WEALTH STRUCTURING AND THE INTERNATIONAL FINANCIAL CENTRES - Perspectives from the GCC

2018

hubbis

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Introduction

Hubbis, in conjunction with Jersey Finance (the promoter of Jersey's leading International Finance Centre (IFC)), has prepared this White Paper with the aim of understanding and communicating the current attitudes towards wealth structuring and the use of IFCs amongst the Middle East's wealth management experts and their private clients.

Our focus is the countries of the Gulf Co-Operation Council (GCC), as well as some of the satellite markets served from the region. Our many findings lead us to conclude that there is an immense opportunity in these constituent markets for wealth management to flourish and for high-quality IFCs to consolidate their presence. Why? Because vast private wealth exists and literally hundreds of billions of dollars are or will be vested in structures offshore, for asset protection, asset expansion and to facilitate estate transition from the founder, older generations to the younger generations.

All these various elements of information and insights have been carefully assembled to produce this White Paper that addresses many of the vital issues that are influencing the use by GCC and peripheral wealth management markets of offshore structures and the IFCs around the world.

In short, a world of opportunity awaits...

Foreword

Jersey Finance has a long and successful history working in the Middle East supporting the region's clients. We believe that our experience of the business practices, the financial markets, the cultures, the mindset and the priorities of the high-net-worth individuals (HNWIs), their families and of course the wealth management community at large set us apart from other leading IFCs and prepares us for an even more successful future working in the region. For that, we wish to thank our clients in the Middle East and also welcome new clients and their advisers to work together with us in the years ahead.

Jersey offers tax neutrality, a wide range of wealth management and investment vehicles, effective regulation - our compliant confidential register of beneficial ownership being a case in point, high-quality team members and highly experienced service providers and we are working tirelessly to expand our reach. This message has been well received in the GCC countries for more than a decade, leading to a Jersey Finance regional office in the United Arab Emirates (UAE) that was established in 2011. Jersey's history in the GCC dates back considerably further, as we have long recognised that the enormous progress in wealth generation, as well as historic links, would provide a platform for exciting growth for our services across the region.

Furthermore, we believe that 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 the IMF.

But we are not resting on our laurels. We are future-focussed and continue to review and enhance our proposition to meet the diverse needs of our international client base. We firmly believe that a reputational advantage is paramount today and Jersey is making every effort to differentiate itself from some of the other IFCs and align ourselves only with the very pinnacle of this industry.

Jersey Finance has worked with clients in the GCC for many years to establish our strong reputation for operational excellence, professionalism and integrity. We believe our efforts to differentiate Jersey in the market are paying off and this is being seen in our actions across this GCC region. For example, Jersey Finance now operates under a Dubai International Financial Centres (DIFC) license alongside a number of Jersey-based wealth management businesses opening in the UAE, all of whom are also increasing their focus on and commitment to this region.

It is true that IFCs have in recent years been facing up to a wide range of challenges, spurred especially by the explosion of new global financial regulation, information sharing between national governments and their authorities, as well as tighter supervision of the financial advisory community and their clients. Media disclosures such as the infamous Panama and Paradise Papers revelations have put IFCs across the globe further in the spotlight, along with the wealth management structures they facilitate and house.

But, this is as much an opportunity as a challenge, as it has helped wealth managers, lawyers and anyone associated with the management of the wealth of HNWIs to re-evaluate their approach to existing and new structures and to re-focus on the IFCs they work with amidst the current global environment in which the key watchwords today are compliance, transparency, efficacy, propriety and value. This is positive for the industry, it is positive for Jersey and it is certainly positive for our existing and future Middle East clientele.

Which brings me to the rationale for this White Paper. IFCs have fulfilled a vital role in the global financial world for many decades and we firmly believe that high-quality IFCs will continue to do so in the future. With the Middle East and, in particular, the GCC in mind first and foremost, but also with a wide-angle global perspective, Jersey Finance has worked with Hubbis to unearth the many fascinating views you will read about in this report.

Many of these views were voiced in a private roundtable discussion we held earlier this year [2018] in Dubai, which was published by Hubbis in October. And many of the insights are derived from the comprehensive, detailed GCC Survey Hubbis completed in October.

The findings were both numerous and fascinating. They inform us and our industry on how we should work together to prosper with our clients for the future. They reassure us that, with an estimated USD1 trillion of wealth set to transition between families and generations in the Middle East during the next decade, there is a world of opportunity awaiting the wealth management industry and their HNWI clients.

We hope that you, the reader, will welcome the initiative behind this White Paper, which we believe is particularly timely, given the dramatic changes in global, and local, regulatory oversight, which is encouraging ever more wealth managers and their HNWI clients to focus on propriety and excellence in their wealth management and succession planning.

I will close this Foreword by stating that the outcome has proven to us yet again that forward-thinking IFCs face a bright future; the information and perspectives we have gathered throughout this process have certainly focussed our desire to provide the highest quality IFC services to our Middle Eastern and global clients, past, present and future.

Finally, on behalf of Jersey Finance, I would like to thank our partner in this endeavour, Hubbis, and the numerous wealth management experts who gave their time, their expert views and predictions to make this assessment a very worthwhile and insightful exercise.

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Executive Summary

Hubbis, in conjunction with Jersey Finance, has prepared this White Paper on the future role of wealth structuring and IFCs in the GCC region, as the world faces a proliferation of global regulation and ever more onerous demands on financial and wealth compliance. Some might argue that this all represents an intensifying invasion of basic elements of privacy that were formerly considered inviolable, but this is the new global reality and to resist this tidal wave of change will likely be both negative and futile.

The high-net-worth individuals (HNWIs) of the GCC and their families have a long history of working with wealth managers, lawyers and other experts to create and then house wealth management structures in the world's IFCs.

However, some, perhaps many, of these structures are now looking questionable, both as to their efficacy and their propriety in this new world of regulation. The region's HNWIs, encouraged by the wealth advisory community, should therefore be reviewing and stress-testing these structures and analysing the quality, professionalism and reputational status of the IFCs in which they are housed.

We have taken the findings from the Hubbis/Jersey Finance GCC Survey as well as from the Hubbis/Jersey Finance GCC wealth structures roundtable that we conducted earlier this year and that we published in October [2018].

Both were specifically designed to test the mood and intent of the GCC wealth market in relation to actual and potential wealth structuring and the use of IFCs related to those endeavours. This is particularly important as the GCC's private wealth continues its dramatic expansion and as the founding patriarchs aged in their 60s and above more actively contemplate the transition of their wealth to family members and the younger generations. An estimated USD1 trillion - yes, that is indeed one million, million dollars equivalent - of such wealth is due to transition during the next decade, presenting a world of opportunity for the wealth management industry in the region and indeed globally.

We wondered if the GCC wealth management community and their HNWI clients might turn their back on offshore structures and on IFCs and build more wealth management vehicles onshore, as the financial market and legal infrastructures of the GCC continue to improve. We contemplated whether they might increasingly balance onshore and offshore structures. We questioned whether the proliferation of global - and indeed local - regulation might actually drive more and more of the region's HNWIs to proactively embrace new offshore structures, as well as redesigning and modernising the numerous IFC-housed structures and vehicles they have established over recent decades.

The answer, it seems, is largely 'yes' to the latter two of these questions but mostly 'no' to the first. In other words, the wealth management community in the GCC region is readying itself for a sustained period of the professionalisation of its industry and the solutions it promotes to its HNWI clients.

That does not mean those GCC clients will suddenly wake up tomorrow and embrace the new era of global compliance and transparency. Not at all, as Middle Easterners are well-known for their confidentiality and their belief in the near-sacrosanct nature of personal and financial privacy.

But, at the same time, more and more of the region's HNWIs, especially the younger generations, inhabit a global world and enjoy the privileges of an international lifestyle and often global education for themselves and their family members. And their governments, either determined by their own political wishes, or at the cajoling of leading economy governments and multilateral institutions, are also gradually moving towards global standards of regulation, compliance and transparency.

This means that the more shrewd and imaginative wealth managers and HNWIs from the region realise that the age of privacy, as they have known in recent decades, is over. And the more prescient amongst them also know that, in order to preserve, build and transition their wealth, they must take appropriate and potential remedial action, and sooner rather than later.

They see clearly, and some might possibly even accept, that there are big global issues at play, including the emerging concept that confidentiality should be protected, perhaps better than ever before, even while true privacy is being eroded, dictated by global regulatory proliferation and potentially weaponised with the introduction of public registers, as mooted by more and more politicians, urged on by anti-elitist pressure groups.

The discerning HNWIs in the region recognise that outside the relatively low regulation GCC environment, the so-called 'global transparency agenda' is, therefore, causing structures to become far more transparent to the authorities; they might remain largely invisible to the general public, but only if properly structured with financial propriety and transparently in jurisdictions that endeavour to epitomise and safeguard reputational excellence.

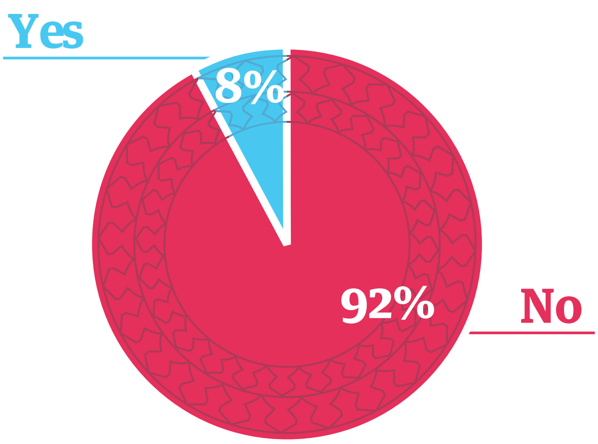
We asked many questions in the roundtable and the Survey, as set out in this report. How, for example, do the Middle East wealth management community and their HNWI and ultra-HNWI clients see the future for offshore structures and the IFCs themselves? What are the key motivations for clients today? What do IFCs need to do to adapt to the increasingly attentive (or invasive, many would say) global regulatory environments? How will IFCs differentiate themselves and where is their future growth coming from? Do they need to work harder to educate the local clientele to their value added and their services? Will the region's HNWIs embrace the need for transparency and compliance, or do they remain focused on the less transparent structures they have traditionally favoured?

We asked the questions of many leading global and local private and investment banks, family offices, law firms, tax advisers and independent wealth advisory firms. And we have tempered their replies and views by refracting them through the glass of our collective Hubbis expertise in the wealth management industry, working as we do intensively and extensively in Asia and also the Middle East.

All these various elements of information and insights have been carefully assembled to produce this White Paper that addresses many of the vital issues that are influencing the use by GCC and peripheral wealth management markets of offshore structures and the IFCs around the world.

Key Findings in Brief

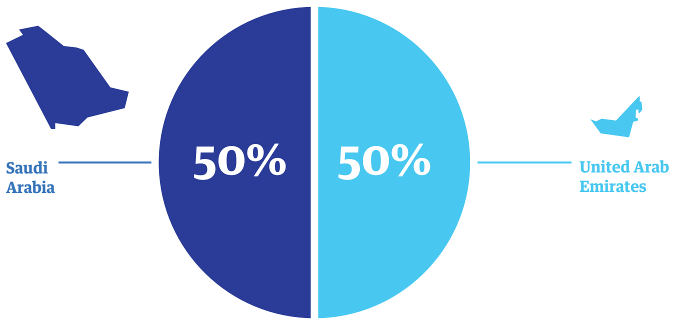
Typically, do clients know how to fix those issues?



Immense opportunities exist for new and reconfigured wealth structures

The private wealth in the GCC countries is vast, with an estimated USD1 trillion or more of that wealth slated to be passed on to family and younger generations by the older patriarchs and matriarchs over the next decade. GCC's HNWIs are generally inadequately structured for wealth planning and succession - 92% of replies to the Survey highlighted that clients are poorly prepared for transition of wealth from the founding to the younger generations. Moreover, even those existing structures in place in IFCs around the globe will very probably require remedial action to make them both effective and compliant with new global standards. The clear conclusion is that there is a huge amount of wealth preservation and transition structuring to be done.

When you think about the opportunity for you – in relation to wealth transfer / legacy planning. Please rank your top country.



Qatar	0%	Iran	0%
Kuwait	0%	Egypt	0%
Bahrain	0%	Jordan	0%
Oman	0%	Iraq	0%
Israel	0%	Syria	0%
Turkey	0%	Yemen	0%
Lebanon	0%		

The GCC's financial and legal infrastructures are improving

There are also considerable advances taking place in the GCC's financial markets and wealth management markets. These centre on the Gulf region's five financial centres, including two in the UAE, one in Qatar, one in Bahrain and another in Saudi Arabia. Within all of these markets there is positive progress being made in their regulatory and legal infrastructure, which is increasingly supportive of the expansion of the wealth management industry onshore, thereby also enhancing its ability to work in a more collaborative manner with the offshore industry.

Middle East clients find the new era of transparency difficult to contemplate

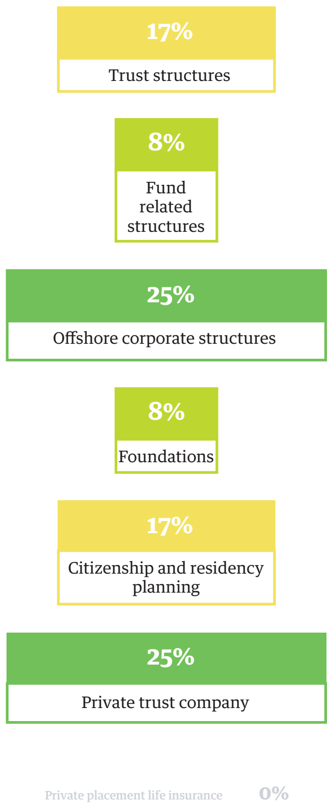
When asked whether the region's HNWIs will remain very discreet about their wealth and operations the answers provided an emphatic and unanimous 'yes'. And the vast majority of those wealth management experts we polled said their clients would react 'slowly and painfully' to the erosion of privacy and the new era of transparency. Middle Eastern clients, it would appear, covet their financial and personal privacy and do not plan to change that psychology or behaviour any time soon. Is this an opportunity or a negative for the wealth management industry and IFCs? The conclusion was a clear 'yes', as long as new structures and jurisdictions are chosen for their robustness and compliance.

Do you think clients need to be re-educated about the services and merits of using structures in IFCs?

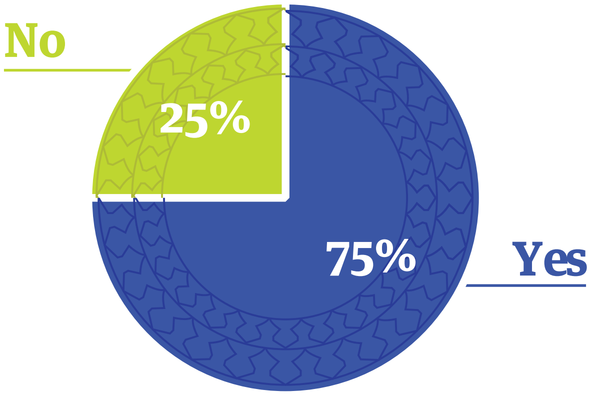
Patterns of wealth planning and structuring are emerging

Offshore corporate structures and private trust companies appear to be the preferred options for the core of GCC HNWI wealth structuring, while trust structures are currently considered the next most important, alongside citizenship and residency planning. The implications are that there is some moderate reticence, possibly caused by lack of understanding, about trusts, which in Asia for example are far more widely embraced as the 'go-to' offshore vehicle for many. Whatever the choice of vehicle, there is evidently growing momentum amongst the older-generation HNWIs to put their houses in order while they are still firmly at the helm.

What structures do you consider will be the most relevant and effective in the future?



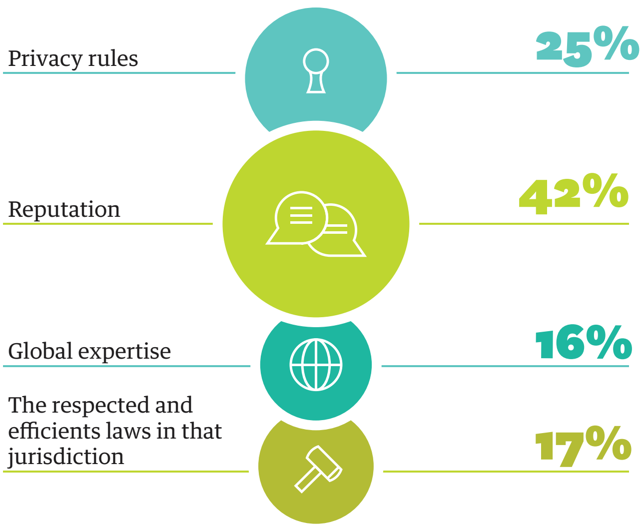
Clients now stress testing their existing wealth 'structures' and 'vehicles'?



GCC clients are gradually refining their views on structures

The Survey results indicated that there is a gradual, but certainly not yet sweeping, change in the mentality of the region's wealth clients as they begin to more clearly understand the weaknesses inherent in some of the older structures they might have in place, as well as some of the shortcomings of the IFCs that might historically have been their preferred options. Accordingly, there is more stress-testing of existing structures and growing impetus towards simplified, more compliant, more robust structures.

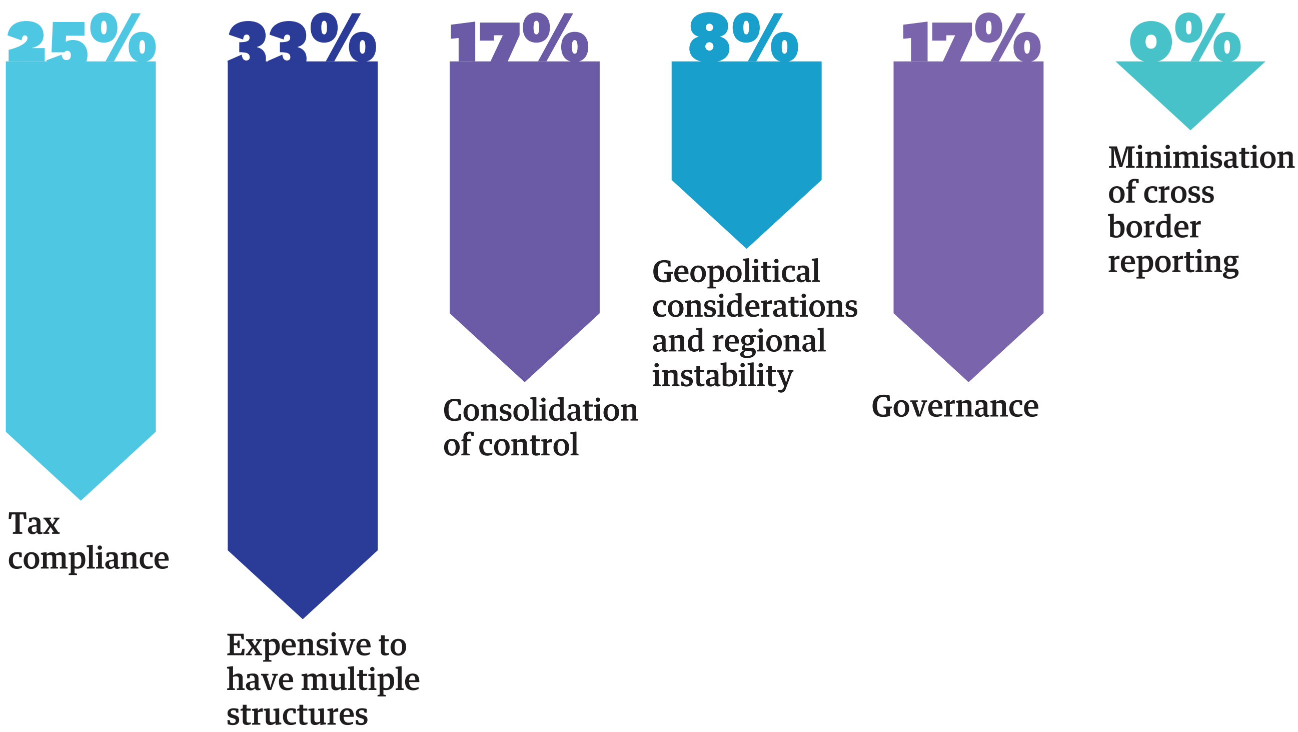
When choosing an IFC, please rank the following in order of priority.[Ranking 1]



GCC clients increasingly understand that selection of IFC is critical

Reputation should be the most important factor in the selection of the right IFC in which to house wealth structures, according to the Survey. There is a clear trend towards what might be termed the "Tier 1 IFCs", especially those that certain leading multilateral bodies, such as the World Bank or the IMF, have noted for the quality of their expertise, regulatory robustness and transparency. We know how much GCC clients value their privacy and there appears to be an implication from the Survey findings that the regional market believes their confidentiality will best be safeguarded in those IFCs that have maintained, or indeed are further building, their reputational excellence.

What motivates them to do this now?



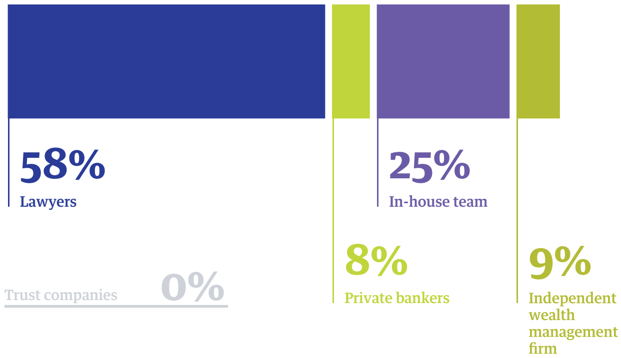
Cost and control are key issues

Around one third of respondents to the Survey highlighted their clients' concerns about the costs of having multiple structures in multiple jurisdictions, while around one-quarter also pointed to the growing need for global tax compliance. There is little doubt that the more sophisticated and worldly of HNWI clients in the GCC are already looking into the structures that they have in place to determine if they will stand up to the new global regulatory rules and compliance conventions.

Concerns about regional instability pervade the GCC psychology

There are latent fears of instability in the region amongst GCC's HNWIs. These concerns began to surface more visibly again from late 2015 onwards and, combined with global regulatory changes, are adding impetus to GCC clients' initiatives towards global asset/wealth diversification, wealth structuring and use of IFCs.

Who do they turn to for independent advice to guide them?



Lawyers will continue to play a key role, as will in-house advisers

The wealth management industry operating in the region will need to build greater trust amongst the GCC clientele as the Survey results pointed to lawyers and in-house advisory teams (within family-owned corporations of family offices) as the core sources of advice for the region's wealthy when considering wealth structuring matters. While being somewhat of a wake-up call to the industry, it is also a great opportunity for the region's wealth management industry as the range and sophistication of the products, advice and services it offers improves.

Will Middle East clients continue to be very discreet about their wealth and operations?

GCC clients need to learn more about the world of IFCs in the 'new world' of compliance

There was a clear consensus that dissemination of information about the products, services and therefore merits of using IFCs needs to be significantly enhanced; the wealth management industry and the IFCs themselves need to focus greater efforts on that. The clients themselves also need to embrace the need to enhance their knowledge of smart and compliant tax planning, control issues and governance, succession planning, trusts, foundations and other relevant structures and the key difference between and advantages of the IFCs they might select.

The feature:

The Big Picture: The GCC, Wealth Structures and the IFCs, Finding a New Equilibrium

The Middle East is moving inexorably albeit ever so gradually towards emulating some of the financial regulation and governance standards prevailing in the leading economies of the world. The region's HNWIs and their families might not realise it fully yet, but their governments are also increasingly complicit with the global drive towards regulatory compliance. At the same time, an estimated USD1 trillion of wealth is due for succession to younger generations within the region in the next decade. Does this mean there is a great opportunity to create or revise onshore and offshore wealth management structures? The answer is certainly "yes", but there are many caveats attached.

The GCC wealth management market is no doubt continuing its rapid evolution as it expands ever more industriously to serve its own constituent countries, as well as other markets in the MENA [the Middle East and North Africa) countries, and even as far afield as India, a market that is served both from the GCC and from Asia.

Progress, expansion and common themes

There is evidently a huge amount of progress taking place in these wealth markets and there are clearly some common themes. One of the central talking points is around the meeting of domestic structures and jurisdictions with international structures, offshore solutions and global centres, and how those two can combine to work efficiently for clients in these markets.

The wider context is that global economic growth continues. As financial market indices have continued to rise across the globe - until the early October sell-off anyway - so too has broader global economic activity and so has the wealth of the wealthy.

The assets under management (AUM) of the private banks have surged. In fact, the AUM of the top 25 private banks in the world increased by 17% in 2017 alone to more than USD16.2 trillion, according to Scorpio Partnership's 2018 Global Private Banking Benchmark.

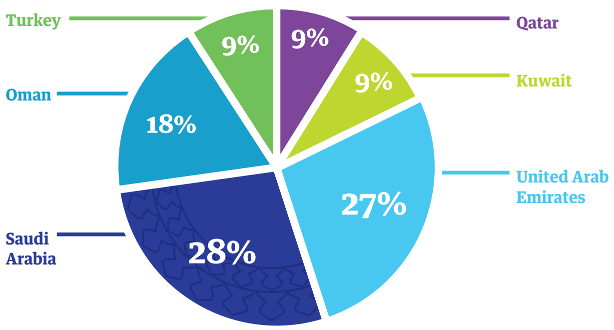
And according to a Capgemini and RBC Wealth Management report in June this year [2018], the number of high-net-worth individual (HNWI) clients around the globe grew by 9.5% in 2017, while their private wealth increased by 10.6%.

The Capgemini global strategic business unit's World Wealth Report 2018 included estimates that global HNWI wealth would exceed USD100 trillion by 2025. Capgemini reported that the combined wealth of the world's millionaires rose for a sixth straight year and topped USD70 trillion for the first time ever in 2017, due to strong economic performance and bullish conditions in the world's financial markets.

The number of HNWIs - which Capgemini defines as having investment assets of at least USD1 million, excluding homes and collectable assets - grew nearly 10 per cent to 18.1 million people in 2017.

The United States, Japan, Germany and China are the four largest markets for millionaires, accounting for 61% of the 18.1 million HNWIs. The Asia-Pacific region has the most HNWIs overall, with Japan, China and India leading the pack. The Middle East might be smaller, but it is a growing market that is also increasing in both assets and sophistication, year by year.

When you think about the opportunity for you – in relation to wealth transfer / legacy planning. Please rank your second top country



Bahrain	0%	Jordan	0%
Israel	0%	Iraq	0%
Lebanon	0%	Syria	0%
Iran	0%	Yemen	0%
Egypt	0%		

The GCC's improving infrastructure

This global momentum is certainly reflected in an impetus in the GCC wealth management sector that is literally tangible. There is vast family wealth in the GCC and surrounding countries, whereas in the major developed economies and financial markets such as the UK or the US, the money is largely institutional wealth in the form of large public companies or insurance funds, pension funds and similar. Even the private wealth of any significance in the West is nowadays wrapped in trust, foundation or other 'arms' length', quasi-institutional structures.

The Saudi market, comprising 34 million people of whom about 24 million are locals, is by some long way the largest market in the GCC, with the UAE next, comprising around 9 million people, of which about 1.5 million locals, many of them very wealthy indeed.

There are many foreigners living and operating in the region, as well; for example, one leading global bank which attended the GCC wealth structures roundtable discussion Hubbis/Jersey Finance held earlier this year in Dubai noted how the bank looks after many wealthy clients, who are strongly connected to the United States of America (USA), out of an estimated total of around 250,000 people in the region. In short, the GCC is a major catchment region of immense personal, corporate and family wealth, both home-grown and flown in.

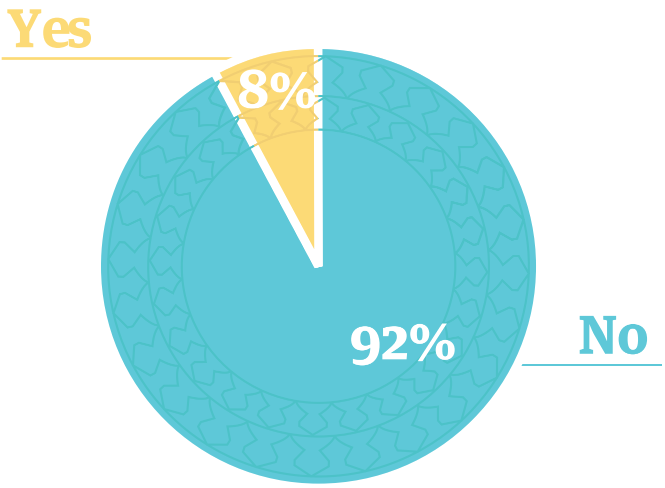
Families first

As this is predominantly a family and very personal wealth market, there are many attendant issues, largely centred around succession, which to date has, very frankly, been approached largely unprofessionally, thereby risking erosion of family and national wealth.

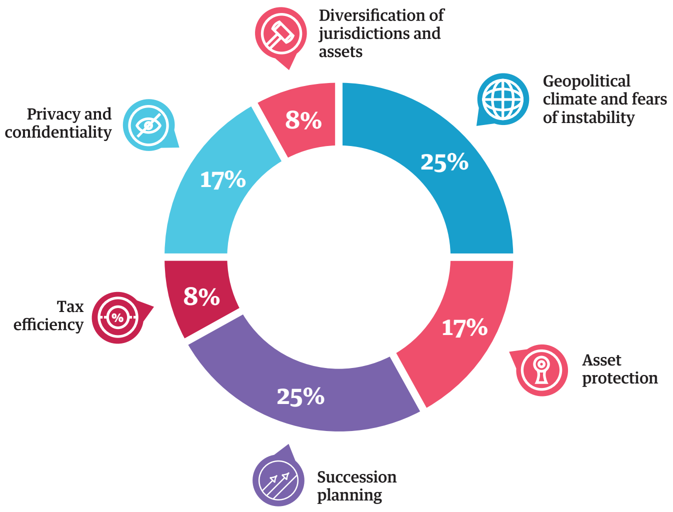
But there is an estimated USD1 trillion of wealth held by the region's ageing patriarchs and older generations that should transition to other family members and younger generations during the decade ahead. The governments of the region have realised some of the inherent shortcomings of their legal and financial infrastructure and rules 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.

The role of offshore structures, whether companies, trust companies, trusts or foundations, and their establishment and then maintenance within selected IFCs is central to any discussion on wealth management in the GCC and the satellite markets. HNWIs and their families from these markets have historically structured offshore solutions as part of their overall wealth management practices, often in structures that would not be considered appropriate or even functional today.

Are clients prepared for the transition from the founding generation to the second generation and beyond?



What motivates a client today to have a 'structure' in an international financial centre (IFC)?



Protect, build, transition, succeed

There is certainly a growing need for asset protection as well as succession and estate planning, driven partly by a variety of factors, including concerns over the stability of the region and certain countries within it, the seemingly inexorable expansion of global regulation, the gradual evolution of local jurisdictions towards first world financial and regulatory standards, and of course the increasing pressure to better manage succession estate and succession planning as many of these founder patriarchs look ahead.

Meanwhile, does this all present a great opportunity or a major threat to wealth structures and to the world's IFCs? Are IFCs and the structures they facilitate still relevant, or even acceptable today, from the viewpoint of the GCC market? Is the regulatory drive and is the media-cum-political scrutiny helping boost demand for high-quality IFCs at the expense of the more exotic jurisdictions? Will this mean that the number of IFCs will consolidate?

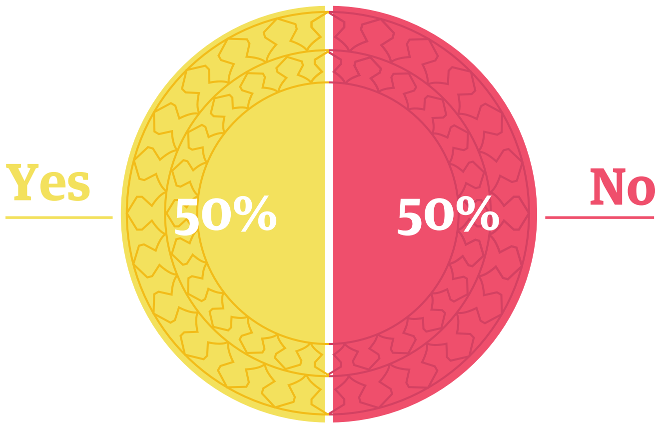
Leading IFCs girded into action

Can the higher quality, well-managed, robustly compliant IFCs therefore fight back, armed with their weaponry of reputational excellence, transparency and the quality of their product and service lines? What do the GCC's wealth clients need for the professionalisation of their wealth preservation infrastructure and for wealth transition amongst generations of HNWIs and their family members and can IFCs help them with those needs?

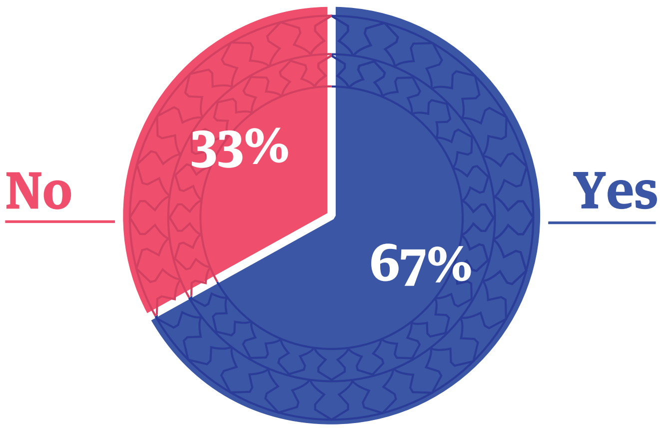
The IFCs have been virtually forced to up their games, to adapt their strategies in face of anti-elitist negativity and to publicly embrace the global regulatory rollout. And in this new world, only the strongest and the best will survive. It would certainly appear today that those IFCs that can demonstrate their dedication to transparency, ethics and quality to end-clients, intermediaries, advisers and the authorities will be best placed to survive and prosper.

There were numerous fascinating findings, insights and nuances revealed through the process Hubbis has pursued in this White Paper endeavour. For example, it became very clear in our roundtable discussion in Dubai in September [2018], that IFCs do indeed remain both viable and of considerable value to the GCC, indeed global, wealth management community and their clients.

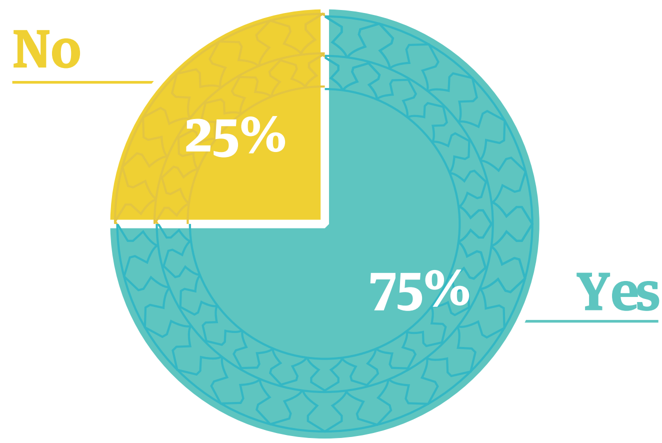
Rationalising and restructuring: Are clients moving away from historic jurisdictions / structures?



Does whether an IFC have a private beneficial ownership register as opposed to a public register impact on your choice?



Do clients know today whether they might have issues relating to transparency, tax and existing structures?



Reading the GCC's wealth market litmus paper

This thesis was then tested and given the seal of approval throughout the Survey we conducted in October 2018, during which we mined out many other insights that we have communicated in the pages that follow.

However, there are more caveats than ever before. The IFCs themselves and the structures and services they house or provide must be robustly assembled as well as being allied to optimised local and global regulatory and compliance practices.

For the IFCs themselves the new era of global regulatory dissemination, combined with a more all-encompassing, digitally-enabled global compliance edifice, all mean that reputational excellence must not only be voiced, but it must also be proven time and again through operational rectitude and transparency. But how do the leading IFCs communicate that and prove it to the wealth advisory community and their clients in the region? Are they doing enough in this regard? Historically, they have not been either so good or so active in this regard. But needs dictate that a far more proactive approach must be adopted.

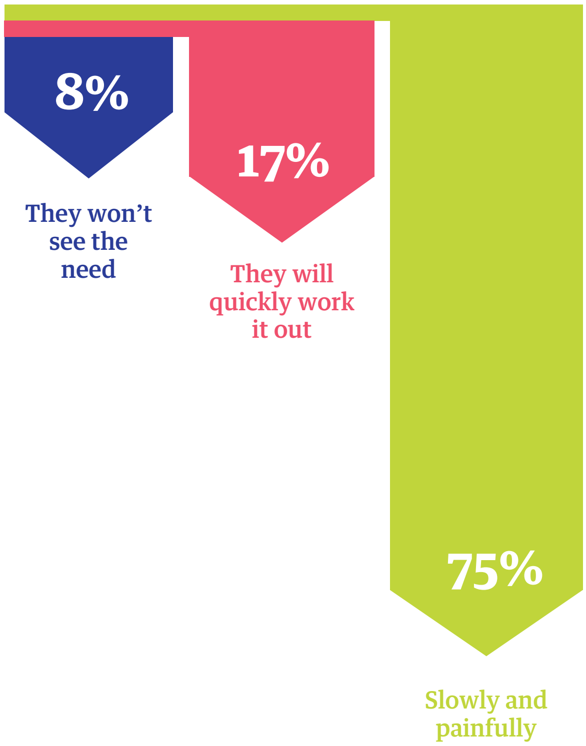
The paradox - privacy evaporates while confidentiality consolidates

Meanwhile, the GCC market's cultural proclivity for privacy might, on the one hand, appear to favour offshore structures in reputable IFCs. But on the other hand, there appears to also be a latent fear amongst GCC wealth managers and their clients of drawing attention to themselves by the very act of assembling offshore structures, even if those are bona fide, transparent and for legally acceptable purposes.

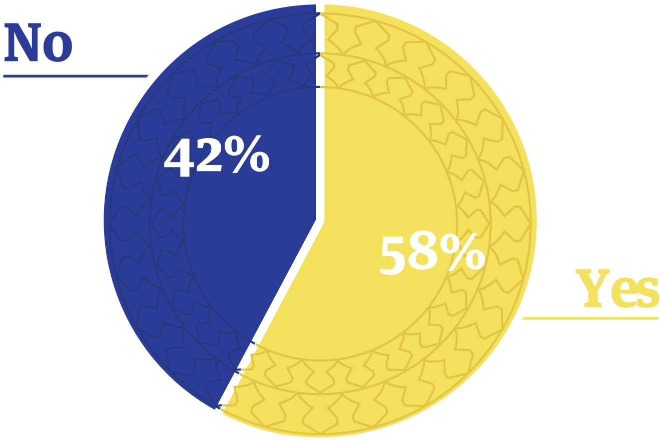
Viewed as a whole, given the estimated USD1 trillion of private wealth that must transition between families and generations in the next decade, the opportunities on balance appear immense for first-class IFCs to provide a full suite of cross-border, corporate, funds and wealth management services for HNWIs in the GCC and satellite countries.

A guest at the Dubai roundtable discussion in early September characterised the general trends he had been seeing as HNWIs and their families 'taking ownership' of their wealth management strategies and succession planning. This can become a buzzword for the years ahead, but only if the right steps are taken, now and in the foreseeable future.

How will Middle East families adapt to the new world in terms of transparency?



Will a client increasingly concentrate their assets and structures in one centre?



Looking back and looking forward

More GCC HNWI clients than ever have been realising that having an offshore structure on the other side of the planet in some jurisdiction they know little about might no longer work and indeed might cause them a variety of problems. People increasingly realise that having a huge family business and wealth in the GCC region, but not proactively planning for succession in a professional manner with the right structures and in the right jurisdictions, is potentially foolhardy.

There is also today greater potential for disputes within the families, perhaps triggered by shortfalls in the business revenues, or other factors, including marital disruptions, which historically were played out much more privately but which today are more public, potentially more international and with greater recourse to lawyers and legal infrastructure.

Accordingly, the region's HNWI 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 governance and formal arrangements.

And 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 often leads to the creation of a family office structure and that in turn leads to better, more professional approaches to asset management and succession planning.

IFCs working harder to benefit from GCC's evolution

But, our Survey's results also indicate that there is much work to be done by the IFCs and the wealth management industry at large. The IFCs themselves must work even more closely with the wealth management industry to encourage HNWI clients in the GCC and nearby countries to review and then modernise their existing structures, as well as to create new structures. They need to drive home the message that by doing so, the HNWIs and their families will have enhanced asset protection, as well as facilitating timely and efficient succession planning and estate transition for the region's ageing patriarchs.

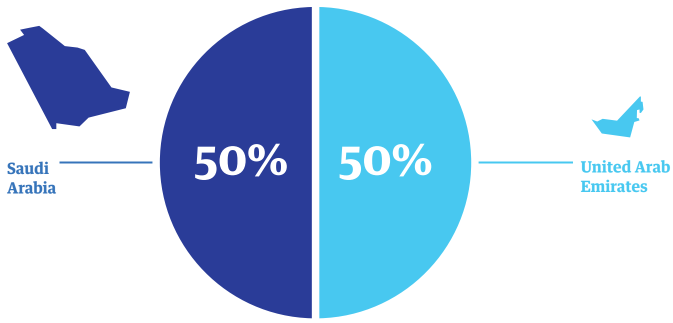
The experts at our Dubai roundtable had also observed that the GCC market is currently in a phase during which consistent themes run across each of the markets; these include analysis of existing structures and rationalisation of those, as well as careful and well-considered decisions on the types of jurisdictions that the clients and intermediaries want to be doing business with. And the experts had also expressed how, gradually, the market is 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 of them.

There are therefore very clearly changing attitudes as wealthy people in the region increasingly want to plan for succession to the next generations and want to professionalise the manner in which the family wealth is managed. Additionally, due to regulatory matters, more HNWIs 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, all of which means potentially that those well-structured companies, trusts or foundations in leading, reputable IFCs will win more business.

Moreover, companies and families in the region want to internationalise themselves more actively. 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.

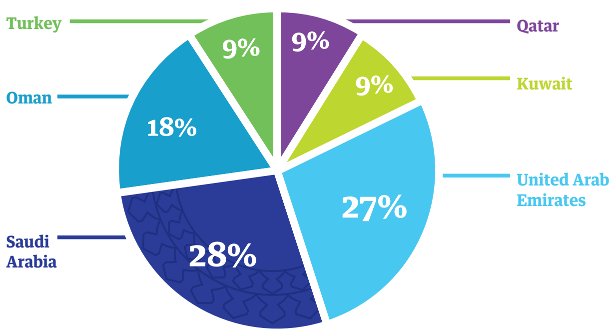
Will Middle East clients continue to be very discreet about their wealth and operations?

When you think about the opportunity for you – in relation to wealth transfer / legacy planning. Please rank your top country.



Qatar	0%	Iran	0%
Kuwait	0%	Egypt	0%
Bahrain	0%	Jordan	0%
Oman	0%	Iraq	0%
Israel	0%	Syria	0%
Turkey	0%	Yemen	0%
Lebanon	0%		

When you think about the opportunity for you – in relation to wealth transfer / legacy planning. Please rank your second top country.



Bahrain	0%	Jordan	0%
Israel	0%	Iraq	0%
Lebanon	0%	Syria	0%
Iran	0%	Yemen	0%
Egypt	0%		

GCC's fertile wealth management markets

The region is therefore 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 look at the IFCs.

But all the lights are far from green, many are red, or amber. The results of the Survey we conducted also highlight that a major question mark remains as to whether the region's HNWI clientele has fully accepted that their motivations can no longer be driven by secrecy and/or tax avoidance that many argue may have motivated most of the clients in decades past. It would seem that many do not believe that they are currently, or soon, within the global regulatory net; to some extent based in the GCC, they might feel immune.

Transparency, simplification, efficiency, reputation, quality and consolidation might be the new watchwords for IFCs, but the GCC clientele appears to be only gradually accepting that times have changed. But they are not immune, so there is much effort required, therefore, in educating the market of the increase in global regulations and indeed the intensification of local regulation.

In this new world, wealth planning is becoming increasingly professionalised, transparent and robust. Those IFCs that adapt to this new world, that can develop their products, their services, their people skills, and their digital expertise and interface will not only survive but, given the immense expansion of the world's wealth and the globalisation of that wealth, will prosper for many years to come. And for IFCs consolidating and building their client bases in the GCC and connected markets, the potential is especially dynamic.

The survey findings and interpretations:

We have combined the findings from our GCC Wealth Market Survey with analysis and assessment of the many diverse views expressed in the GCC Wealth Structures and IFCs roundtable that we had also conducted prior to the Survey completion. We have also interlaced our own thoughts and interpretations, based on Hubbis' extensive relationships and continual dialogue with the GCC and Asian wealth management communities and global practitioners.

We have divided this into four sections:

- The Opportunities in the GCC
- The GCC HNWI Client Psychology
- Wealth Structures for the GCC HNWI Market
- Choosing the Right IFC

The opportunities in the GCC, How would you explain the opportunity that the growth in wealth in the Middle East represents? What opportunities are there for regional and international centres to collaborate?

The replies to these two questions combine to set the scene. Several eminent wealth management experts attending our Dubai roundtable discussion had highlighted the estimated USD1 trillion of private wealth that is projected to change hands in the region in the next 10 years or so. Most concurred at that discussion that GCC's HNWIs were generally poorly structured for wealth succession or had not planned or acted at all yet. Meanwhile, one expert had also noted that there is evidence to indicate that only an estimated 6% of family businesses make it successfully to the third generation. The natural conclusion was that there is a huge amount of wealth preservation and transition structuring to be done.

Meanwhile, there is also the latent fear of instability amongst GCC's HNWIs. Quite evidently, the geopolitical climate and fears of instability that have surfaced once again in the region, especially during late 2015, have made HNWI clients more attentive to the needs for both structuring and diversification. From 2016, experts have therefore observed an acceleration of the migration of assets, with more and more trusts and foundations running family assets, whilst the operating companies might stay regional in the GCC.

A state of flux as wealth succession accelerates

"This region is in a state of flux," said one expert in his reply to the questions above in the Survey. "The UAE is undergoing a very large transition of wealth for the first time. Political situations are delicate in a number of countries. People in Saudi Arabia are nervous or cautious about being seen to be doing the wrong thing, even if they have nothing to hide; at the same time many are very positive about the level of change in the Kingdom."

"Put simply," he added, "while there is some instability there is also an adage that out of chaos very often comes opportunity." People naturally want their families to succeed and are eager to protect their futures. Another respondent noted that diversifying away from some of the concentration risks [in this region] is very important. And that will encourage considerable activity amongst the bankers, wealth managers, lawyers and IFCs.

Another expert surveyed commented: "We are on the cusp of the younger Millennial generation taking far more interest in matters of wealth, while their senior peers and family members of 60 years old and above are slowly relinquishing control or handing over the reins to the next generation in their 40s; the 20-plus generation is waiting and watching this transition. All of them have their preferred advisers and jurisdictions and as this inter-generational wealth migration occurs they will either change over to new advisers [and jurisdictions] or at least have some parallel advisers in addition to the existing trusted advisers, who have handled the family wealth for generations."

Accordingly, he also sees a tremendous opportunity that will endure for the next decade or more. "The opportunity directly corresponds towards increased demand for growth of investment and advisory industry."

The GCC's financial and legal expertise improve

There are also considerable advances taking place in the GCC's financial markets and wealth management markets. These centre on 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. Within all of these markets there is clearly strong progress being made in their legal infrastructure, which is increasingly supportive of the expansion of the wealth management industry onshore, thereby also enhancing its ability to work in a more collaborative manner with IFCs.

English civil and commercial law now predominate. The Dubai International Financial Centre (DIFC) has gone through a partial codification of English law and some experts argue that the legal fundamentals for trusts and foundations is today amongst the most advanced in the world.

Abu Dhabi has, for example, been enhancing its trust laws; although not as advanced as those in Dubai, Abu Dhabi offers a cheaper centre and its infrastructure is improving. The Abu Dhabi Global Market SPV reportedly costs considerably less than setting up a company or a holding company in Dubai and it can be used as a private trust company without the need for registration.

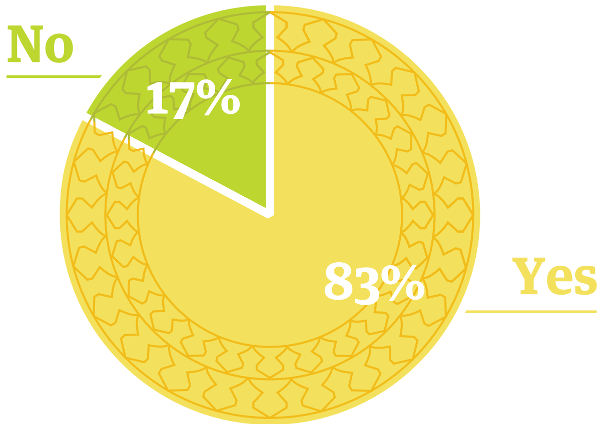
Bahrain has been developing its new trust law, although it has not yet reached the sophistication of the DIFC trust law, in which there is provision for unforeseen political or other problems in the region, which would facilitate or trigger the movement of the trust.

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

Saudi Arabia has worked towards the establishment of a 'bona fide' financial centre, and 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 the authorities appear to increasingly 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.

Experts attending our roundtable discussion in Dubai had also noted that they had witnessed a significant move in recent years to establish trusts and foundations for a new generation of Saudi owners and beneficiaries headed towards Europe.

Are clients simplifying their structures?



Sophistication – rising, step by step

The solutions on offer and the structures being taken up are rising in number and sophistication. The Saudi market, participants at the roundtable heard, has evolved from rather basic trust work to more discretionary trust or protection type arrangements with emergency provisions within the deed just in case of issues of instability in the country.

The participants also heard how there is a notable increase in the non-traditional assets being structured. These could be operating companies out of Africa or regionally, or more tangible and mobile assets.

Experts polled in our Survey expressed the opportunities they see, as well as some of the concerns they have. "The political situation will dictate the outcomes in the region," said one expert in his reply, "with the alignment of interests driving any possible collaboration [between the onshore and offshore centres], or the lack of political alignment, resulting in segregation."

Where should Middle East clients choose to be resident for tax purposes?

Untapped potential

Other comments included views that collaboration would be positive in grasping the opportunity to access a vast pool of untapped regional wealth, as well as helping bridge the knowledge and opportunity gap for both clients and advisers, as the market gradually evolves towards maturity.

"Given the worldwide focus on new regulations it is very important that there is global transparency and positive collaboration," added another voice. "There are great opportunities. We do not see this happening within the region, but links between international centres and centres in the region could certainly work. There are a lot of opportunities for regional and international centres to collaborate, especially when regional centres apply the same concepts and the same laws and similar practices."

A generational opportunity

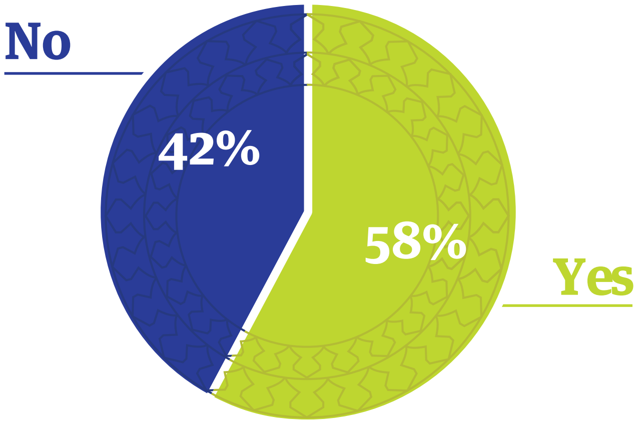
Another respondent noted that IFCs have a major 'generational opportunity' to move GCC family wealth structures outside the GCC. "Whilst the family wealth businesses will continue to operate locally," he opined, "the wealth they have generated is arguably safer in a Tier 1 IFCs with a solid history, well-established law and legal certainty, as well as transparency."

"Both the onshore and offshore options must be allowed to exist and function in a mutually inclusive manner, rather than in isolation," commented one expert. "Each jurisdiction will have a major impact and ramifications if they are permitted to function together, bearing in mind that for smooth and efficient movement of funds they should not be one directional."

"As a European (Swiss) Bank, the trust and strong relationships we enjoy with GCC HNWIs and their families continue to be strong," replied a senior European banker working in the GCC. "Notably, there is a strong flow of European wealth moving to other IFCs, including DIFC and Abu Dhabi Global Market (ADGM), so there is a two-way geographic flow opportunity at play."

"Economic matters are global," said another in his reply. "To have a single centre believing it can 'do it all" is somewhat naive. Without international collaboration, the flow of funds and investments become more difficult. Reduction of bureaucracy and the elimination of the duplication of effort would greatly enhance the global client experience and the ease of doing business. For instance, having Jersey's corporate registry work with the DIFC to have a simple recognition system for entities incorporated in the other jurisdiction (without multiple forms of document certification) could prove an excellent opportunity for both centres to grow."

Historically, has the documentation and administration on existing trust structures generally been poor in GCC?



The GCC HNWI client psychology

Will Middle East clients continue to be very discreet about their wealth and operations?

The answer was a unanimous "yes" from all respondents. The Middle East covets privacy and confidentiality and to some extent feels disconnected from the global thrust towards transparency.

How will Middle East families adapt to the new world in terms of transparency?

Like the answers emanating from those wealth managers who are expert in China when Hubbis conducted our Asia Survey earlier this year, in combination with Jersey Finance, some three-quarters of those surveyed in the GCC said their clients will react slowly and painfully to this new era of, while only 17% said their clients would work it out quickly and efficiently and 8% said they will not see the need for change.

Middle Eastern clients, as the replies to the Survey made patently clear, value their privacy and do not plan to change that psychology or behaviour any time soon. But this could prove remarkably valuable for the wealth management industry and the Tier 1 IFCs. "Frankly," one expert reported at the roundtable discussion, "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."

Are Middle East families still reluctant to provide information and documents that may be useful or necessary in certain circumstances to provide services in accordance and in compliance with all the new regulations?

With around 75% replying yes, the psychology of Middle Eastern families clearly remains strongly private, possibly erring on the side of secretive. If there is a parallel to be read within Asia it would perhaps be to the Chinese clientele. In our Asia Survey earlier this year, 88% of respondents indicated that they expected Chinese families to continue to be highly discreet about their wealth and their operations.

Like the Chinese, GCC clients are indeed more likely to be reticent about providing the necessary information and documents that may be required for advisers or IFCs to provide wealth management products or services in compliance with increased regulations emanating from national and multi-lateral regulatory bodies around the globe.

Nevertheless, there appears to be some indication from the roundtable discussion Hubbis held in Dubai that while the older Middle East generations may find it counter-intuitive to discuss wealth and estate planning openly, the younger generations from the region, who are generally worldlier and at greater ease in international circles, increasingly appreciate the importance of transparent wealth preservation and planning.

Things now need to be looked at differently - like offshore companies' capital gains, for example, potentially being taxed. What do you think a GCC client's response will be?

Around one-third of respondents said the clients will do nothing, although a slightly higher number, 42%, said clients will now understand that they need to get professional advice, implying that they will more likely take action of some form or another. Meanwhile, as 25% said there are reasonably easy fixes that clients can adopt it would appear more, rather than less, clients will grasp the nettle and take action.

Are clients prepared for the transition from the founding generation to the second generation and beyond?

A resounding 92% of those surveyed said that their clients appear less than well prepared for wealth succession and transition to younger generations.

This would certainly indicate that working with appropriate professional advisers in the legal and tax professions, investment advisers, private banks, trustees and the IFCs to forge a complete wealth plan and wealth structuring programme involving estate and succession planning, asset management and asset protection of family wealth is a vital initiative for any organised, prescient HNWI or family.

The conclusion is clear that in an increasingly global world in which individuals and families are ever-more geographically and asset diverse, it is more important to instigate and maintain a holistic perspective on family wealth. Consolidating information and installing the appropriate reporting and governance protocols will also become even more essential, especially as the march to greater global transparency and more robust regulatory standards continues.

The responses also highlighted a theme that emerges time and again through so many of the Hubbis roundtable discussions in Asia and the Middle East, namely that the wealth management industry in both Asia and the Middle East is in fact in its relative infancy. There is therefore clearly an immense opportunity for the wealth management advisory industry to expand and educate their client base, and thereby to enhance the asset management and broader wealth management scope in the region.

Wealth structures for the GCC market

What about the new era of global transparency and what are some of the tax issues that clients in the Middle East face today?

"Rather than focusing on the tax issues of today for GCC HNWIs," said one of those experts surveyed, "it is more the potential tax issues of tomorrow that need to be planned for. The advent of VAT in the GCC is the first material example we have seen. With the Common Reporting Standard (CRS) opening up more data on where the wealth sits today versus individual residency, I have no doubt further corporate and personal taxation will come to the GCC in the next five to 10 years."

"The understanding of international tax issues and individual's exposure to them is a major issue of concern," noted another in his reply. "I have, for example, personally encountered a number of clients oblivious to inheritance tax in the UK or, even worse, being aware of it, but assuming that it has no impact on them as they do not live in the UK, despite having huge property interests."

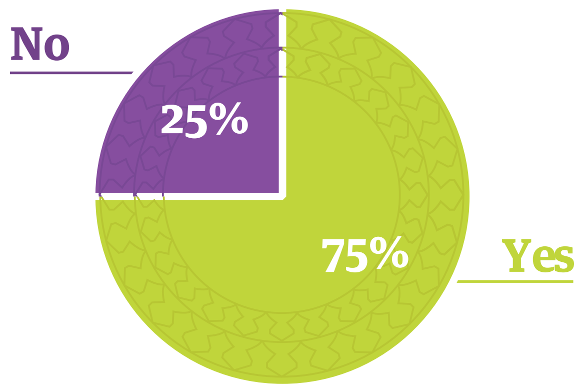
And an expert commented that notwithstanding the new laws on residency for over 55s in the UAE, most clients will always keep an eye on their exit strategies and where they are likely to end up. "So," he opined, "it is very important that we engage with our clients to understand their wishes and concerns and thereby ensure we have the necessary solutions to structure their wealth in a manner which provides effective solutions."

As more of the GCC clients invest cross-border, understanding and working with legal, tax and inheritance matters in local and overseas jurisdictions become ever more relevant. Lack of full understanding of the tax laws will affect wealth preservation and the returns on that wealth.

Inheritance taxes and obligations, especially for those with assets in the USA and those requiring external transparency, are a vital consideration which demands a greater focus also on internal transparency within the region.

"Significant wealth in this region offer a great opportunity," commented another of those surveyed. "The tax issues are all external to the region and regulation is also playing catch-up. Amongst the challenges are the cost of living for the administrators of wealth and along with downward pressure on fees this could result in organisational mergers and as an outcome more limited client choice."

Are Middle East families still reluctant to provide information and documents that may be useful or necessary in certain circumstances to provide services in accordance and in compliance with all the new regulations?



What motivates a client today to have a 'structure' in an IFC?

Geopolitical climate and fears of stability and succession planning ranked as the most notable concerns, with 25% of respondents highlighting each of these issues. Asset protection ranked as the next most important factor at 17%, alongside privacy and confidentiality. Of less importance apparently diversification of jurisdictions and assets at 8%, with tax efficiency ranked at a similarly low level of importance.

Notably, the similar Hubbis/Jersey Finance Survey conducted earlier this year in Asia produced a resounding 46% plus of respondents ranking succession planning as the most important motivation, followed by the diversification of jurisdictions and asset protection at a combined 38%.

What does this mean? Evidently, people living and operating in the Middle East have far greater concerns about political and geopolitical instability than their peers in Asia. Although succession planning and asset protection are clearly major concerns for the GCC market, they are set within the overall context of worries about overall stability. For those HNWIs who are wealthy enough to be global in their lifestyles, property and asset diversification, these broad concerns about instability can be addressed to some extent in their wealth structuring, offshore structures and even alternative residence or citizenship options.

Families across the GCC region are therefore indeed beginning to focus more intensely on the need to more formally organise the management of their wealth, for example through onshore and offshore structures, family offices and so forth. The motivational factors of greater professionalism of structures and planning, propriety and governance, might, however, for the time being, rank below fears of instability.

What are some of the trends the market is seeing in wealth planning and structuring in the GCC? What structures do you consider will be the most relevant and effective in the future?

Offshore corporate structures and private trust companies ranked highest, each with 25% of replies selecting this, while trust structures were considered the next most important, alongside citizenship and residency planning. Fund related structures and foundations are considered of less importance.

A valid interpretation here is that wealth managers in the GCC appear to think that their clients prefer offshore and private corporation to trust structures. Why should this be? Could it be because they do not yet either fully understand, or perhaps feel comfortable with, those trust structures? Interestingly, this would appear to be the case, especially when set in reference to the survey we conducted in Asia, where the largest 'vote' was firmly in favour of trust structures.

It is, of course, possible that the GCC's interest in creating structures has in fact been weakened, not enhanced, by regulatory intensification, or there could be concerns over greater global media scrutiny of structures and jurisdictions. As stated earlier, it is indeed very clear throughout the GCC survey results that HNWIs and their families in the region greatly cherish their privacy and do not intend to 'easily' open up to the new world of compliance and transparency. As to the types of structures being adopted, there were several notable comments. "Offshoring continues apace," voiced one expert, "so we see more Sharia-compliant structures such as foundations, and tax transparent structures are more commonplace. This is unlike the past 20 years of what were effectively tax avoidance structures; many of those, as the rules change, are not fit-for-purpose today."

"There is an ongoing creation of multiple layers and firewalls in the wealth planning and structuring," said another. "Asset protection and succession planning are the most prominent trends." Another added that there is a lot of wealth structuring going on and family protocols established where the patriarchs are keen to put their houses in order while they are still firmly at the helm.

Simplification is a key trend. "Where once we may have encountered large and complex holding structures families are now seeking less complicated arrangements," one expert reported. "Some HNWIs simply want holding companies with direct share ownership so there is no ambiguity in their minds (or the minds of their heirs) as to who owns the underlying assets."

Notably, GCC respondents also highlighted the relevance of citizenship and residency planning, but perhaps less so than those surveyed in Asia. It would, therefore, appear that the GCC somewhat lags Asia in terms of HNWI's proclivity to more globalised lifestyles, asset diversification, geographical spread of family members and family wealth, globalised education options and even inter-racial and cross-border marriages and partnerships, perhaps due to the region's religious and cultural history. Nevertheless, it is also noteworthy that a significant number of GCC responses acknowledged the relevance of citizenship and residency planning.

Are clients moving away from historic jurisdictions and structures? And if so, why?

The replies were split evenly between "yes" and "no", while a variety of reasons were given, mostly related to the proliferation of new regulations and the apparent demise of data privacy.

"The sweeping changes to the regulatory framework, which is becoming aggressive and robust in bringing all and sundry under the tax domains," said one respondent, "is accompanied by an increasing prevalence of the watchdog style of data mining to decipher anomalies, if such discrepancies exist."

"As tax rules change and as the data globally available to tax authorities increases," said another expert who was surveyed, "many of the supposedly, or formerly, tax compliant structures are clearly now no longer fit for purpose."

As a result, GCC clients are reportedly moving primarily from the British Virgin Islands (BVI) and other Caribbean jurisdictions due to privacy concerns, as well as for fear of unwanted disclosure of their assets. "There is so much bad press surrounding exotic jurisdiction structures,"said another, "which only seem to raise doubts as to how clandestine people are being rather than being seen as being totally transparent." Accordingly, the older structures and some of the jurisdictions in which they are located are seen as too complicated and not necessarily serving what the clients of today need. "Many of the structures," said another expert, "were created by advisers that simply wanted to sell those products and services to them."

"We see a stronger, rising focus on holding wealth in a well-regulated jurisdiction, such as the Isle of Man or Jersey," said another wealth manager replying to the Survey. "We see a move away from jurisdictions that are coming under scrutiny, such as some of those in the Caribbean.

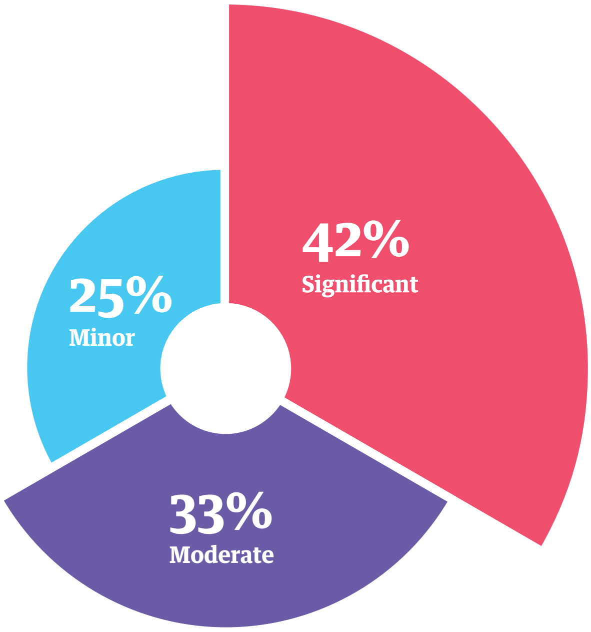
To what extent have the disclosures in the Panama and Paradise papers undermined client confidence in using offshore structures?

'Significant' was the most popular reply, with more than 42%, followed by 'moderate' at 33% and only 25% said this was of 'minor' impact.

Regarding the implications of the disclosures of data in the Panama and Paradise Papers revelations, there is little doubt that this has had a corrosive effect on confidence in those more exotic jurisdictions. If an IFC is tainted, then why, many ponder, would 'bona fide' GCC or other HNWI clients seeking longer-term wealth preservation and estate management and transitioning, want to associate themselves with any such actual, or potential negativity?

While experts at recent Hubbis 2018 roundtable discussions on the future of structures and IFCs have generally opined that some of the Caribbean corporate entities and jurisdictions do indeed remain viable, and are aiming to improve their reputations, the damage done to their reputations could be difficult to erase in the foreseeable future.

To what extent has the disclosures in the Panama and Paradise Papers undermined client confidence in using offshore structures?



Typically, do they know how to fix those issues?

A resounding 92% said no to this question.

Notably, as a resounding 92% of experts who replied to the Survey said that clients do not know how to fix these issues, it seems the necessary levels of understanding and sophistication that are evidently a necessity in the new world of wealth management, are still far off.

The roundtable and the Survey we conducted shed some light on the solutions, at least in broad terms if not in detail. For GCC clients to simplify their structures, as a generalisation they need to eliminate under-utilised, inefficient, non-tailored and costly structures, especially when the assets within the structure will now be disclosed to their tax domicile country of residence, or available for scrutiny should those authorities so demand.

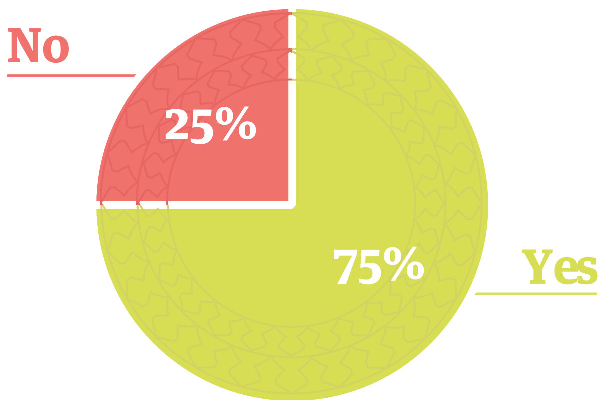
The mission must be to reduce the number of entities, cut back the number of layered corporate or other entities, reduce the number of IFCs, touch points and bank accounts. Geographical consolidation to one or two jurisdictions will help transparency, ease the task of family oversight of their wealth, and diminish the anxiety of the wealth advisers who help them preserve and transition that wealth.

Will GCC clients get a big wakeup call given what they have historically bought offshore?

Some three-quarters of respondents indicated that their Middle East clientele are facing a challenging new dawn.

Things now need to be looked at differently - like offshore companies' capital gains, for example, potentially being taxed? What do you think a client's response will be?

Will they get a big wakeup call given what they have historically bought offshore?



Are clients now stress testing their existing wealth structures and vehicles?

A resounding 75% of respondents said yes to this question.

Are clients simplifying their structures?

An even more definitive 83% said yes.

Why? What really motivates them to do this now?

There were two key priorities expressed here, with 33% of respondents stating that the cost of having multiple structures is the key motivator, and 25% of replies targeting tax compliance. Meanwhile, consolidation of control and governance both ranked as the next most important factors at 17% apiece, while geopolitical considerations and regional instability were also highlighted by some 8% of those surveyed.

There is little doubt that the more sophisticated and worldly of HNWI clients in the GCC are already looking into the structures that they have in place to determine if they will stand up to the new global regulatory rules and compliance conventions. Like their Asian counterparts, GCC wealth clients might be taking these initiatives themselves or under guidance from their wealth management banks and other advisers.

Respondents noted that many of the older structures, some of which date back to less transparent personal wealth management practices, are often not well formulated and are therefore in need of remediation. In addition, some argue, clients have not focused sufficiently on family or personal governance.

Structures, whatever they might be, must be credible and have substance to withstand scrutiny if ever challenged by any tax authority. The more discerning GCC clients are reviewing the effectiveness of their structures in what some describe as the new age of transparency considering the arrival of the CRS and the Automatic Exchange of Information (AEOI).

Do clients know today whether they might have issues relating to transparency, tax and existing structures?

Three-quarters of respondents answered yes.

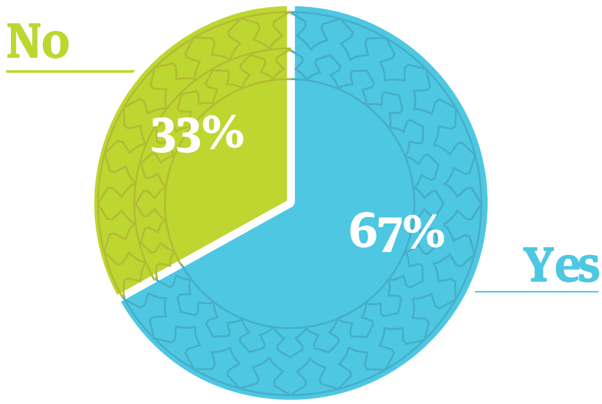
Choosing the right IFC

Do you think clients still perceive IFCs as a means of providing a mechanism for tax avoidance?

It is fascinating to note that just over two-thirds of respondents said yes, implying that virtually any jurisdiction, no matter how high a perception of quality and propriety, continues to be considered as a potential passport to tax avoidance. However, to be fair, the Survey did not seek to mine down into more detail to seek clarification on whether this means avoidance in an illicit way or mitigation in a more acceptable manner.

It is also worth noting that one-third of respondents replied 'no' to this question.

Do you think clients still perceive IFCs as a means of providing a mechanism for tax avoidance?



When choosing an IFC, how do you rank the key characteristics?

Reputation came out top here, with more than 42% of replies pointing to this as a key factor, while the closely linked factor of privacy rules followed closely, with 25% pointing to this characteristic.

The respected and efficient laws in that jurisdiction ranked next most important at, closely followed by global expertise. Interestingly, compliance and international co-operation did not register any replies, nor did regulation, banking infrastructure or quality and depth of local professionals.

To whom do GCC HNWI clients turn for independent advice?

Notably, in the Middle East, lawyers are the clear go-to people, with almost 60% of respondents putting them first in the chain of trusted experts. Private bankers and independent wealth managers will all be somewhat disappointed to hear that less than 10% would turn to any of them, while one-quarter of those polled think their clients would use their in-house teams to forge the right advice.

Will a client increasingly concentrate their assets and structures in one IFC?

The answer here was that some 58% said 'yes', but the jury is still somewhat out as more than 42% said 'no'.

Does whether an IFC have a private beneficial ownership register as opposed to a public register impact on your choice?

Some two-thirds of respondents replied 'yes' to this question.

Given the current drive towards global transparency, what jurisdiction should a client use for a simple holding company? Or trust? And why?

There was a consensus that the solution(s) would need to be client specific would, therefore, differ on a case-by-case basis.

There was a similar level of agreement that the chosen IFC must have a strong reputation and track record for transparency and be able to offer the most tax efficient and transparent structures supported by the best international legal framework.

Jersey was highlighted as the pre-eminent IFC from a reputational perspective, offering strength in depth, a solid regulatory system, a fit-for-purpose, non-public, central register of company beneficial ownership, an efficient registry, sound trust, company and fund laws, extensive legal expertise and compliant service providers. Other jurisdictions noted by respondents included the DIFC, as well as Switzerland, Liechtenstein and Luxembourg, the latter three centres cited as highly adaptable, easily accessible and reliable.

It is important to note that many experts we polled do not want to be seen to dismiss Caribbean options. One reply, for example, stated that they remain acceptable provided that the client is compliant for tax purposes. BVI companies or Cayman entities can, therefore, remain an acceptable element of the global wealth management infrastructure and several respondents noted that most of the more exotic locations are in compliance with international legal and tax requirements and that this is well understood by international banks.

However, there was little doubt that the experts Hubbis polled, both in the Asia and the GCC Surveys, advised the use of what they termed more publicly 'credible' and 'stable' jurisdictions, such the Channel Islands of Jersey and Guernsey, the Isle of Man, Singapore, or Hong Kong.

How the world has changed. Today, privacy is far less important because perceptive clients know it can no longer be maintained or guaranteed. Instead, regulation and the general respect for the laws of the IFC appear to be the most important criteria for selecting a jurisdiction, at least from the perspective of wealth management professionals, who, after all, are in regular contact with their HNWI and ultra-HNWI clients in the GCC. Transparency is also implicit in the selection of any jurisdiction that has reputational excellence.

Global expertise is also a key factor, but it goes almost without saying that if an IFC has reputation, legal and regulatory excellence, then by default it will have consolidated its place in the provision of wealth management services of significant value to the global wealth community. Consequently, the depth of professionals and banking sector infrastructure are also considered crucial factors.

Do you think clients need to be re-educated about the services and merits of using structures in IFCs?

There was no doubt in anyone's mind that dissemination of information about the products, services and therefore merits of using IFCs needs to be significantly enhanced.

Clients need to enhance their knowledge of smart and compliant tax planning, control issues and governance, succession planning, trusts, foundations and other relevant structures and the key difference between and advantages of each alternative.

Realistic, not idealistic expectations of what an offshore structure and IFC can do for family wealth structuring is clearly also important, as well as appreciating why the lower cost is often likely to also be lower quality.

Clients should also recognise that concepts promoted by wealth advisers need to be verified for structural and regulatory robustness by high-quality lawyers, tax advisers and other experts who are not directly linked to the selling of wealth management products. In short, clients need to rethink their attitudes to paying for good advice and service.

What are the areas requiring re-education?

It appears important for clients to understand the flows of information and the value added by the professionals that are based in one IFC or another. The age-old adage, knowing the price of everything but the value of nothing, is one concern that was expressed.

"For this industry" the reply expressed, "clients must understand the value of the work we do, otherwise it is a race to the bottom and no one will benefit because the advice has to become generic if it is driven by achieving the lowest price."

Current practices and the future implications of regulation and regimes clamping down is another concern. "Clients could and should build a diversified portfolio across several jurisdictions and multiple asset classes and prudently seek tax efficiency rather than tax avoidance mechanisms," one of those surveyed observed. Several others agreed that their regional clients should more fully appreciate the difference between tax mitigation and evasion.

Transparency is not a bad thing, said another expert questioned in the survey. "Governance, compliance, tight regulation are all good things, we believe," he opined. "Clients should better learn of and appreciate the benefits of IFCs and how to invest overseas whilst also working within an international legal framework."

Another expert said that clients need to analyse and understand their issues and goals first, and only then go out to find a customised solution for their individual situation.

Tax compliance is certainly a high priority, driven by the advent of CRS, FATCA and AEOI, all of which means that structures within IFCs should be carefully constructed with a stronger focus on transparency and compliance than ever before. The landscape is certainly changing, and the future might also bring public ownership registers for companies and eventually trusts.

As confidentiality is also virtually a thing of the past, due to new global regulatory issuances and new practices, the lid can be prised off virtually any structure. And if the lid cannot be lifted off, that is because the structure is in a globally non-compliant jurisdiction, in which case the client will be deeply tainted and might find it very difficult to return to more normalised, reputationally intact markets.

In short, it appears that GCC wealth clients will need to be educated far more in both structures and the products, services and merits of the various IFCs in order to match the complexity of compliance procedures with enhanced knowledge and attention to detail. The era of sublime ignorance, or indifference, is well and truly over. ■