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GCC wealth management set for solid growth as the region’s families look to the future

As international financial centres (IFCs) adapt their strategies in face of anti-elitist negativity and regulatory proliferation, those offshore jurisdictions that can demonstrate their dedication to transparency, ethics and quality to end-clients, intermediaries, advisers and the authorities will survive and prosper. Hubbis and co-host Jersey Finance invited a select group of wealth management experts to a private, off-the-record discussion in Dubai in early September to debate the role of IFCs for high-net-worth individual (HNWI) clients in the GCC, where Jersey has for many years worked to establish its strong reputation for operational excellence, professionalism and integrity.

Executive summary

There is, over the next decade, an estimated USD1 trillion of private wealth that is due to transfer to the younger generations in the GCC countries of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Family wealth dominates these economies as, aside from some major state corporations and sovereign wealth funds, the institutionalisation of wealth is not yet widespread.

The wealth management markets in the GCC and the associated non-GCC, MENA countries and India are evolving apace with more and more European firms setting up in the financial centres, whilst local governments and authorities are doing their best to improve the financial and legal infrastructure available.

Immense opportunities and great challenges lie ahead as the wealth management industry works with the region's HNWIs and their families to help them more professionally formalise the ownership structures, as well as install more sophisticated governance and wealth succession protocols.

In early September, Hubbis and co-host Jersey Finance assembled an eclectic group of private bankers, wealth management professionals, lawyers and other experts for a private, off-the-record discussion on the evolution of the region's wealth management industry. The result was a lively debate on some of the key opportunities, trends, hurdles and solutions.

"**THE GCC WEALTH MANAGEMENT** market continues to develop apace, serving its constituent countries as well as other markets in the MENA countries and India," reported Richard Nunn, Head of Business Development at Jersey Finance, on opening the Dubai discussion.

"There is obviously a huge amount of evolution in these wealth markets and there are clearly some common themes that I hope we will be able to explore together today. One of the talking points is around the meeting of domestic structures and jurisdictions and international structures, offshore solutions and offshore centres and how those two can all combine to work efficiently for clients in these markets."

The role of IFCs is central to any discussion on wealth management in the GCC and surrounding region, as HNWI clients have historically structured offshore solutions as part of their overall wealth management practices. Jersey has a long and solid history in the region and, amidst the increasing local and global regulations and compliance requirements, has been successful at promoting its credibility as a finance centre of excellence. A reputational advantage is paramount today and Jersey is making every effort to differentiate itself from some of the other IFCs.

"Our efforts to differentiate Jersey in the market are paying off," Nunn commented. "We built quite a formidable reputation in the private wealth sector in the GCC over many years, then we opened our office here in 2011." Additionally, Jersey Finance now operates under a DIFC license alongside a number of Jersey-based wealth management businesses opening in the UAE, who are generally upping their focus on and commitment to this region."

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Nunn told the guests that during this summer he and colleagues had met with more than 50 wealth management firms in Jersey that are currently expanding in the GCC markets. "We learned a lot about their hopes and expectations and the mission here today is to learn more from the experts assembled in this room about your outlook for this dynamic and fascinating wealth market."

Great opportunities ahead

The opportunities for Jersey are immense. There is clearly an escalating need for first-class IFCs to provide a full suite of cross-border, corporate, funds and wealth management services for HNWIs. Of the roughly £1.3 trillion of wealth held in Jersey structures and vehicles, around 40% originates from investors outside of Europe.

The floor was then taken by the Middle East and North Africa (MENA) representative of a major global private bank. "After 10 years in Dubai, I can say that this is a great time to be doing business out here. The Saudi market, comprising 34 million people of whom about 24 million are locals, is by some long way the largest market, with the UAE comprising maybe 9 million people of which about 1.5 million locals, many of them very wealthy indeed. We also look after those people in the region who are strongly US-connected, of which we reckon there are about 250,000. So, this is a major catchment region of immense personal, corporate and family wealth."

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The banker explained that his core dialogue with Saudi and other clients in the region revolves around bringing to bear the bank's global banking resources. "We used to do quite a lot of basic trust work, but nowadays GCC nationals prefer more discretionary trust or protection type arrangements with emergency provisions within the deed just in case of issues of instability."

Local produce in local and offshore packaging

He also noted the increase of non-traditional assets being structured. "For example, these special assets might be operating companies out of Africa or regionally, so we help people wanting help with structuring those. While the bank and our HNWI clients can book in multiple markets, such as Jersey, Switzerland, the Bahamas, Singapore, and so forth, I tend to book for my clients mostly in Jersey, largely because the Jersey trustees visit this region regularly and they clearly understand the clientele out here."

Another expert on the financial markets and wealth management in the region gave a brief overview of the Gulf region's five financial centres, including two in the UAE, one in Qatar, one in Bahrain and also in the King Abdullah Financial District in Saudi Arabia.

"English civil and commercial law predominates," he explained. "The DIFC has gone through a partial codification of English law in the case of trusts and foundations and is, I would say, now amongst the most advanced in the world today. I can add, I think without fear of contradiction, that this market offers high-quality structuring opportunities, in fact as good as anywhere in the world."

He also commented that the expansion of Jersey and other IFCs into the DIFC represents good timing, especially he said while the European Union (EU), some of the media and actions groups appear intent on tearing apart the concept of privacy.

Jersey Finance: Rising to the future challenges facing the world's IFCs

Jersey Finance is a not-for-profit marketing organisation that was formed in 2001 to represent and promote Jersey's international financial centre of excellence. Funded by members of the local finance industry and the States of Jersey Government, it is an IFC with offices in Jersey, Dubai, Hong Kong, representation in London, as well as virtual offices in Shanghai and Mumbai.

Located between England's southern coast and France's northern coast, Jersey is a leading IFC which straddles not two but numerous countries, financial markets and regulatory regimes.

Jersey remains a favourable jurisdiction for the European market, particularly in relation to investment products and wealth management vehicles, such as trusts, foundations, partnerships, as well as real estate, private equity and hedge funds. Jersey, of course, has a longstanding partnership with the City of London and is frequently part of the same transaction chain, client relationship and conduit process as the City, facilitating the deployment of mobile international capital, which is vital to the operation of free markets and to the global financial system.

Jersey is a 'jurisdiction of choice' for listing holding companies on the Main Market of the London Stock Exchange and Jersey also has the greatest number of FTSE 100 companies registered outside the UK.

Jersey boasts tax neutrality, a wide range of wealth management and investment vehicles, and high-quality service providers in its drive to expand its reach. This message has been well received in The Gulf Co-operation Council (GCC) countries for more than a decade, leading to a Jersey Finance regional office in the UAE that was established in 2011.

Jersey's history in the GCC dates back considerably further, as it recognised the enormous progress in wealth generation, as well as historic links, would provide a platform for exciting growth for its services across the region.

Furthermore, Jersey remains one of the best regulated IFCs, a position that has been acknowledged by independent assessments from some of the world's leading bodies including the OECD, World Bank and IMF.

"Frankly," he continued, "our clients in this region really do not want to read about their assets in some tabloid newspaper, so there are great opportunities for top quality IFCs to expand here in partnership with local institutions and firms."

Wealth in transition

He pointed to what he called the 'vast opportunities' in these markets. "For example," he said, "an estimated USD1 trillion of private wealth will change hands in the next 10 years. Meanwhile, there is evidence to indicate that only an estimated 6% of family businesses make it to the third generation. All this means there is a huge amount of structuring and restructuring to be done for HNWIs and the ultra-HNWIs out here."

The same expert added further insights. "There is vast family wealth here, whereas in the major developed markets such as London or New York the money is largely institutional wealth in for the form of large public companies or insurance funds, pension funds and similar. As this is predominantly a family wealth market, there are many attendant issues, largely centred around succession which to date has been approached unprofessionally, thereby risking erosion of family and national wealth."

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He noted that the governments of the region have realised these shortcomings and are looking at the broad issues surrounding wealth transfer and succession, including the role of Shariah inheritance laws and the balance between male and female inheritance.

Legal infrastructure evolves

Another expert agreed and then turned the discussion towards the legal infrastructure of the region in relation to the development of wealth management.

"Abu Dhabi's trust law is less developed as that in Dubai," he noted, "but that market is a less expensive jurisdiction for clients because it is at an earlier stage of development and is keen to attract new business."

He added that although the DIFC's flexibility and its approach to innovation have both improved, his law firm has a broader and better full legal service licence in the Abu Dhabi Global Market, as it is especially keen to attract a range of quality firms and service providers. "An issue in Dubai is the cost of setting up companies whereas in Abu Dhabi they have what they call a Special Purpose Vehicle (SPV)," he noted, "This SPV costs a fraction of setting up a company or a holding company in Dubai. For example, one can use an Abu Dhabi Global Market SPV as a private trust company, and without the need for registration."

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Continuing his overview of the region, he noted that Bahrain has a quite substantial new trust law, although the main issue is that it requires a Bahraini trustee and requires registration, which creates a variety of complications. He explained that while there is always the potential for political or other instability in the region, it is very difficult to move the trust unless very carefully drafted. "In the DIFC trust law, however," he explained, "there is provision for unforeseen political or other problems in the region."

Another consideration in Bahrain is that the Kingdom has no foundation law and instead of a court process there is only the local arbitration chamber.

Turning his attention to Qatar, he observed that the jurisdiction had started off effectively by emulating the better creations of the DIFC. "Since that positive beginning at inception it has then evolved, although unfortunately not necessarily in the right directions," he remarked. "The trust law, for example, was recently rewritten and amended, but it has been a step backwards as it has been made worse than before."

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Saudi Arabia has worked towards the establishment of a bona fide financial centre, he noted, but after billions of dollars spent on this, the Kingdom appears now to be realising that they need a stable and predictable body of law which will be enforced without fear or favour by the courts. "There is immense wealth there and they now understand that there is a need for proper structuring both in terms of succession planning for all the usual reasons, and also for asset protection," he observed.

Market forces driving change

Broadening out the discussion again to the market forces and key trends, a Saudi law firm that focuses on private clients then explained that his firm had seen a significant move in recent years to establish trusts and foundations for a new generation of owners and beneficiaries headed towards Europe. He explained that the geopolitical climate and fears of instability in the region from 2016 onwards particularly had made clients more attentive to both structuring and diversification.

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"We began to see that from perhaps late 2015 onwards," he observed, "since when we have seen an acceleration of the migration of assets, with more and more trusts and foundations running family assets. The operating companies stay regional here but the trusts or the foundations outside the region."

"Yes," interjected another expert, "we are in a period in this GCC region in which the consistent themes across each of the markets are analysis of existing structures and rationalisation of those, as well as careful and well-considered decisions on the types of jurisdictions that the clients and intermediaries want to be doing business with. People are now taking a more forward-looking focus on the next 10 to 15 years to ensure that the jurisdictions they work with are stable, reliable, professional and have a good future ahead."

"There are some big issues at play such as privacy," another expert added, "with for example the ever-greater regulatory demands, as well as the mooted introduction of public registers or the political pressures for their introduction. There are widespread moves to improve governance as well as structures. This region is especially fertile for new business, as rationalisation and assisting clients to restructure are dominant themes for the years ahead. Along with other developments, these are changing the way clients here look at the IFCs and we, therefore, expect more contraction in terms of IFC numbers around the world and greater consolidation towards those IFCs that have reputational excellence and high credibility."

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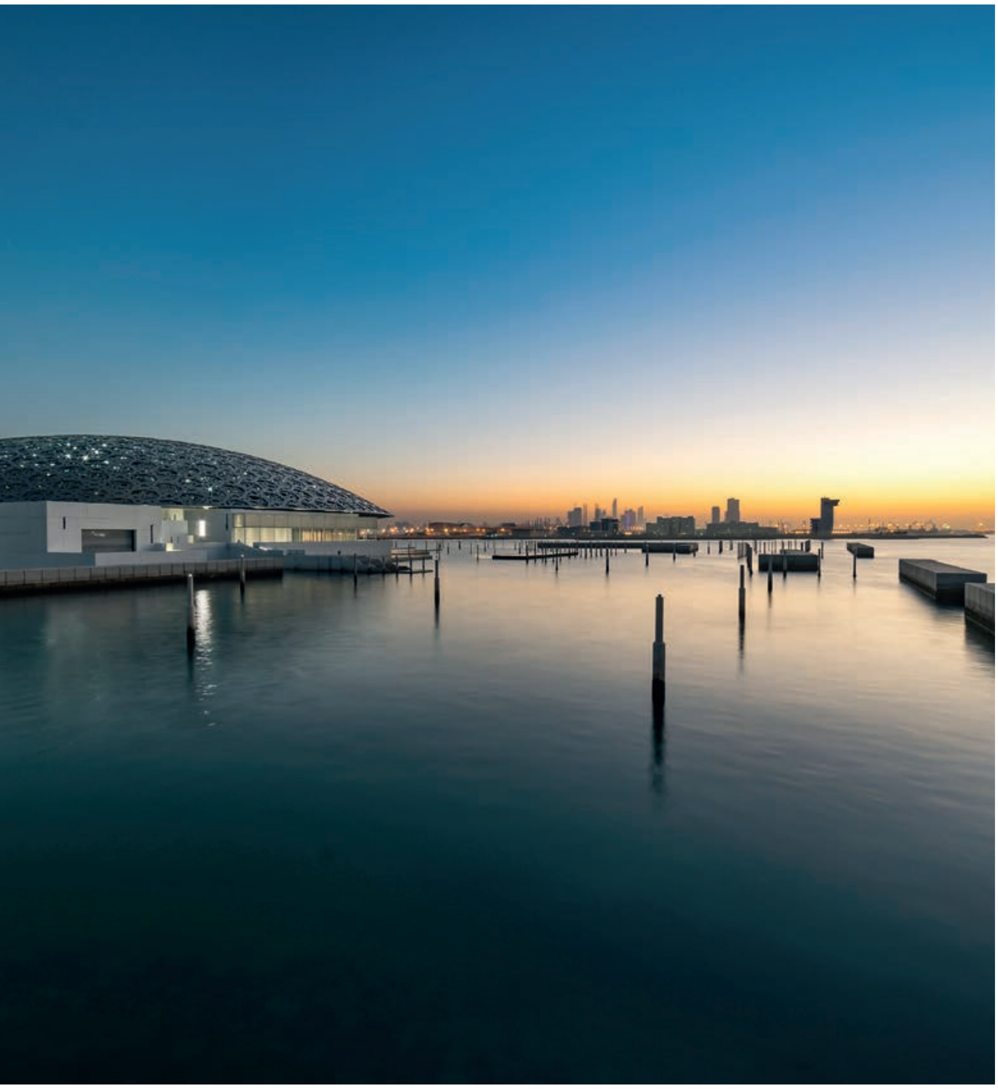

Taking ownership of the future

Another guest said that in his view the general trend in wealth management and succession planning for HNWIs and their families can be characterised as 'taking ownership'.

"Clients," he explained, "have been realising that having an offshore structure on the other side of the planet in some jurisdiction they know little about no longer works. Outside the region, we have the so-called 'global transparency agenda', which is causing structures to become far more transparent to the authorities and to a certain extent also visible to the general public. People here increasingly realise that having a huge family business and wealth here, but not proactively planning for succession in a professional manner with the right structures and in the right jurisdictions, is potentially foolhardy."

He also noted that there is nowadays greater potential for disputes within the families, perhaps triggered by shortfalls in the business revenues, or other factors.

"The HNWI's families increasingly realise they must act, they must take control, they need to encourage family discussions, create family constitutions, to generally review and then tighten the arrangements," he elucidated. "And then the families putting these better procedures in place need to also make sure that these arrangements are reviewed and updated on a regular basis. This is, for example, often leads to the creation of a family office structure."

Another guest agreed, noting that new single-family office regulations will be distributed for consultation shortly by the Dubai Financial Services Authority (DFSA). "The single-family office will not be required to have the expensive real estate here that would normally be required for operating here, if they have a substantial operation within the UAE, in other words, the DFSA is making this much more user-friendly."

Additionally, another attendee reported that there is work in progress in the region to improve rules surrounding companies and management or shareholder obligations. For example, family companies in Dubai are going to be relieved of some of the obligations to lodge full accounts. "At the moment everyone is supposed to file full accounts, but that is seldom enforced," he explained. Accordingly, changes are afoot to bring the rules into line with practical realities. The New Companies Regulations in Dubai are currently under consultation to bring the laws into line with global practices and will soon come into effect. "We understand that the need for full accounts will be enforced only for those companies

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over a certain threshold or size," the guest added, "unless you are structured as a family office company, in which case ongoing lodgement requirements will be reduced, or minimal."

Growth aplenty

Another expert, who heads up a tax and legal services business across the Middle East, then addressed the question of growth in the region. Explaining that he handles twelve countries running from Egypt in the north all the way through the Levant (the eastern Mediterranean countries of the Middle East) and the Gulf, he said that his firm was growing robustly, with the growth coming from three key areas.

"The first," he noted, "is people changing their attitudes and wanting to manage their wealth properly. They increasingly want to plan for succession to the next generations and want to professionalise the manner in which the family wealth is managed. The second area is related to regulatory matters, where people are focusing on the new corporate regulations, or to the arrival of VAT across some countries, or generally the need to understand and react to local and global regulations; as this evolves there will be increasing need to manage disputes with authorities, tax matters and so forth."

Another area of growth, he added, is for companies and families in the region to internationalise themselves, somewhat unfettered by the ever more restrictive regulations prevailing in developed markets. "They are working out how to diversify their business or wealth portfolios as new generations become more global and the families seek to diversify further."

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He concluded that there is also a supportive economic environment. "Some of the countries in this region are growing very robustly," he said, "for example, Egypt's GDP is expanding at more than 8% a year. We expect further positive developments in the UAE generally as the effects of the oil price recovery filter through."

The discussion concluded with the general sense from attendees that there is considerable optimism about the region's economies as well as the prospects for wealth creation. With the various jurisdictions striving to improve the regulations, as well as upgrade the financial and legal sectors, the wealth management industry in general looks set for continued expansion and evolution. ■