Opportunities Aplenty in the Growing Market for Family Offices in the UAE

Is the UAE yet offering a competitive service in the single-family office and the multi-family office segments, both of which are seeing a rapid expansion globally and especially in recent years in Asia? Can the GCC region compete with Singapore, Switzerland, London and the Channel Islands? And is the Middle East client base interested in creating SFOs or using the services of MFOs in their own region, or do they prefer to keep these at some distance? A panel of experts deliberated these matters at the Hubbis Middle East Wealth Management Forum.

These were the topics discussed:

- *How is the UAE competing in the Family Office and Multi-Family Office segment?*
- *How does the UAE compare to Singapore, Switzerland, London and the Channel Islands?*
- *Family's from which countries are optimal targets for UAE FO/MFO's - what is the current experience and are their new developing trends?*
- *With economic substance tests and CRS, are mid-shore financial centres such as Singapore and Switzerland at a competitive disadvantage with the UAE?*
- *For Families utilising the UAE as a FO/MFO location where are the optimal booking centres for liquid assets - are we observing changes to the traditional booking centres (London and Switzerland) in favour of other centres (Singapore or Hong Kong)?*
- *Are the leading private banks and asset management platforms in these booking centres sufficiently focused on the UAE and delivering appropriate levels of custody, product and transaction related services? What could be improved?*

PANEL SPEAKERS

- **Ewald J. Scherrer,** Managing Director, Alpadis Switzerland, Alpadis Group
- **Laurence Black,** Regional Director, Client Solutions, EMEA, Asiaciti Trust
- **Ismael Hajjar,** Director, MENA Private Client Services, Family Enterprise, Family Office Advisory, EY
- **Nirav Dinesh Kumar Shah,** Founder and Managing Director, FAME Advisory
- **Vinod Krishnan,** Managing Director, Arch Corporation

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THE KEY OBSERVATIONS

Dubai making the right steps towards developing the DIFC

The Dubai government and the Dubai International Financial Centre (DIFC) have been working energetically and with true purpose to encourage and to develop the wealth management community, including a relatively easy residency process for those wanting to open or staff their firms.

DIFC starts to be comparable on various levels

The DIFC is increasingly able to offer a range of products, services and even quality of advice and execution that can compete with other international centres, including Singapore.

But more can be achieved to make the region's appeal broader

But the DIFC and also other centres in Abu Dhabi and Bahrain can think further about emulating some of the structures available in other markets. For example, Singapore's incentives for single-family offices, and new entities such as the Singapore Variable Capital Company are enticing more and more super-wealthy families to its shores. The GCC can offer a wider range of entities and incentives.

There are some negatives, but the location is in many ways ideal

Geopolitics in the region will always an issue, but the GCC is ideal for appealing to clients from the region, from Lebanon to the north, to African countries to the south and south-west, and even to India to the east.

Plenty of drivers for the family office space

Aside from the rapid expansion of private wealth, there is a great need for formalisation of family wealth, for preservation and for succession planning. The family office concept is an ideal structure for centralising and formalising all these vital areas.

The trust regime has improved, helped by common law

As some of the simpler structures in some of the more esoteric jurisdictions around the world lose their appeal due to global regulation and reputational issues, the trust and trust services sector in the GCC has improved significantly, both in quality and relative appeal. The availability of common law is another vital element, as this provides access to precedent based largely on British and also US law, and therefore offering clients both transparency and greater predictability of judgement.

Some are starting out, some are moving back to the region

Clients for the family offices in the region are both HNWIs and their families that are new to the concept of the family office but which have sufficient wealth to merit working through an MFO, and also other Middle Eastern families that have been working through offshore MFOs but which are happy to move some or all of their assets or structures back to the region.

Remember - every situation is unique

There is no one-size-fits-all for the family office space, as every family has different situations, needs and expectations. All services must be tailored to them, with providers making sure they fully understand the remit required.

Building the capital - from all aspects

The rise of the family office is not solely driven by financial capital preservation and management. It is also about family social capital, family governance and family values, all of which are vital to the longevity of the family's wealth and its integrity.

The inter-generational wealth shift is playing a major part

The growth of the family office market growth can be seen in the context of the massive inter-generational wealth transfer taking place globally, and also most certainly in the GCC and wide Muslim countries. Structures for holding, preserving, growing and later transferring wealth are therefore ever more essential.

Keep the lines of communication open

The issues wealthy families face are not new, even if each family's situation is unique. The vital element for all families and the wealth management experts who service their needs is to build and retain the most open and positive communication possible.

EWALD J. SCHERRER
Alpadis Group

THE HIGHLY TIMELY AND TOPICAL DISCUSSION BEGAN WITH AN EXPERT OBSERVING THAT THE DUBAI GOVERNMENT AND THE DUBAI INTERNATIONAL FINANCIAL CENTRE (DIFC) had been working energetically and with purpose to encourage and to develop the wealth management community. He noted that from a planning perspective, and from an economic substance viewpoint, residency in Dubai is as competitive, if not more so, than many other jurisdictions today.

"When you compare Singapore to UAE, we now have almost all the possible sophisticated options for structures available, but at the same time, we still need to catch up further. So for example Singapore has the new variable capital company option, and setting up a unit trust there is rather a long and expensive proposition. Residency is certainly much easier here than in Singapore, so creating substance here is easier. There are some solid advantages that the UAE has today."

Another panellist highlighted how within the region there is also plenty of competition to be the best international financial centre, as well as to be competitive with other centres around the world. "And this combined with relative ease of residence here is greatly helping the UAE position itself as a hub for family offices. However, the geopolitical situation of the region will always have an influence, although relative to some of the other countries in the region, for example Lebanon, it is more appealing, and Dubai, for

LAURENCE BLACK
Asiaciti Trust

ISMAEL HAJJAR
EY

example, is a great base for overseeing business and other interests in the region, rather than going further afield."

Drivers for growth

A panellist put his finger on the drivers for the growth of the family office space in the region. Aside from the rapid expansion of private wealth, there is a great need for formalisation of family wealth, for preservation and for succession planning, with principals/founders/patriarchs often needing to be dragged into this partly by the younger generations, or truly recognising those needs. And there is the need in the region for deleveraging, where many families have long-term assets, but suffer from short-term illiquidity pressures.

An expert reported that his firm was working currently on the creation of eight family offices, starting from the concept and vision, and then working through the infrastructure and legalities. "Actually," he explained, "all these family offices are for Saudi families and will not actually touch their international investments from the UAE, those will all be handled through Switzerland or London, or even Singapore."

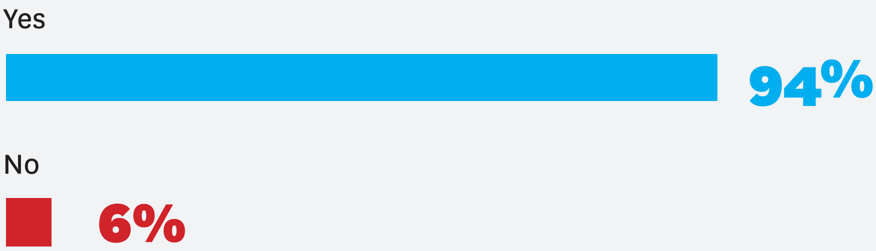
"As the provider of trust services," came another voice, "from my point of view Dubai has all the ingredients to become an important venue for family offices, and if we look at the success of London, Liechtenstein, or Switzerland, clients are looking for stable banks, for good lawyers, good trust companies and for good accountants who are really used to work with international players. In short, Dubai has many of the right ingredients to be successful in this area today."

NIRAV DINESH KUMAR SHAH
FAME Advisory

More appeals in the GCC

Another view came from a panellist who noted that he had brought the first family office to Dubai, from Saudi Arabia, when the DIFC was first working to attract such operations. "At that time," he recalled, "our trusts were in the Channel Islands, our global custodian was in Switzerland, but we moved here because it is very close to the region where the family was based, and secondly

ARE MOST FAMILY OFFICES IN UAE A MARKETING GIMMICK, NOT A FULLY FUNCTIONING GENUINE ENTITY?



Source: Middle East Wealth Management Forum 2020 it was providing us common law protection which was being offered by the other jurisdictions."

He continued, adding that DIFC had been making some further commendable strides forward, and along with the rapid rise of private wealth in the region in the past 15 years, the stage is well set for further growth.

"As we see this," he explained, "there are two elements to the originators. First, there are those families with existing family offices in other well-known jurisdictions, and then there are those who are establishing anew. While there has been considerable progress in terms of regulations and incentives, we see nevertheless that most of the established family offices prefer to stay in those established centres, those established jurisdictions, so we still have a long way to go."

Another perspective came from a panel member who observed that not all the family offices being set up are actually family offices in the true sense of the term, as many of them have neither the intention to become a fully-fledged family office, nor the skills or people internally to do so.

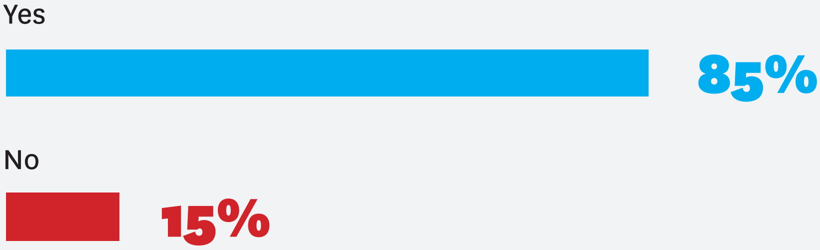
VINOD KRISHNAN
Arch Corporation

In the eye of the beholder

"Every family and their situation are unique," he remarked, "and the family office they create tends to reflect that. What we see is that the families setting up here want to do much more than just manage; they want to support family businesses, support their next generations, including for education, express and support the family through the family constitution, supporting the family on strategic matters which go far beyond wealth management, and offer a range of other concierge-style services to family members. We know there is a large amount of wealth in the region that is not well managed, and the family office helps tremendously to give the confidence to the family that these things are being professionally managed and consolidated through these operations."

A fellow panellist agreed that there are many manifestations under the broad term 'family office', including independent investment advisories, trust companies, private equity boutiques, and others, but there needs to be additional impetus on the creation of what, in more developed jurisdictions, would really be called family offices in the more accepted sense. That development will help the market expand and help families with a broader and better range of solutions through the family office entity.

DO YOU CONSIDER THE TRANSFER OF WEALTH TO THE NEXT GENERATION TO BE A BIG OPPORTUNITY FOR YOU?



Source: Middle East Wealth Management Forum 2020

Family capital, social capital

When considering the mission and advantages of establishing a family office, one expert observed that it is not all about financial capital, it is also much about the family social and human capital. At the top of the tree here is the SFO, he remarked, for which he estimated the family needs more than USD100 million of wealth, but the MFO is very viable for many families if it is a genuine MFO offering that is essentially a club of families served by the entity, which can act as a hub for the exchange of ideas and experiences for those families as well.

And he explained that to help convince new families that are new to the world of family offices, and who are also keenly trying to break away from the traditional patriarchal management of assets, he had helped create a not-for-profit family alliance. He brought families together, especially the next generations of the large families to highlight all of the key areas of social and human capital, the 'soft' side of family wealth management, including inheritance, succession planning, and other areas such as the challenges of working within the family businesses, the challenges of bringing non-family members into the businesses, and so forth.

"We were helped by some of the larger banks who spoke to these family members on a specific and broad range of skill sets that are required for the family offices," he reported. "These initiatives will, we expect, help develop the family office market commercially for us and for the broader market, which will hopefully benefit the region in the long run."

Another guest commented that the family office market growth can be seen in the context of the massive intergenerational wealth transfer taking place and that will accelerate in the years ahead. "All the challenges are connected with that overarching challenge such as getting the future generations to be responsible wealth owners, having the right legal structures and tackling this whole challenge professionally, in a more structured manner."

"Actually," said another guest, "none of these challenges are new, these have been the same for many families for many centuries, in fact, we can read about it in Shakespeare and other authors. "Since time in memoriam," he said, "people, families do not communicate well, they do not address the many key issues. As we see in the drama of Shakespeare, it all comes down to human character." ■