

Family businesses in the GCC – the challenges they face

Wealthy families in the GCC face many tough challenges, the most pressing of which relate to increasing tax compliance demands, as well as succession planning. Our second Hubbis Middle East Wealth Management panel of January 24 highlighted many of the key issues.

These were the topics discussed:

- *What are the challenges that wealthy families have?*
- *Are increasingly more flexible and sophisticated solutions still needed?*
- *What are the alternatives they have? Local and foreign?*
- *How can you bring together the right team to help a wealthy family?*
- *How are Islamic solutions developing?*
- *What's happening in the GCC that is interesting?*
- *What's the difference between the DIFC and Abu Dhabi Global Market?*
- *What corporate and legacy planning tools are being introduced by other regional financial centres?*
- *Is this now a robust centre for wealth management, protection and structuring? What else do we need to do?*
- *Why is now the time that wealth transfer is happening? How can you help your clients transition from one generation to the next?*
- *Will there be growth in the Universal Life space in the Middle East - like we have seen in Asia?*
- *What are the next trends for HNW Insurance?*

MANY HNW INDIVIDUALS AND FAMILIES in the GCC region are facing a turning point. Many of the first-generation founder patriarchs are retiring or passing away. Families are faced with legal and cultural challenges to overcome and there are many key internal family issues that also need to be addressed.

“Statistics tell us that the transition of US\$1 trillion will pass from generation to generation,” reported one

PANEL SPEAKERS

- **David Varley**, Chief High Net Worth Officer, Sun Life Hong Kong, Sun Life Financial
- **Muneer Khan**, Partner, Financial Regulatory Practice, Simmons & Simmons
- **David Russell AM QC**, Barrister at Law, Outer Temple Chambers
- **Karim Ghandour**, Founder & Chief Executive Officer, LegacyLine Family Office
- **Yann Mrazek**, Managing Partner, M/HQ
- **Laurence Black**, Regional Director, Client Solutions, EMEA, Asiaciti Trust
- **Vinod Krishnan**, Managing Director, Arch Corporation



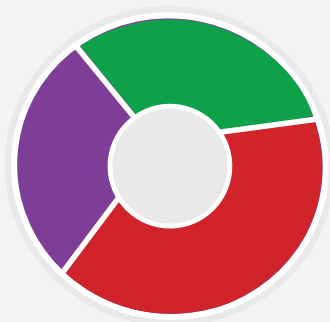
DAVID VARLEY
Sun Life Financial





KARIM GHANDOUR
LegacyLine Family Office

TO WHAT EXTENT DO YOU FEEL CONFIDENT IN DISCUSSING THESE ISSUES WITH YOUR CLIENTS?



- *Completely*
- *Somewhat*
- *Not at all*

Source: Hubbis Middle East Wealth Management Forum 2018

panel member. “Family businesses are 60% of regional GDP therefore legacy planning is a key issue that needs to be addressed by the stakeholders.”

The history of wealth in the region dates mostly to the late 80s. Most families are still led by the founder entrepreneur. Succession or transition to the second or third generations is beginning to happen.

“Wealth is relatively new here,” explained one panel member. “We have only a very few families in the region who have been wealthy for more than 100



MUNEER KHAN
Simmons & Simmons

years. The problems they face are very different from those faced by the younger families or the newer wealthy families face.”

The most common problems today therefore relate to succession planning and appropriate transitioning. It is not easy in any culture to manage internal issues such as the transition and succession of family businesses and wealth and avoid family conflict.

“In the Middle East,” explained one expert, “given the fairly short history of the UAE, many families are, often reluctantly, looking at the patriarch’s concerns in respect of losing of control, as well as emotional issues such as changes in circumstances, ill-health, divorce, and death.”

Additionally, there are external issues to consider including political uncertainty, as well as regional and global regulatory and compliance factors such as CRS and a host of other tighter fiscal filing requirements.

“The biggest issue facing the GCC and the Middle East in general is that we are facing the third generation,” said one panel member. “The first generation of this part of the world was in the 1950s and 1960s, second generations were in the 90s and now we see the third generation. We all know from the government’s point of view that is where problems can happen.”

He highlighted statistics that show that only about 30% of families manage to transition businesses to



DAVID RUSSELL AM QC
Outer Temple Chambers

ARE WEALTH SOLUTIONS AND WEALTH PLANNING BECOMING AN INCREASINGLY IMPORTANT PART OF THE CONVERSATION WITH YOUR CLIENTS?

Yes



No



the third generation successfully. “It is therefore not just a family problem,” he noted, “but also for the national economy because so much of wealth here is family wealth, whereas in Europe or the United States the wealth is far more institutional.”

Another expert noted that solutions for international assets in common law jurisdictions are well developed and robust. “But solutions for GCC assets are gradually being developed regionally through the DIFC, ADGM and Bahrain. There is much education to be done with families to ensure take-up of these solutions.”

Generally, another panellist said, foreign assets are best served through a foreign solution and GCC assets through a regional solution.

Wealth advisers are gradually getting to grips with these issues. “Once we understand the clients’ needs and objectives then we can bring the right team together,” said one banker. “Thankfully these professional skills are now all available regionally. But a core challenge for the advisory industry is having the family share all the information needed to ensure a suite of robust solutions can be promoted and established.”

There is also much work to be done to assess struc-



YANN MRAZEK
M/HQ

ONCE WE UNDERSTAND THE CLIENTS’ NEEDS AND OBJECTIVES THEN WE CAN BRING THE RIGHT TEAM TOGETHER.

A CLOSE FRIEND COMES TO YOU AND ASKS YOU TO GIVE THEIR DAUGHTER ADVICE ON WHAT CAREER THEY SHOULD FOLLOW. WHAT DO YOU RECOMMEND?



- Private Banker
- Compliance Officer
- Insurance Agent
- YouTube Blogger
- Crypto Trader
- Fin Tech Startup
- Lawyer

Source: Hubbis Middle East Wealth Management Forum 2018

tures that might already be in place for legacy planning. “A lot of families are using legacy structures,” explained one panellist. “Many such structures do not work anymore, and it becomes very difficult for them to manage the risk, tax and regulatory risk. Sometimes more than half the job that we end up doing is unpicking and then re-creating structures that are fit for purpose for the future.”

Another banker concurred. “Often, we find structures that may have been appropriate 20 years ago, but the family’s assets have evolved along with their business, their strategy, the family has expanded and so forth. The first step is always to do a refresh and to understand how the business or the family has changed, understand how their assets have changed, bringing independence, governance structures.”

Another concurred, adding: “Very often nobody has done a complete review, a holistic review of everything that is there and whether it all works well together.”

Shariah compliant legacy solutions are also important to consider for many families. It is not just the families that might want this issue address. “Financial Institutions here generally feel vulnerable if succession has not been properly addressed and the founder leader is aged,” said one expert. “International joint-venture partners also feel vulnerable if succession has not been addressed, as invocation of Shariah based inheritance rules would affect the ownership of the JVs.”

Whatever the solutions, the first step appears to be education. A full 100% of the audience polled by Hubbis during the panel discussion replied that their clients do not seem to understand new regulations such as CRS and others.

“There is a lot of fear and lack of understanding on the regulatory way from the US and Europe,” concluded one expert. “It is very important for the HNW families to be properly advised, so developing knowledge and understanding of these things and issues before they hit home is vital.” ■



LAURENCE BLACK
Asiaciti Trust



VINOD KRISHNAN
Arch Corporation

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