Intertrust

Bridging the generation gap: Wealth Trends in the Middle East

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Introduction

The Middle East has been a highly active region for Intertrust Private Wealth Services over the past few years as fortunes are growing faster in the region than in any other part of the world. According to the Boston Consulting Group, privately-owned assets in the Middle East are expected to reach US$11.8 trillion by 2020, with the United Arab Emirates, Saudi Arabia and Kuwait being particularly active, accounting for over 22% of the total[1].

It is timely therefore to assess how the UAE and the wider region is reacting to the rapidly evolving needs and requirements of its wealthy families, investors and UHNWs.

In a survey[2] of advisers servicing clients in the GCC conducted in October 2019, we examined their views on wealth structuring, the rise of families with a global mindset and succession planning.

We have also captured sentiment on the progress made by the Foundations Laws introduced by the Dubai International Financial Centre (DIFC) and Abu Dhabi Global Market (ADGM). Crucially, these new laws have enabled a substantial number of clients to manage their wealth and achieve their aims using a local solution. Traditionally, most wealthy families tended to look outside the region for wealth structuring solutions, so will these new local options prove to be popular?

Family office structures on the rise driven by global outlook

What are wealthy families in the Middle East looking to achieve through wealth structuring and which vehicles are growing in popularity? A key driver is succession planning, by which we mean transfer of wealth between generations incorporating governance and asset protection. We examine this trend in more detail in our spotlight section on page 5.

Globally minded families

Wealthy Middle Eastern families are adopting an increasingly global mindset, and this is having a profound influence on their wealth structuring strategies. Over the next five years, nearly three-quarters of advisers (74%) expect high net worth families in the Middle East will become more global and 90% expect to see the next generation expand its activities beyond the region. As a result, there is a growing demand for legacy plans to be based on international best practice (58%) and more awareness of the impact of governance and regulation (58%).

Concerns over political stability drives structuring outside the Middle East

The principal driver behind structuring outside of the region is concerns over political stability, which was cited by 83% of respondents. This has galvanised many families into focusing on their affairs and taking the necessary steps to safeguard their assets. Other drivers are the popularity of overseas education (57%); increased access to global tech-enabled financial solutions (53%); ease of travel and communication allowing for global overview from the region (53%); property prices (13%) and taxes and governance (7%).

Advisers predict that over the next five years Jersey, Singapore and Switzerland will be the most favoured offshore jurisdictions for Middle Eastern families seeking wealth management and succession solutions.

Family office structures to become more popular

We asked respondents to predict which vehicles are likely to become more widely deployed and the majority (52%) believe that family office structures will grow in popularity over the next two years. Family offices allow for ease of investment management, ownership tracking and reporting and are gaining pace in the UAE. Its sophisticated infrastructure, highly skilled employment market, flexible regulatory regime and excellent global transport links make the UAE ideally located for those looking to establish such offices. Special purpose vehicles, a well-trodden route, were ranked in second place (42%).

Key findings

90%

expect to see next generation of families expand their activities beyond the region

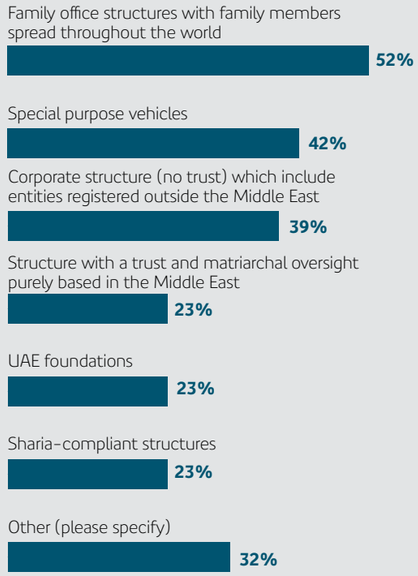
83%

cite political stability as key driver behind this, followed by overseas education (57%) and increased access to global tech-enabled financial solutions (53%)

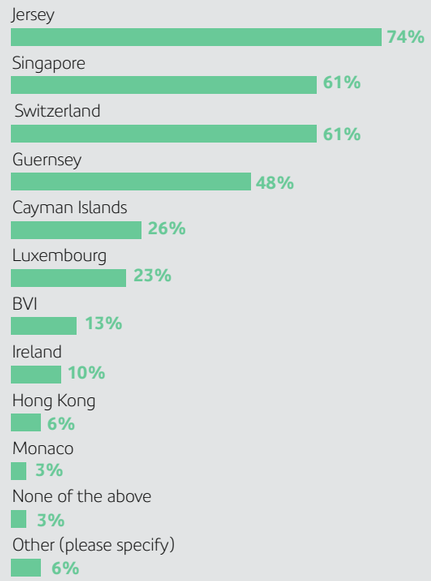
52%

expect to see family office structures becoming more popular over the next two years, followed by special purpose vehicles (42%), corporate structures including entities registered outside the Middle East (39%) and Middle East structures with a trust and matriarchal oversight (23%)

Which of the following structures have become more popular among Middle East-based clients in the last two years? (please select all that apply)



Over the next five years, which offshore jurisdictions are likely to grow in popularity among Middle East families for their wealth management and succession planning solutions? (Please select all that apply)



Boom in succession planning

There is little doubt that succession planning will be a major focus for the Middle East's most affluent families and businesses over the coming five years. It is estimated that $1 trillion of wealth is set to transition between families and generations in the Middle East during the next decade.

Nearly three-quarters of intermediaries (74%) see business succession planning as a major trend, while two-thirds (65%) point to the next generation becoming more involved in family businesses. Many younger family members are highly educated and commercially aware, and as a result it is no surprise that most respondents (58%) expect to see growing demand for legacy plans to be established according to international best practice.

Succession planning limited to date

While many Middle Eastern families face the pressure of transitioning their business to the next generation, it remains a sensitive issue. Often successful businesses in the region are still owned and run by the first generation so the process is far less recognised. Moreover, the traditional route has been to pass the family business to the eldest son or let Sharia law principles take effect. Until recently it was not legally possible or culturally acceptable to make plans that are considered entirely normal in other jurisdictions.

This helps to explain why advisers estimate that only 13% of high net worth families in the region have an adequate legacy plan in place to ensure an orderly succession of their assets. It also highlights the size of the opportunity. We are seeing a growing momentum among the older generation for instigating effective succession plans that reflect a long-term multi-generational vision for the business.

Middle East region set to retain majority of inherited assets

While the majority of high net worth families have tended to look outside the Middle East for wealth structuring solutions, our research suggests that intergenerational planning will be increasingly conducted within the region. Indeed, the consensus among intermediaries is that over half (52%) of the assets currently held onshore in the region and which are to be passed to the next generation over the next five years will stay put rather than be transferred overseas. A key reason for this shift is the introduction of new legislation in the form of the Foundation Laws.

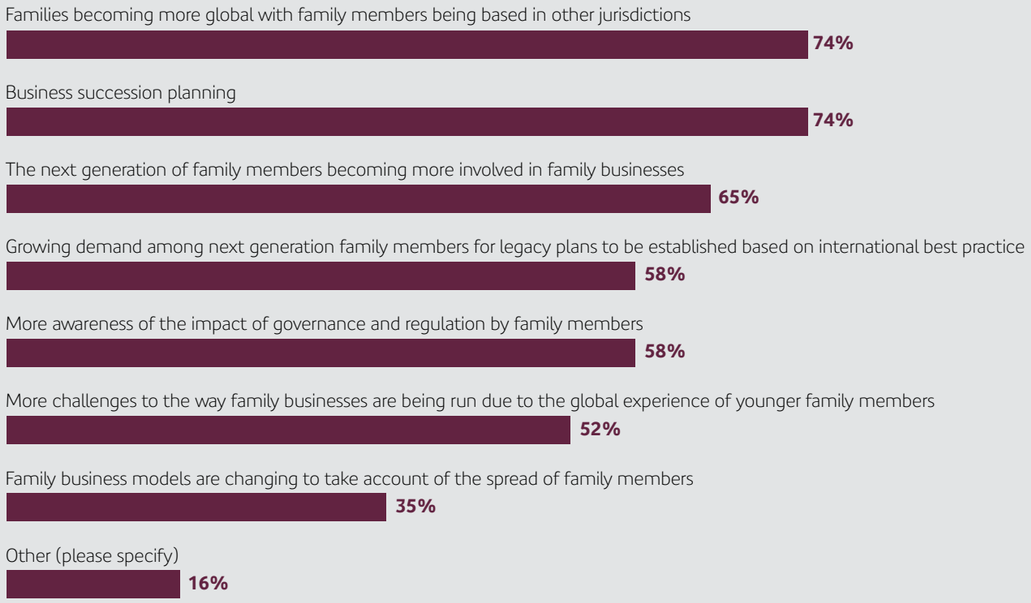
Key findings

74%
predict a rise in business succession planning by 2024

13%
of HNW families have an adequate legacy plan in place

52%
average percentage of onshore assets to be passed to next generation that will remain in the Middle East

Which of the following trends affecting high net worth families in the Middle East do you expect to see growing over the next five years (please select all that apply)



The Foundation laws – progress to date

Historically, the majority of high net worth families in the Middle East tended to look outside the region for wealth structuring solutions, frequently choosing well-established jurisdictions such as Switzerland, the Caribbean and the Channel Islands, but the introduction of the legislation now presents viable alternatives closer to home. This also plays into/is driven by the nationalisation movement?

Following the creation of foundation regimes in Abu Dhabi Global Market (August 2017) and the Dubai International Financial Centre (March 2018), wealthy families and entrepreneurs resident in the UAE are able to manage their wealth using a local solution. The introduction of this legislation now brings planning for local assets on a par with what is possible offshore.

These solutions are invaluable tools to potentially achieve the ultimate objective of intergenerational planning of local assets - family harmony, governance and preservation of the family name and wealth.

Multi-generational families are the key beneficiary

According to 70% of respondents, the biggest beneficiary of the Foundation Laws are multi-generational families who need assistance passing down local business and real estate assets. This was followed by companies or family offices wishing to restructure (60%); individuals or families with philanthropic objectives (58%); high net worth individuals with assets located around the world (53%); and entrepreneurs (48%).

Foundation laws will grow in popularity

Given the fact that the legislation has only recently been introduced, it will take time for its impact to be accurately measured. To date 28% and 21% of advisers judge the DIFC Foundations Law and the ADGM Foundations Law respectively as successful in ensuring wealth and assets are locally managed.

However, sentiment towards the Foundation Laws becomes significantly more positive when the time horizon is extended outwards; almost two-thirds (63%) and 60% of advisers respectively believe the DIFC Foundations Law and ADGM Foundations Law will grow in popularity over the next five years.

Key findings

70%

say Foundations Laws are beneficial to multi-generation families needing assistance passing down local business and real estate assets, followed by companies or family offices wishing to restructure (60%)

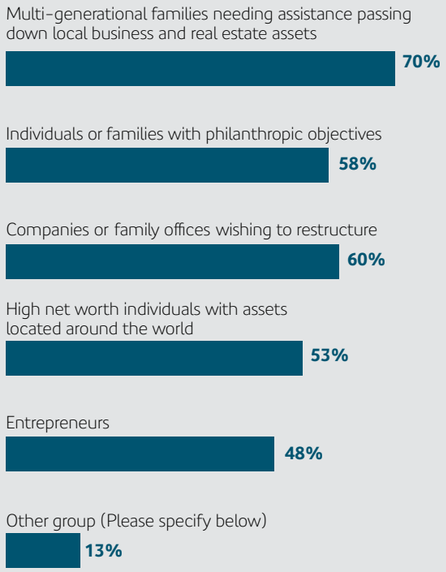
28%

describe the DIFC Foundations Law as successful to date in ensuring wealth and assets are locally managed (21% for ADGM Foundations Law)

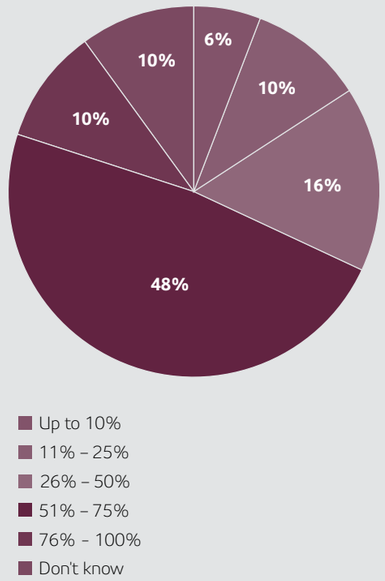
63%

believe the DIFC Foundations Law will grow in popularity over the next five years (60% for ADGM Foundations Law)

How beneficial is the foundations law for the following groups?



Over the next five years what portion of current onshore assets do you consider will be passed to the next generation but will remain in the Middle East rather than be transferred offshore?



Conclusions and looking ahead

Professional advisers are witnessing dramatic changes in the Middle East region's wealth structuring landscape. Wealthy families, investors and UHNWs are adopting an increasingly global outlook as living, learning and working overseas becomes more common. They are also mindful of the region's political landscape and there is a growing appetite to mitigate risk by taking a more sophisticated approach to wealth structuring. As a result, we are seeing a significant growth in investment structures such as Family Offices, special purpose vehicles, funds, offshore trusts and private trust companies.

Nowhere is change in the region more apparent than in succession planning and we can expect a boom in this area over the coming years. Thanks to the introduction of the Foundations legalisation in both the DIFC and ADGM, opportunities exist for assets to be kept onshore rather than follow the well-trodden route outside the region. Although it remains early days for the Foundations legislation, there is no doubt that advisers are confident that it will gain traction as an attractive means of preservation and also transitioning of assets to the next generation.

The ability of families to undertake succession planning and protect their assets locally adds another layer of efficiency to the region, cementing the DIFC's and ADGM's reputation as proactive international financial centres while demonstrating the UAE's credentials as a prime jurisdiction for wealth structuring.

Lastly, the Middle East is witnessing change resulting from technology and digitalisation. While digitisation brings considerable advantages for families to manage their wealth and enhance their philanthropic aims, advisers are also mindful of the risks. The enormous amount of data being shared and stored online provides opportunities for criminal fraudsters to obtain assets and exploit or even threaten personal safety. Given this, it is no surprise that over the next five years, 90% of advisers expect to see an increase in the use of cyber security technology solutions, including 37% predicted a dramatic rise.

Methodology

[1]Source: Middle East and North Africa: Wealth Shift, Global Finance, 06th June 2019

[2]Research was carried out in October 2019 by Citigate Dewe Rogerson on behalf of Intertrust via an online survey sent to a database of intermediaries either based in the Gulf Cooperation Council or advising clients based in the region. Over 50 responses were gathered from professional advisers servicing clients based in based in the UAE, Saudi Arabia, Qatar, Woman, Kuwait and Bahrain.

About Intertrust

3,500+
employees

40
offices

30
jurisdictions

Intertrust Private Wealth

We recognise that today's wealthy families are often complex and scattered across the globe. This is entirely our comfort zone – our private wealth teams work across all the major wealth centres of the world. Our experience enables us to devise solutions that overcome cultural differences yet respect the nuances of global life. You can trust us to help you succeed, whether that means partnering with you in a jurisdiction that suits you or devising a multi-jurisdictional solution that fits with your circumstances. Whether you are a high net worth individual or a business adviser, our expert teams can provide guidance on private client trusts and company structures, business succession or family office services.

Intertrust in the UAE

Intertrust has maintained a presence in the UAE for over 17 years, operating in the Dubai International Financial Centre (DIFC) and since 2018 in the Abu Dhabi Global Market (ADGM). Most recently we took up the agency for Ras Al Khaimah International Corporate Centre (RAK ICC).

We have strong relationship with each of the UAE free zones and have gained vast experience in structuring companies. Our reputation for exceptional client service and ability to navigate the complexities of conducting business in the region, has cemented our position as one of the leading corporate service providers.

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December 2019