope of the customer's trust asset allocation which will meet the diverse customer trust objectives. The cooperation between Beijing bank’s private bank and Beijing Trust Company in the field of family trust business is a classic model of this form.

The fourth model is the cooperation between insurance companies and trust companies. The classic case is the cooperation between Xincheng Life Insurance Company and CITIC Trust, which they jointly put forward a series of innovative products for the domestic wealth group market in May 2014.

Suggestions to Improve the Family Trust Model in China

Firstly, refining family trust customer needs and clearing family trust service sector. The service content of the family trust model is based on the customer's needs, which can be generally divided into management model, strategic model and management model. The management model is mainly engaged in family values, regulating disputes, providing financial education for the next generation and assisting family members to develop financial concepts and financial independence. The strategy model is mainly engaged in the planning of entire customer properties, including tax and real estate planning, wealth transfer planning, asset protection, investment and charitable planning. The management model is mainly to provide accounting and bookkeeping, tax evasion and positive statements, and cash management.

Secondly, improving of the operability of family trust. For the wealthy people, the most critical aspect of family trust is the careful designing of the family trust scheme. Because the family trust is a crucial decision, the results of designing error may be irreversible. The whole designing of family trust must be careful enough to avoid the future mistake.

Third, establishment of the trustee committee. The members of the committee should be open to both family members and professionals and neutral community leaders outside the family. The main function of the committee is to balance interests among family members, coordinate settlement of disputes, regulate assets and make decisions.

Fourth, improvement of the Trust Law and making up for the law. Strengthening the training of professional personnel, increasing training courses and improving professional quality are the main measures which should be taken to improve the whole legal environment. We should also establish a comprehensive information security mechanism so as to set up the strict accountability mechanism.

Fifth, attention be paid to the propaganda of family trust. Through the combination of the new
network propaganda and on-the-spot propaganda, people's strangeness of the family trust will be broken, and further study of the family trust is also needed to get people familiar with the family trust.

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References