The Evolution of the Advisory Landscape for Wealth Management in the GCC

For wealth management to thrive in the Middle East, the quality of advice on investments, wealth structuring, and estate planning must improve. A panel of experts at the Hubbis Middle East Wealth Management Forum gathered to debate the state of the industry, and just how far the protagonists have come in their efforts to professionalise and expand their industry.

These were the topics discussed:

- *What developments are we seeing in Islamic Wealth and Asset Management?*
- *Delivering investment products and advice to clients - time to re-think everything?*
- *Quality of advice - what's different in the GCC vs Europe and Asia?*
- *How are clients looking to diversity into -*
  - Managed Investments
  - Non-correlated assets
  - Private Assets - Debt and Equity
  - Income generating assets
- *What innovative investment solutions are UHNW clients looking for?*
- *What new structured product solutions are clients eager to engage?*
- *Is it likely that clients will be more interested in discretionary?*
- *How will we move to a fee for service and deliver advice?*
- *How do we justify that fee?*
- *What are the services we are charging and what do clients get?*

PANEL SPEAKERS

- **Tomasz Bortnik,**
  Head of Wealth Management Product – UAE & Bahrain,
  Citi
- **Asad Khairi,**
  Regional Head Investment & Insurance, Middle East, North Africa & Turkey,
  HSBC Bank
- **Malik S. Sarwar,**
  CEO,
  K2 Leaders

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THE KEY OBSERVATIONS

Segmentation essential to targeted wealth management

Segmentation is on the lips of private banks and wealth management businesses across the globe, as providers seek to tailor their offerings to the client's wealth and sophistication. This is increasingly evident in the GCC as not only is the private wealth of the HNWIs and ultra-wealthy rising rapidly, so too are the middle classes expanding their wealth and their outlooks.

The GCC is a more traditional market

There was agreement amongst the panel that the GCC as a region is perhaps more conservative in its approach and therefore digital tools are better employed in the background, not client-facing in the form of robo-advisories and other digital interfaces. In short, the traditional delivery methodologies for wealth management look set to prevail for the foreseeable future.

Innovation can add value, but the human touch is required

Adding further insight, panellists advised firms to focus their innovation and technology efforts to make the journey smoother for their clients, while boosting the quality and expertise of their client facing RMs and other team members.

The GCC is receptive to ideas, but again traditional will win over the clients

The GCC market's more traditional client base will be attracted by variations on traditional products but is wary of more esoteric offerings. For example, there has been considerable demand for fixed maturity products, which is wealth management parlance for a variation on traditional fixed-income investments, and as they offer diversification, predictable yield, and very diversified credit risk.

Diversification a watchword

With the US and other markets having performed so unexpectedly well in 2019, many investors and analysts are unsure of their next moves. The panel therefore strongly advised diversification across different countries, and different regions, as well as staying invested and disciplined.

Gain access to best-in-class

The IAM and MFO models, both of which are on the rise in the GCC, offer clients access to a broader range of best-in-class services from those private banks, digital platforms and asset management firms they deal with.

Not fully ready for thematic investing

As noted, the GCC is a traditional market, and while the concept of ESG-driven investment is on the rise globally, the panel felt that growth in the region will be modest for the time being. Later, when ESG truly proves itself to offer better returns, as well as a better ethical stance, the market might migrate more towards it.

Going private - best for the very wealthy

The HNWI market and the mass affluent segment will tend to stick to mainstream public financial investments and lower-entry-cost products, while the very wealthy and the super-wealthy families will migrate more towards private equity, private debt, and commercial or super-luxury property.

Discretionary management will catch on

As more IAMs arrive on its shores, as more MFOs are launched, and as private banks seek more sustainable revenues, the discretionary portfolio management (DPM) model will gain more sway.

Reaching out to all and in all ways

Omnichannel is essential for the future, especially as the younger generations inherit or build their wealth.

Planning for your legacy

And for the older clients, legacy planning is a key element of the wealth management offering that is gaining greater sway in the region.

TOMASZ BORTNIK
Citi

SEGMENTATION WAS THE FIRST TOPIC FOR REVIEW, with a banker explaining that the level of advice and the type of customer service must, of course, be driven by the relative wealth of the client.

"But the first point I would make," he said, "is that digital advice and robo-advisory and its potential disruption has not impacted the traditional way of delivering advice to our client. Some of the technological innovations do actually help us, but not to the detriment of the traditional business model. The traditional RM role, the traditional wealth management adviser, remains at the very centre of what we do."

The human touch

He added that the key focus is on the quality of advice, high-quality research, and advice delivered to the client by the RM, who is supported behind the scenes by the portfolio counsellor. "In short, innovation complements the traditional model of advisory and for us, and the clients like it."

An expert on the US market remarked that the wirehouses such as Merrill and Morgan Stanley dominate the wealth management market, with AUM he estimated of about USD2 trillion each, and increasingly by the discount brokers such as Fidelity and Charles Schwab, all of which are leading the way in terms of products, delivery and pricing.

A bias to traditional

The Middle East market has seen a rise in the

ASAD KHAIRI
HSBC Bank

MALIK S. SARWAR
K2 Leaders

popularity of fixed maturity products, which is wealth management parlance for a variation on traditional fixed-income investments. “These have become quite popular in the last 1-1/2 years,” a guest reported. “They have the characteristics of a bond, but they represent many bonds packaged into one instrument, so what the customers are receiving is basically a very diversified fixed income bond fund with a fixed maturity which is predictable. I myself like these instruments for the diversification, predictable yield, and very diversified credit risk. From a management fee perspective, these do not produce such high returns for the banks, and from the client’s perspective, they offer good value.”

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Focusing on market volatilities, an expert remarked that few, if any, had expected the S&P 500 in the US to perform so well in 2019, and so many other indices to produce double-digit gains. “Diversification across different countries, different regions have been a key element of advice,” one guest reported, “and to stay invested, as well as staying disciplined.”

Obtain a wide-angle view

A panellist pointed to a slide that showed the S&P 500 at 666 on March 9, 2009. “Who would have imagined it would drop as low as that and then rise as far as it has today,” he remarked. “And if we look at what leading banks have said along the years, we see they get some predictions right and some wrong, so a very mixed record really. For example, a year or so ago many thought the 10-year US Treasury yield today would be nearer 3%, and it is nearer 1.7%, which is why it is really advisable to take research and advice from multiple sources, which is where the family office scores highly.”

“No fund managers perform well consistently,” he added, “which is why we need asset allocation, rebalancing, and changing of managers from time to time, so this is an art and science business, not a science. And don’t try to time the market, that is almost impossible to do.”

ESG? Maybe, but slowly...

ESG investing is a theme that is catching on in the UAE, although it is very early days. “There is a lack of awareness in this region when it comes to ESG,” a guest observed, “but there is a lot of effort being made to spread the concept, as the next decade should indeed be dominated by this theme, and will become integral in the investment business.”

Another view came from a panellist who said that if a client is offered a fixed income product yielding 3% and compliant with ESG principles, or a non-ESG bond offering 4%, they will likely still buy the latter. “Yes, the ESG theme is building, but I don’t necessarily see that is a major factor determining customer behaviour. Having said that, awareness is rising, and we can all see the vast sea of plastic in the oceans, for example, so I think we will evolve this in time.”

DO YOUR CLIENTS SHOW ANY REAL INTEREST IN ESG?

Source: Middle East Wealth Management Forum 2020

Another guest pointed to studies highlighting that more ESG-centric portfolios can often result in outperformance. “And I think that in fact some of the younger generations, the Millennials for example, like my own children, will actually sacrifice some return in exchange for more principled type investments. In short, there is a greater change ahead.”

Go private, ultra-HNWIs

Turning to the balance of public versus private investments, a senior banker explained that private investments, whether equity or debt, are better suited to the very wealthy investors, while the average HNWI is still focused on public markets and lower entry-cost products. “The availability of private products to the mass segment is usually limited,” he explained, “as the minimum investment and liquidity constrains, so this is determined very much by client segment and the size of the portfolio.”

Another perspective was offered by a panellist who noted that there is today an estimated one trillion dollars, or more, sitting waiting for PE opportunities, as these investments have generally been outperforming most public markets, but there are not enough deals to go around.

The same guest pointed to the USD5 trillion-plus ETF phenomenon in the US, which is much more suited to the mass affluent space and HNWIs. “ETFs are arriving in the Middle East, but this is very early stage, so there is huge opportunity,” he remarked. “It is important to recognise what the tsunamis are that might come this way and how you position yourself ahead of time to make yourselves relevant for clients, and for ETFs the entry costs are very, very low. Then you need to think about how you package it to also make it worthwhile for the bank as well as for the clients.”

Will self-directed investment at very low trading costs win out over advisory-led or DPM mandates at fees of 1.5% or perhaps more? One expert indicated that it depends greatly on how much the investor actually knows and whether he trusts his judgement, or prefers to go to a professional who is accredited and licensed. Another panellist observed that those customers who want a more complete relationship with their wealth managers prefer to work closely with them. And for those who are more sophisticated and more knowledgeable, perhaps they will prefer self-directed, or perhaps to work with the robo-advisory and digital platform solutions.

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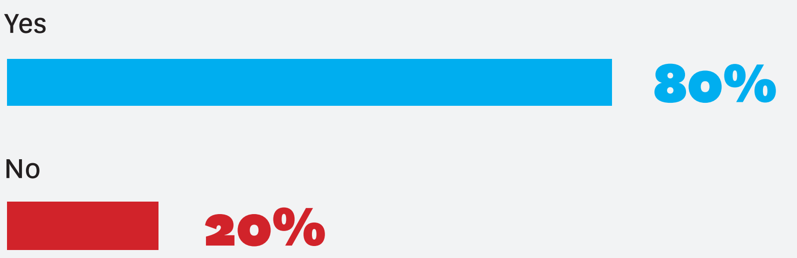
“Generally,” said a panel member, “the competition is becoming fierce nowadays and customers are getting more and more cost-conscious, but for those who really want to engage with their banks, it is less price-driven.”

Omni-channel and relevant

The banks must offer all solutions to prosper, another guest remarked. “Omnichannel is essential,” he

DO YOU THINK YOU CAN MAKE MONEY OUT OF NEXT GEN CLIENTS?



Source: Middle East Wealth Management Forum 2020 explained, "so whichever way the customer touches you, at whatever time of day or night, the connection must be seamless. And you need to charge appropriately for the extension to this, which is discretionary, advisory and transaction."

The effort to appeal to the younger generations can be boosted with any number of incentives. One expert explained that his bank offers a free premier account for any immediate family members, thereby helping to win over or retain the younger generations. "The other piece we are trying to work on is legacy planning," he reported, "which is a complex topic for clients to work through, and that also helps boost the continuity of our bank's relationship with our clients and the next generation."

"But remember that the life expectations of the baby boomer generation are lengthening," said another guest, "so you must also recognise that these clients will remain with you for many years to come. Stay with the oldies, because these well-off elderlies are not going away any time soon, so actually this vast wealth transfer we hear of, trillions of dollars globally, will be slower than perhaps anticipated."

The final word went to a panellist who highlighted the two key trends towards digitalisation in the wealth management firms, and the greater focus on delivering products and solutions targeted to the relevant segments of actual or potential clients. ■