

MIDDLE EASTERN PROMISE

By David Maude

In the third of a series of articles adapted from his recent book, *Global Private Banking and Wealth Management: The New Realities*, David Maude looks at opportunities in the Middle East.

As far as global opportunities go, the Middle East is moving up the strategic agenda for many wealth managers. There have been some important recent developments in the Middle Eastern wealth landscape. Some are very familiar; others less well known. Four developments in particular stand out as having significantly changed the size and nature of the opportunity – and how wealth managers should go about capturing it:

1. *The region is awash with oil-driven liquidity.* Gulf states are earning oil revenue at rates not seen since the 1970s. With the oil price expected to remain high, that will continue to help fuel regional economic expansion – and further wealth generation.
2. *The action is increasingly onshore.* Local clients are now less inclined to invest the bulk of their assets offshore. Following staggering gains, regional stock markets have suffered setbacks recently with, for example, the Dubai Financial Market Index falling by close to 45% in the four months to end April. But investors remain willing to commit funds, albeit with greater principal protection. Moreover, there are plenty of other onshore investment opportunities, particularly in infrastructure and construction.
3. *Demand for Islamic products is growing strongly.* In Saudi Arabia, for example, Islamic mutual funds have grown at an annual rate of more than 20% over the past few years and now account for some 60% of the total mutual fund market. Across the Gulf, around 30% of clients now demand full Shari'ah compliance. Efforts to strengthen Islamic product innovation, market liquidity and regulatory regimes are intensifying.
4. *Wealth of non-UHNW client segments is becoming more significant.* The bulk of the regional wealth remains highly concentrated, predominantly in the hands of a relatively small number of royal and merchant families. But the number of clients in the lower wealth bands – which include entrepreneurs, professionals and expatriates – has been growing fast. Many of these clients have low levels of sophistication, and hold a relatively high proportion of their wealth on deposit at local banks.

Responses

Traditionally, the large Swiss offshore players have dominated, mainly focusing on the UHNW segment. But, taken together, these trends mean that the market is becoming more accessible for other types of players.

Local retail banks are leveraging their onshore distribution networks, segmenting their client bases, and trying to develop their own wealth management skills and propositions. In addition, some new local specialist boutiques are emerging, such as Kuwait's Global Investment House, focused mainly on product niches.

New foreign players are entering and trying to increase their local distribution capacity. They are doing so both through local representation, with Dubai the destination of choice for many, and, in some instances, through partnerships with local players. Many are enhancing their propositions by, for example, joining up onshore and offshore – and/or personal and commercial – banking elements. Some are also targeting the lower wealth segments.

An Islamic proposition is now less of a 'nice to have' and is becoming pretty much essential for most serious players (local or foreign).

Winning in the Middle East

How should wealth managers go about capturing the opportunity? Overall, there is a pressing need for greater focus and competitive differentiation in the region.

Key success factors include local presence, product skills and brand strength. The battle for wealth is essentially between (a) foreign players, which have the relevant (product, advisory and other) expertise and brand strength but lack local distribution; and (b) local players, which have deep client relationships but lack relevant skills. The complementary capabilities of foreign and local players, and the magnitude of the challenges, argue strongly for collaboration.

Some partnerships are already sewn up – such as the offshore collaboration between the National Bank of Dubai and Pictet. Opportunities do, however, remain. These partnerships must, of course, be structured with care.

Investment banks are, in principle, relatively well placed, given that family wealth and corporate relationships remain heavily intertwined in the region. A key challenge here is to ensure that their local investment banking capability is seamlessly integrated with their global investment and structuring capabilities.

To build an Islamic proposition, there are four main models. The most common approach is the Islamic window; examples include BNP Paribas, Deutsche Bank and Credit Suisse. The other models are: Islamic subsidiary, e.g., HSBC Amanah; Islamic business line, e.g., NCB's retail business in Saudi Arabia; and pure

Islamic, e.g., Kuwait Finance House. The effort is well worthwhile: Islamic private banking is highly profitable, linked, in part, to strong client loyalty and the endowment effect.

All players need to be prepared for the long haul.

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The Middle Eastern wealth opportunity is attractive and becoming more accessible. To capture the opportunity fully, local and international players need to collaborate – and demonstrate staying power.

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