

UAE – Its Expanding Array of Appeals for UHNW Clients and Family Offices

In association with Henley & Partners, Hubbis held its second live thought leadership event of 2022 in Dubai on March 16 to review the growing array of appeals of the UAE for UHNW clients and Family Offices. The discussion was attended by senior representatives from the private wealth management community. All comments except those voiced by Henley & Partners were treated as off-the-record for the purposes of this summary report of the key observations and insights.



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Exclusive Partner*Henley & Partners***THESE ARE SOME OF THE QUESTIONS AND TOPICS ADDRESSED**

- » How is the UAE positioning itself as a centre to attract UHNW wealth?
- » What are the key advantages the region today offers and will offer regional and global UHNWIs?
- » How are UHNW client requirements changing, why and is UAE ahead of the game?
- » Is UAE today mainly a wealth management hub for HNW and UHNW clients from India and the Middle East, or is it more, is it becoming more global in its appeals for these clients? Why?
- » What do UHNW clients need from their advisers and the professional services firms they work with?
- » What have the government and the regulators/authorities been doing to widen the appeals of UAE for the location or expansion of UHNW wealth and single-family offices?
- » Is the UAE competitive on the global stage?
- » Are risks in the region much lower today, and if so, why?
- » As the region introduces greater demands on compliance and the new corporate tax, will those derail the progress?
- » Is the lifestyle on offer in the region much better and improving, and is the region a place of tolerance where very wealthy people and families of all types can really build a future?

Welcome comments from Philippe Amarante

“Welcome all. I head the Henley & Partners’ Dubai office, currently with a team of 25 focused on helping clients from the world over with their residence and citizenship planning. It is a two-way flow, of course, with many very wealthy clients seeking advice and support to move to this region, at least part of the time, and some clients in the region seeking alternatives outside the region.

We are one of 35 offices globally today, with two lines of business. We work in the private client space, where we advise private clients on relevant strategies and solutions, how to maintain international mobility, and how to keep optionality alive. We have our government advisory practice through which we help governments around the world to come up with initiatives that attract capital, talent and diversity to their shores.

We have invited you here today because there is tremendous momentum in this region as many wealthy individuals and families are seeking alternative centres for their wealth management, their lifestyles and their families. The UAE’s star is rising, and I would like to welcome you and thank you for coming today to offer your insights to the development of the wealth management markets here, and, more broadly, the increasing appeals of the region to high-wealth clients from across the globe.”

The UAE is liberalising and adapting regulations to accommodate a more diverse wealth management community

The regulatory environment is evolving rapidly, one expert reported, noting the significant amount of new regulation and liberalisation in the region in the past two-plus years, with an estimated 30 to 40 laws redrafted and reissued in the last year alone. “Some of the senior lawyers today jokingly say that we need now to go back to the basics and learn all over again,” he quipped, “such is the speed and significance of these changes.”

But jokes aside, he said, it’s going to become more important for people to understand those changes, and suitably inculcate in any of their structures which they currently have, or they are planning. The dual legal system is very significant, he remarked, including legal proceedings now being accepted for some part in dual languages.

These are far-reaching changes to the way business is conducted, and there is no doubt that tax changes are afoot as well, driven particularly by the EU and the OECD, who are pressuring more countries to sign up to their regulatory and compliance regimes. “There is no doubt the OECD is pushing certain changes as a matter of principle, and those are, so to say, non-negotiable, especially BEPS [Base Erosion & Profit Sharing], as they want everyone on board. The UAE is changing and so is the rest of the Middle East.”

Liberalisation of immigration and control of businesses are two key areas that will act as magnets for global wealth

Another expert agreed, noting that the process of modernising the laws and practices was ongoing and that the aim is to develop a more conducive environment for attracting talent, assets, and HNWI/UHNW wealth to the region.

He remarked that it is now much easier to reside in the UAE for an extended period of time, with 10 year visas available, even without having necessarily to invest in the country, if armed with the right CV and background. Citizenship is even possible for the right applicants.

“The authorities are sort of choosing who they want to really come into the country, and the 100% foreign ownership that has now come in has broadened access to more quality businesses coming in.” Additionally, he also noted that there is liberalisation around Islamic practices and inheritance for example. He also said there are more structures and structuring tools available, although the foundation remains unclear.

“Apart from regulation, there is the mindset change,” he remarked. “There is a culture now to support innovation, high technology, and tolerance. Switzerland has aligned with the EU on Russia, but the UAE positions itself as fully neutral country. The message is, regardless of one’s religion, citizenship, gender, or race, everyone is welcome as long as they can add value and contribute to the economy, which I think is wonderful.”

However, there are KYC and AML ‘tests’ that you need to pass to bank in the region and to be able to effectively manage your wealth

But an expert noted that it is not a free-for-all. “People wanting to come here to reside, bank, have their assets managed, and to establish businesses or structures, and so forth must pass compliance and source of wealth; those are essential litmus tests. As advisors in this wealth community, we must all be independent, and raise the bar to the highest standards.”

The region is working actively to reduce risks

A fellow guest agreed, but noted that the UAE must be extremely careful with its juggling act, as it needs major implicit and explicit military support from the West, so cannot be too neutral and cannot simply welcome any and all money from any quarters, especially if tainted with military or political links to any rogue regimes.

Another expert observed that the governments are aiming to help overcome the historical perspective that the region as a whole suffers high degrees of risks of all sorts. “These geopolitical and other risks,” he said, were consistently the number one weakness of the UAE. Whenever we discuss, for instance, DIFC, ADGM, RAK, all these wonderful new rules, offerings, tools and the liberalisation of the courts and so forth, these are set against that backdrop. The risks here perhaps have reduced, but global risks seem to have risen.”

Another expert agreed, adding that the country is, however, evi-



dently following a defined vision that is unfolding over time.

“There is a real momentum for change,” she said. “It is not being done due to external pressures although there are some changes related to that. The authorities are looking at these changes to buoy the economy, to become more diversified, to grow. Yes, there might be corporate tax, yes, at 9% of profits over roughly USD100,000, so yes, you’re going to tax your multinationals rate, but the general tax rate will remain quite low, very competitive, very much at or below par the world levels and therefore highly appealing on a global scale.”

However, another guest noted that if you add to that the dividend and capital gains exemptions, investment vehicles are really not affected. “Your family offices and investment holdings and so forth which are already here are not going to get impacted by any of these changes,” they reported. “So it will remain a largely very appealing and welcoming jurisdiction from a tax and regulatory viewpoint.”

Dubai’s star has risen particularly high since the pandemic, opening the minds and wallets of many more of the globe’s wealthy

A guest observed how Dubai’s star had risen so high due to its approach to keeping its borders and facilities as open and accessible as possible during the pandemic. “More and more global wealth has tried this place for the first time as there was little choice elsewhere. And then when these people came, they have seen how

pleasant it all is and more have come. And there is a lot of drive in the DIFC, the ADGM and other centres, including nowadays Saudi Arabia, to attract more of the UHNW wealth and their family offices. There are numerous issues to consider, of course, but the background is conducive and encouraging.”

“Globally, family enterprises will continue to professionalise and institutionalise, they will build their operations,” she observed. “The choice of jurisdiction then involves numerous factors as we all know. The room for growth is huge, as the number of people that have a proper, legitimate international family office is still single-digit percentage for those within the region here, really small. That will also grow exponentially in the years ahead. And at the same time there is growing competition across this whole region to attract these funds and these families, including Abu Dhabi, Qatar, Bahrain and of course Saudi.”

Competition within the region is a major positive to further develop the offerings

“I really do believe internal competition is positive,” said one expert. “Saudi Arabia’s stock exchange is doing remarkably well, for example, leading the region in terms of IPOs. “There is a general impetus towards professionalisation of structures and certainly the family office scene is part of the whole movement. A lot of families are cleaning up their structures, cleaning up their capital raising and setting their affairs on a much more stable footing.”

High-end insurance solutions are also on the rise in the region, as more family strategic planning takes place

A wealth management leader observed that the high-value insurance market in Asia is far more mature than it is in the Middle East. “We have operations out in Asia, both in Malaysia, Singapore, Hong Kong, where we do a lot in terms of ULI or VUL in particular,” he reported. “And PPLI – private placement life insurance – is growing and offers clients an additional level of protection for a wide array of financial and physical assets from the outside world, and into which you can build a lot of legacy and succession planning. In short, there is definitely a lot more interest in much more robust structures than the standard company structures we have seen, and having perhaps the foundation, or trust vehicle, in collaboration with PPLI structures, are highly advantageous. These solutions also bypass some high taxes on overseas assets, for example UK property, but a lot of families here have no idea about this, and the advisory community are not so well informed. Accordingly, we work with professional parties to distribute and deliver those solutions. The market is relatively nascent but growing.”

The UHNW family should be viewed holistically, as one size does not fit all

“The responsibility lies with people like us here today as the trusted advisor to look at a family holistically,” a lawyer opined. “This includes issues of residence and citizenship. For example, there are many Indian clients here who

have been here many years and who retained their Indian citizenship, and never thought about the implications of retaining their Indian passports,” she commented. “And they might have been living here for some decades, amassing a huge amount of wealth, and then sending children out of the UAE for education for many years, but not even realising those children may inadvertently now be exposed to other tax regimes. They increasingly want to ring-fence some of the wealth that they’ve amassed here in the region, to pass it on to their children, to their grandchildren.”

Sometimes, as people get older, they want to return to their roots, wherever that may be, she added. “But there are numerous tax implications in doing so,” she reported. “So, I think clients are not yet obtaining the right advice from a holistic viewpoint. We need to make sure they see the options and make assessments from a long-term perspective. They might want to set a trust in another jurisdiction outside of the UAE, for example, perhaps in the Channel Islands as a foreign grantor trust, or whatever it may be, depending on where all the family members are. Or other hybrid solutions determined by passports, residence, assets and family dispersion, and so forth.”

The same expert pointed to the Overseas Citizen of India blue passport, which allows the holder to have the best of both worlds. “You need to look at all this carefully and it is good to have the right range of solutions and options,” they commented. “It is very powerful to have options. You may not need to use them. But if you know in the back of your mind that you have this option, one day should you need it, that in itself is very valuable.”



Another expert agreed, remarking that it is no longer acceptable just to try to layer new structures on older structures in order to try to side-step issues around taxation and other regulatory matters. Those simply no longer work; they are too complex, they cost too much in upfront and ongoing fees. Tax rules are constantly changing around the world, he said, and again high-end life insurance solutions are an excellent vehicle to remove much of the uncertainties around holding and passing on wealth.

Some of the tools in the box marked 'Solutions' are not so complex at all, such as the Will

A guest remarked that a simple and often-overlooked tool is the will. "I come across so many clients, especially Indian clients, who have been here years, decades, have their families and businesses here, yet they are not organised properly, even with the right wills, which are up to date. The latest wills in Dubai are very user friendly, not only from a perspective of an advisor and the clients, but also from a probate perspective. Education is still required, and advisors need to be telling clients to start looking at the basic solutions and then build upon those."

Sometimes all really you need to start with is a basic solution and then introduce things like life insurance. "I often talk to clients about that for inheritance tax purposes," she explained. "I have a lot of British nationals who often have no real clue about their exposures. These are clients who have recently come to the UAE, so they have perhaps a lot of

properties in the UK, and need robust solutions."

Another guest concurred, adding that he had recently met a client worth hundreds of millions and only recently getting his will sorted out properly in the form of a very effective DIFC will. "I asked him if he was organising a lasting power of attorney as well, and he asked me what that is. I explained and told him he would also really need a proper will in each jurisdiction that he holds assets."

Another guest added that the caveat that for those of the Islamic faith, this would all need a different angle of perception, due to Islamic laws and cultural practices. "But these days, the right structures and solutions and advice is increasingly more available here in this region, so clients will be able to arrive at the right solutions, if they are careful and follow the correct processes," they said.

There is even a shift from Asia to Dubai taking place, partly driven by the highly restrictive lockdowns in Asia

A banker representing a leading Asian private bank observed that the combination of the pandemic along with the numerous positive developments taking place in the UAE was persuading more and more business owners to relocate, at least part-time to the UAE, for greater travel flexibility and to catch the momentum building in the region. "There have been so many issues around the pandemic in Asia, in Hong Kong especially, and also in Singapore, that people are fed up," he said, "and those with the financial and other

flexibility are setting up shop in Dubai, in particular."

Tolerance is improving in the region, driven by the authorities and also by the increasing diversification of cultures

Another guest agreed, adding that the increased tolerance of different religions, cultures, modes of behaviour and so forth were opening the door to many more who might previously have steered clear. "The more tolerant things become here, the more attractive Dubai becomes as a jurisdiction, and the more their ability to retain the second and younger generations who have been educated and lived in the West. And of course, that helps retain the parents and their businesses and assets as well. I'm seeing a client tomorrow in that exact situation, we are selling their business, as most of his family now lives in the United States, but perhaps if their children had felt more opportunity and more cultural ease locally, they might have returned rather than staying overseas after their education."

Another issue, she mentioned, is the relatively weak environment for philanthropy and charity in the region, outside of the traditional sukuk activities. "If the government changes and opens more to allow people to do different types of philanthropy, I think it would go a long way, not only for bringing or keeping more people here but for improving the overall profile of the jurisdiction."

The final words went to guests who agreed that the increased and still increasing tolerance and diversification augurs well for the region in the short to much longer time frames. ■