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Millennials set to call the tune

Middle East Wealth Management industry in sea of change as consolidation looms and the profile and segmentation of investors shifts from the traditional scope

AS THE MIDDLE EAST'S WEALTH MANAGEMENT MARKET transitions, many players are reviewing their game and strategies to capture clients as many adjust to a new era of oil trading at just $60 a barrel as this becomes the new norm rather than the exception.

Wealth management firms are facing the reality of fewer HNW clients but a growing number of moderately rich, affluent individuals - especially millennials - looking for value in the marketplace, and a different value proposition with major firms cutting their cloth to suit these new demands.

GEORGE TRIPLOW
EY

Sitting on the sidelines, but with an expansive view of the Middle East's Wealth and Asset Management market, George Triplow, Ernst & Young's Middle East Leader, has some sanguine views.

"We see a generational opportunity for local banks to really develop very strong value propositions, as more people are interested in looking at the longer-term savings agenda," Triplow said. "We also see a growth in digital entrants to the market, especially digital banks, and I think this makes for an interesting landscape especially for the millennials in the GCC. Clearly, that is a large population segment that needs to be catered for."

Triplow added: "An interesting development in the marketplace is that more people are now buying passive vehicles, ETFs. Investors are realising that there is more competition around fees. I think there is a massive de-leveraging in the whole asset management industry as we see greater pressure all around on fees, charges and service

"That means advisors and asset managers have to be more competitive and more dynamic regarding what their overall operating model."

The EY veteran predicts that the sands are shifting within asset management industry, with a shift towards alternatives. "Clients now really want to touch, feel and hold something, they are looking for something with a yield, removing short term volatility of markets." he said.

"Private equity is becoming more interesting, but it should be packaged in an easier way for people to distribute and for clients to buy on an ongoing basis. These are some of the main drivers, all of which are overarched by a regulatory environment that is difficult to manage for many, especially those entering the market with essentially five different regulators in one country."

Triplow believes regulatory changes will be pivotal to the industry moving forward in a positive manner as practitioners accustom themselves to the new operational landscape and financial environment.

"I think that there is a greater sense of realism around regulation as I think the region is one of the few places advisors people can operate in a regulatory light regime," he said. "The Insurance Authority has changed the rules regarding various types of savings plans means firms will need to have more capital adequacy on the balance sheet. I do see several players trying to professionalise themselves by moving to a salaried model rather than a commission-based model, but that will take some time to work through.

"What is encouraging is new entrants to the market, which is positive for the region. Again, this will take some time to work through and we will see people leave the market, but it will be good for investors."

WE SEE CLIENTS INCREASING ALLOCATIONS TO ALTERNATIVES, INCLUDING PROPERTY AND, REAL ESTATE AS INVESTORS WANT AN ASSET THEY CAN TOUCH, FEEL, AND HOLD, WHICH PROVIDES AND ONGOING YIELD AND SOME CAPITAL APPRECIATION DECORRELATED AND INDEPENDENT OF MARKET VOLATILITY.

With the positive developments in the Middle East wealth management industry, the EY leader foresees contrition tempered with a stimulus for increased activity as the market diversifies.

"I see increased consolidation and activity," Triplow said. "People are looking for them targets and opportunities outside the region on a frequent basis. I think people are normalised to oil at this level, and it probably wouldn't move very much at all. That's changing the way people do business, and I think that the affluent segment, the people who have the capital, will continue to grow, not only here in the UAE, especially in Saudi Arabia

Consolidation to spawn stimulation

EY'S GEORGE TRIPLOW HAS WATCHED the transformation of the wealth management industry in the Middle East over the years and now he believes banks, both big and small, and independent firms are facing a period of restructuring as client bases oscillate.

"Undoubtedly, there will an element of retraining and restructuring, less branches, larger names reducing their number of branches, and making the remaining branches more client and customer centric by adding more technology,". This is going to help the growth of the affluent segment, which is where I believe the main growth will come from including millennials . This is where the competition is, and this is the segment that is growing. This will be the marginal difference with all the banks."

"At the moment, this is largely led by banking distribution models, and although different international managers have different operating model on how they look after the region, those coming into the region are positive," he added. "I think the other key influence in this is the development of the Saudi Arabia market after the rule changes regarding custody." ■

"Product availability will improve, and I think there will be more influence from the millennials here. The HNRY's, high net worth, but not rich yet, will demand a different kind of service. They will be happier to execute in a different way. They will be more cost conscious, and they will require better products, and that's where automated types of advice are relevant. Clearly, we are going to be seeing several digital banks launch in the region."

"The larger international banks and global asset managers are strong at diversifying product, and have the ability to do that across the region. They provide product that is relevant," Triplow said. "I think there is an opportunity for them to partner a closer with local banks and we need to see whether the asset management businesses of those local banks will continue. Banks have become less of the manufacturers and more of the distributors, they are essentially price takers rather than traditional price setters". ■