

# Research on Inheritance of Wealth in Mainland China and Upgrade of Family Trusts in the 21st Century

Huijun Fan

National University of Singapore, School of Continuing and Lifelong Education, Master of Venture Creation, Singapore

fan1229fan@gmail.com

**Abstract.** In the turbulent second half of the twentieth century, with the reform and opening up, a large number of entrepreneurs emerged in China who seized the dividends of the times. With the passage of time, the "generation" is nearly in its twilight years, and it is urgent to make a transition from creating wealth to preserving wealth. According to the "2020 China Family Wealth Sustainability Report" jointly released by CCB Trust and Hurun Research Institute, China will have 39 trillion in wealth in the next 20 years from the first generation of founders to the second generation. However, it is worth thinking about what kind of scientific and mature financial planning tools can help break the curse of "the rich can't be more than three generations". With the current development, China's family trust industry is rapidly rising. Family trusts can just help high-net-worth individuals achieve intergenerational inheritance of wealth, isolation and protection of assets and other functions. The objective of the study is to research the complementary relationship between wealth inheritance and family trust upgrading in mainland China in the 21st century. It uses qualitative research and literature analysis methods to analyze the development background and value of Chinese family trust industry. The results of the study revealed that the family trust industry in mainland China has potential market development space, which needs to be adjusted according to the characteristics of China's economic environment.

**Keywords:** Wealth Management; Family Finance; Family Trust; Family Inheritance.

## 1. Introduction

Referring to the family wealth management of Li Ka-shing's family trust textbook case, more and more mainland high-net-worth users are aware of the importance of wealth inheritance. The necessary role played by family trusts has made high-net-worth users begin to include more types of assets in the category of wealth inheritance, so as to meet their own family's wealth inheritance plan individually. In addition, under the stimulation of the new crown epidemic, ultra-high net worth clients' demands for asset safety have increased sharply. They are eager to implement the family's wealth inheritance as soon as possible to avoid unnecessary losses. This situation has also made the family trust business develop against the trend. According to the latest data released by China Trust Registration Co., Ltd., in January, the scale of new family trusts in the trust industry reached 12.899 billion yuan, an increase of 33.54% from the previous month, reaching a record high since 2021.

## 2. Literature Review

The foreign family trust research has formed a relatively perfect theoretical analysis system, and produced a lot of theoretical results. Foreign scholars mainly discuss the function and influencing factors of family trust. Family trusts are often the wealth management activities that take place among high net worth individuals for user asset inheritance, risk isolation, and value preservation and appreciation (Langbein, 2011). Eddleston (2014) proposed that family trusts can protect the security of family finances, and have the characteristics of asset ownership and income rights analysis. Similarly, Stanley & McDowell (2014) proposed that the family trust makes the family governance structure and asset control clear division, which is beneficial to avoid the vicious competition within the family. Zellweger et.al. (2012) has proved through research that trusts play a very important role in asset protection, so high-income net worth clients prefer the family trust model. In this way, the

expenditure of inheritance tax can be reduced and an effective wealth inheritance tool can be formed. Regarding the influencing factors of family trusts, Cater & Kidwell (2014) believed that the development of the family trust industry is directly related to the economic level and the perfection of financial payments. This is also the basic influencing factor for the rapid development of the family trust industry in western developed countries. The main purpose of its development is to improve the happiness of family members, thereby promoting the stable development of the family (Smith, Hair & Ferguson, 2014). Langbein's (2011) research found that the development of family trusts is related to equity institutions and the control of family companies.

In contrast, there is less research on family trusts in mainland China, and Chinese scholars mainly conduct research on the experience and development model of family trusts. Yuan (2014) believed that Chinese family trusts need to learn from foreign development experience in order to become an effective way to inherit wealth. Similarly, Cheng (2021) draws on the taxation system of developed countries to illustrate that the development of family trusts in China needs to adjust the taxation method and financial development structure. At present, the development model of family trusts in China is mainly dominated by private family trust investment companies and investment banks. Li (2022) proposed that the development of the Internet can provide impetus for the development of the family trust industry.

At present, most academic researches focus on the characteristics, development model and operation structure of family trusts. Academic research on family trusts in mainland China lacks comparative research on the development and changes of the family trust industry in China and abroad. This report will analyze and summarize the development of family trusts in mainland China and Western countries and the reasons for the differences. This fills the current research gap on family trusts in China.

### **3. Methodology**

This article uses the literature analysis method to conduct qualitative research to collect literature and research content related to family trusts. The researchers study the family trust industry in mainland China and western countries by determining the development history, function, system structure and operation mode of family trusts. It summarizes the development dilemma and potential of China's family trust industry based on the development status and reference model of the family trust industry in mainland China.

### **4. Characteristic of Family Trust**

Professor Scott of Harvard University once said: "The scope of application of trust is comparable to that of human imagination". This sentence can reflect the extremely high flexibility and autonomy of the trust. Family trust is essentially a private trust. It transfers the property from the settlor to a designated trustee, which is a trust institution. When the client transfers various assets to the trustee, the ownership of these assets is changed to the trustee. The trust company holds all the various assets, and the settlor can generally appoint family descendants as beneficiaries. The beneficiaries have corresponding beneficiary rights. On the other hand, family trust is a financial product that can be customized, and can provide different solutions according to the trustee's special family situation and needs. This applies to avoiding the risk of divorce and division of property, tax issues, and the issue of second-generation profligacy.

### **5. Industry Analysis**

#### **5.1 Development Gaps**

Family trusts started relatively late in mainland China. From the first family trust product launched in 2012, the industry has only a decade of development in mainland China. In contrast, the

development of family trusts in the West originated in Rome and has a history of more than 800 years. For a long time, family trusts have been strongly welcomed in developed regions such as Europe and the United States. The main reason for this depends on a sound system of trust and its political form. Therefore, the most important part of private trust in these fields is the family trust for family wealth management. As a foreign product of Western culture, many serious problems have gradually been exposed in the process of its localization development. In contrast, Chinese trust companies are relatively concentrated in traditional channel businesses such as collective trusts, and are not very innovative.

## 5.2 Industry Vulnerability

In September 2012, Pingan Trust issued the first single-family trust product in mainland China. This is the first year in the history of family trust development in mainland China. It is in the past ten years that family trusts with the most fundamental meaning of trusts have received attention and developed. In addition, the relevant legal environment in mainland China is limited. The Trust Law has many deficiencies in both content and implementation, which affects the wide application of trusts. Therefore, the current family trust products are relatively simple and mainly focus on cash management. This is still a long way from the developed family trust systems in Europe and the United States. With the economic transformation and the tightening of supervision, from an industry perspective, the development of the trust industry in the blue ocean field of service trust is imperative.

## 6. Market Demand Analysis

Considering the current wealth inheritance situation in mainland China, the time for entrepreneurs to create wealth is relatively short. Among them, the most impressive is only thirty or forty years, which is known as "new money". There is also no shortage of a large number of groups that are ridiculed as "upstarts". Although they achieved financial freedom, they did not have the correct management and control of money and became slaves to consumerism. Therefore, in a sense, these upstarts are working to build their entire families into "old money" to retain their wealth. The first task to avoid the decline of the family is to set up a wealth firewall to avoid consumption caused by excessive luxury consumption by future generations, as well as to resist the risk of marriage risk and debt risk of future generations. According to the survey, among high-net-worth individuals' knowledge of family inheritance, the probability of insurance trust and family trust being mentioned is about 56%. That is a very impressive number, and it's sure to keep rising as people's awareness levels rise. Therefore, from the perspective of the demand side, the current demand is constantly increasing. The economy of mainland China is improving, and the demand for asset inventory management is increasing day by day. The economic environment is also becoming more complex. This is mainly reflected in the increasingly diversified demands of various market players in wealth transfer, commercial transactions, risk isolation and wealth processing. This is the basis for the development of service trusts, and the institutional advantages of the trust industry can be greatly reflected. Because demand determines market supply, it is bound to promote the development and upgrading of the service trust industry.

## 7. External Environment Analysis

The new era provides a very favorable environment for the development of family trusts. On the one hand, the legal supervision in mainland China is gradually improving. At present, under the double promotion of supply and demand, the call for improving the trust registration system is getting louder and louder. Therefore, relevant regulatory bodies are gradually releasing positive signals for service trusts. This means that government agencies have expressed their affirmation of the rise of family trusts. However, a more complete and detailed supporting regulatory legal system has not been officially launched. With the growing scale of service trusts, its status in the financial industry cannot

be ignored. More and more relevant departments have also noticed this phenomenon, and have begun to try to formulate service indicators and bring this business into supervision. Moreover, more and more institutional entities are actively participating in the family trust industry, including private equity fund companies and law firms. The benign state of cooperation and complementarity between institutions also provides a variety of different possibilities for the future industry.

## 8. Conclusion

In general, the family trust industry in mainland China is still in the ascendant and needs to find a unique path that suits itself. At present, China's economy is growing, and the base of high-income people is huge. The expansion of the diverse needs of wealth management among high-net-worth individuals in mainland China will inevitably bring challenges to the development of China's traditional financial industry. However, the impact of the new crown epidemic on the world, the de-globalization of the economy, the conflict between Russia and Ukraine, and the Taiwan Strait issue have made investors more inclined to a safe and stable asset structure. This makes the advantages of family trusts more and more prominent. At the same time, the era of technology has also brought many new opportunities for family trusts, such as the current fashionable financial technology industry, big data algorithm analysis, and the digital economy. However, due to the loopholes in the laws and regulations of mainland China and the lack of strong development history of the family trust industry, the development of the family trust industry in China is still limited to a certain extent.

Therefore, in the future development process, the government agencies in mainland China should optimize the laws and regulations according to the development of the family trust industry, and then provide more effective legal support for the industry. This requires it to adjust its financial regulatory policies and tax structure according to the development of China's family trust industry. This can avoid financial regulations and tax issues restricting the development of the family trust industry in China. In addition, Chinese trust institutions need to strengthen cooperation with overseas trust companies and fully understand the basic needs of the settlor. They can optimize and upgrade the current family trust products in mainland China by learning and introducing overseas family trust service models.

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