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The Wealth Management Industry in Perspective

The wealth management industry in the Middle East and North Africa (MENA) represents a roughly $800 billion opportunity. Figure 1 shows the total amount of assets in the hands of affluent individuals (with more than $100,000 in investable assets), high net worth individuals (dollar millionaires or HNWIs as those in the financial industry call them), and ultra-high net worth individuals (the UHNWIs, which have at least $30 million in investable assets). As the figure shows, wealth in the region lies mostly in Turkey and Saudi Arabia. Egypt and the United Arab Emirates (UAE) represent a second tier for wealth management firms — with roughly $60 billion to $110 billion in investable assets in the hands of the richest 10% of the population in each country. The other countries in the region represent ancillary markets, with roughly $20 billion in assets each — or the amount of wealth required to make the top 50 in the Forbes 1000.

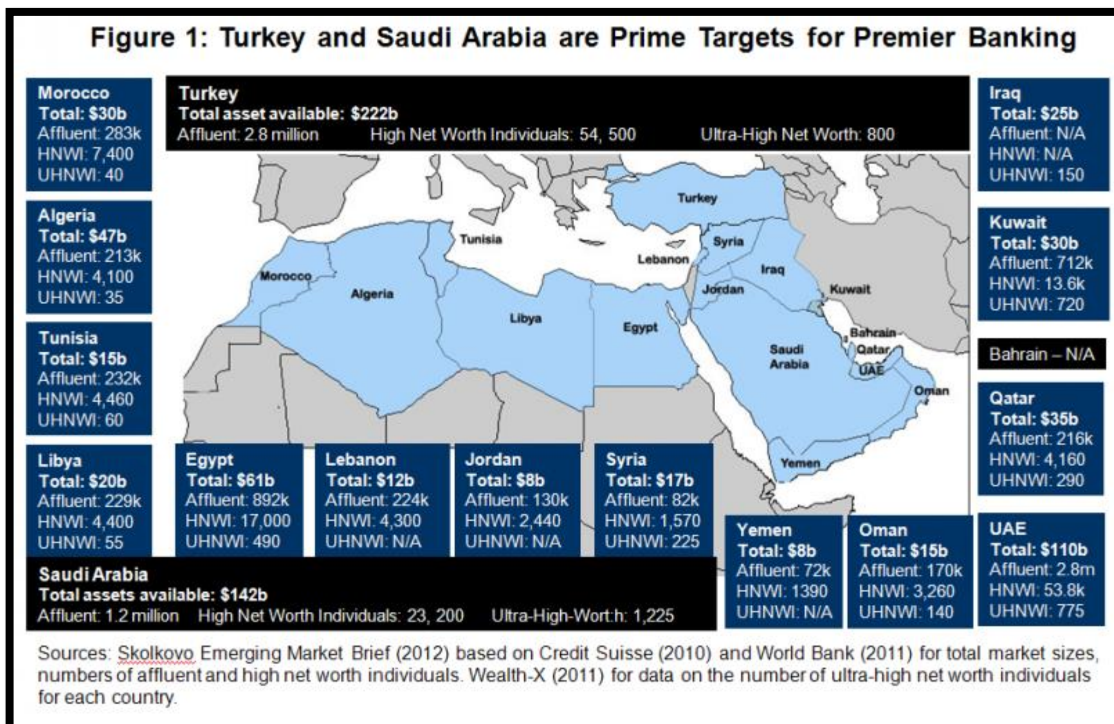


Figure 1: Turkey and Saudi Arabia are Prime Targets for Premier Banking

Sources: Skolkovo Emerging Market Brief (2012) based on Credit Suisse (2010) and World Bank (2011) for total market sizes, numbers of affluent and high net worth individuals. Wealth-X (2011) for data on the number of ultra-high net worth individuals for each country.

In the Middle East, most assets lie in the hands of very few ultra-high net worth individuals. According to the annual Merrill Lynch-Cap Gemini World Wealth Report for various years, North American and European wealth tends to spread out at roughly a ratio of $3 million to every ultra and regular high net worth individual in the region. The MENA region — despite the World Wealth's Report's data — has ratios closer to 7-to-1. The high concentration of wealth in the region provides wealth management and private banking firms a unique opportunity to service relatively few ultra-high net worth clients without the expense of servicing

large numbers of clients. Moreover, the political uprisings in the region will likely do little to dampen accumulation of wealth in the region.

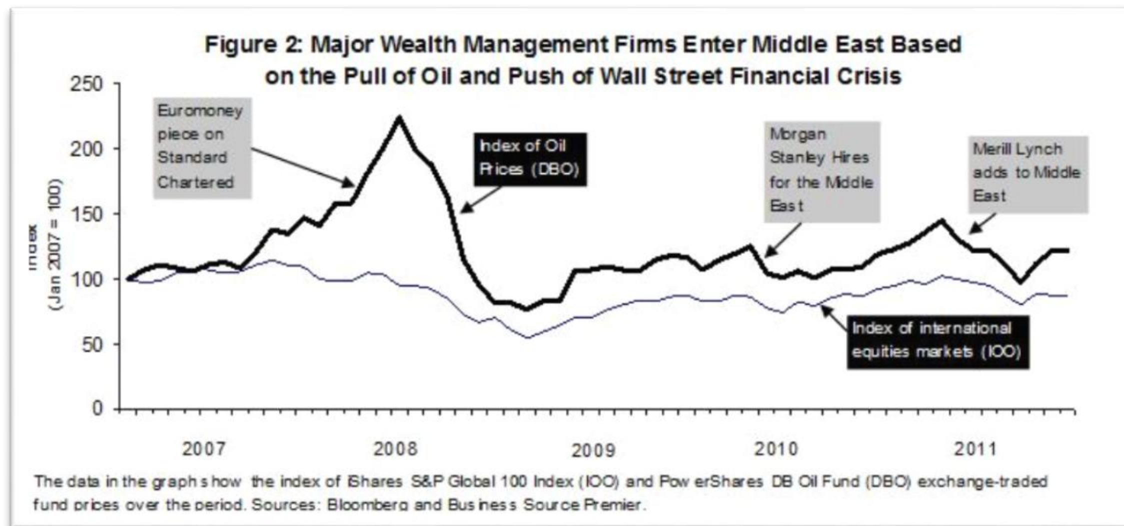


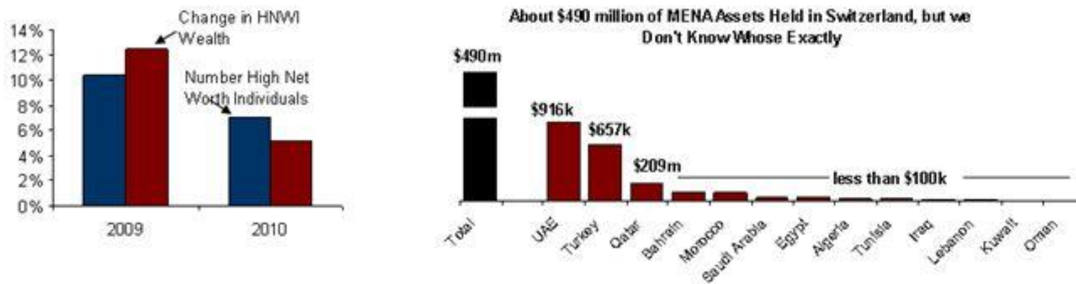
Figure 2: Major Wealth Management Firms Enter Middle East Based on the Pull of Oil and Push of Wall Street Financial Crisis

The data in the graph show the index of iShares S&P Global 100 Index (IOO) and PowerShares DB Oil Fund (DBO) exchange-traded fund prices over the period. Sources: Bloomberg and Business Source Premier.

These dramatic changes in the sources of Middle Eastern wealth — and relatively lack-lustre returns on equities in global equity markets — probably drove the Western broker-dealer to enter Middle Eastern markets more aggressively, rather than to wait for the Middle East's ultra-wealthy to come to them in Europe. On the figure, we show some of the many announcements by foreign broker-dealers who increased staff or investments in wealth management offerings in the Middle East or both. As of 2012, most of their major global banks offer wealth management and private banking in the Middle East.

Global investment houses have expanded their offerings in the Middle East. Such entry — particularly by foreign wealth management firms — exacerbates an already existing tendency for investors in the MENA region to invest abroad. Middle Easterners send roughly 70% of their wealth overseas, as opposed to the US and Japan's 3% and Western Europe's 25%. More recent estimates by the Boston Consulting Group place the off shoring of wealth management-related assets at about 50%.

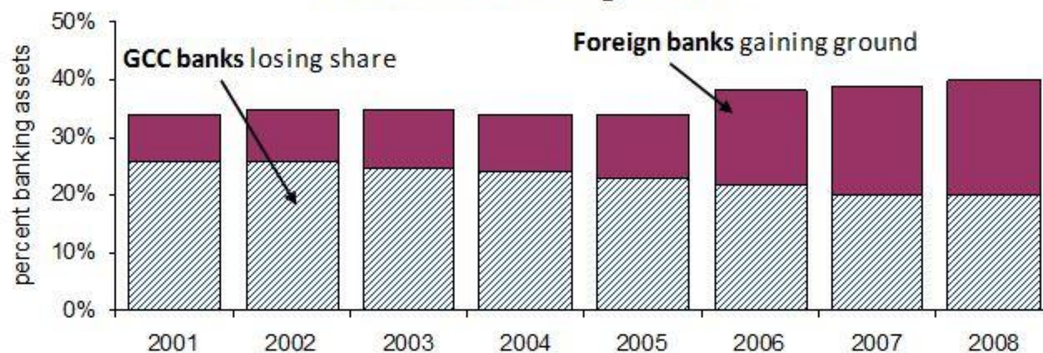
Figure 3: Growth in the Middle Eastern Wealth Management Market Translates to More Assets Held in Switzerland and the UK



'The data in the figure show the percent change in the estimated number and wealth of high net worth individuals in the Middle East according to the World Wealth report (left hand side). The figure on the right shows the serious shortcoming in the IMF's coordinated portfolio investment survey – with less than 2% of total flows to Switzerland for example accounted for.
Sources: World Wealth Reports for 2010 and 2011, and IMF's Coordinated Portfolio Investment Survey (2011).

The limited data available suggest that these wealth management firms are increasingly trying to operate directly in MENA countries. Figure 4 shows that foreign banks have increasingly been participating in Middle Eastern markets. At the beginning of the decade, foreign banks comprised only about 10% of the total market by assets. Banks coming from the Arabian Peninsula from the member countries of the Gulf Cooperation Council comprised about 27% of assets. By the end of the decade, foreign banks made significant progress — taking about 20% of the market. Such a trend suggests that Western banks are seeking to capture a larger share of the Middle Easterners' wallet — moving from wealth management to a broader range of banking services.

Figure 4: Non-MENA Banks Making Significant Inroads into MENA Banking Markets



The data in the figure show the percent of foreign banks' assets in total banking assets (as derived from Bankscope data). Source: Farazi *et al*. (2011).

Characteristics of Regional Wealth Management

Wealth management firms in the GCC struggle with many of the same challenges that Western firms face. But the businesses are not fully aligned. There are unique features to the GCC, which require different management sensitivities:

Fractionalization

It can be difficult to have oversight of the bulk of an Arab client's assets, given the fractionalized nature of Gulf society. Recent Saudi overtures to form a GCC-wide political union seem fantastical to many; a common currency has been debated for years with little tangible progress. That macro perspective informs advisory work, with investors reacting to one-off ideas on an account-by-account basis, rather than comprehensive planning. Local firms may be more effective than international firms in overcoming this business hurdle.

Fund Fatigue

Arab investors have long objected to the notion of outsourcing investment management to a distant third party. Yet they also realize that the constrained skill set in local markets requires them to look abroad for some advisory relationships. Fatigue with an ongoing stream of investment ideas packaged as funds – over which there is little control – may be one reason why direct investing has become so popular. The issue is particularly prevalent in the current environment because of the extraordinary competition for limited discretionary capital.

Long Duration Assets

Arab investors' need to maintain high levels of liquidity may be a cyclical stance. In practice, the region has always been heavily exposed to long-duration assets such as private equity and real estate. Higher income and early-stage exit requirements are a relatively new concern for illiquid categories. Sovereign wealth funds may have led the way here because of their limited asset-liability matching requirements. These long duration assets have traditionally complemented, rather than competed with, robust equity positions.

Suggestions for developing the wealth management industry in GCC

The key to developing the local wealth management industry, and thus, economic development, consists of encouraging ultra-high net worth individuals to bring their money home. Changes in investment law clearly affect the ease of business and the development of the local wealth management industry. The figure below provides an assessment of the development of a local (national) wealth management industry. Not exactly surprising results emerge. Prospects

look best in countries – like Jordan, Saudi Arabia and Turkey – which already have relatively well-developed financial sectors.

Figure 13: Prospects for Foreign Wealth Management Entry into Various MENA Countries

Country	Prospects for Wealth Management Industry Based on Existing Legal Provisions
Algeria	**Poor -** the government should amend the banking law to better guarantee the right of local and foreign firms to enter the wealth management sector. Better protections for engaging in domestic and international securities transactions required.
Egypt	**Average** -government should encourage entry in the banking sector and define the terms under which securities dealers may transact at home and abroad.
Jordan	**Good** - bank and securities law looks similar to Western best practice.
Lebanon	**Poor** – government sets a negative tone toward wealth management in its Basic Decision No 7074 and should liberalize foreign participation in the banking sector. Government should define clear regulations for finding and managing funds on local and international markets.
Morocco	**Average** – Tangier represents one of the few financial zona francas in the region. The ability to solicit business and manage funds outside the zone remains uncertain.
Oman	**Poor** - current law gives few legally defendable rights to domestic and international financial institutions. Significant revisions in banking and securities legislation required.
Saudi Arabia	**Good** - Law provides (at least on paper) a stable framework for encouraging long-term investments by wealth management providers.
Syria	**Poor -** law difficult to find and seems to provide uncertain rights and obligations for local and international financial institutions.
Tunisia	**Average** – despite significant revisions in law, both banking and securities law can increase clarity of financial institutions' rights (particularly the right to engage in financial services needed by the affluent).
Turkey	**Good** – law appears to provide a sound basis for long-term banking and securities investments.
United Arab Emirates	**Average** – the financial free zones, while themselves representing a liberal regulatory framework which encourage wealth management investments, can be changed or revoked. These zona francas should be incorporated into national law to provide the long-term predictability needed to expand the UAE's current status.
Yemen, Rep.	**Poor** – existing law making banking of all kinds extremely difficult. Significant legal redrafting needs to be done in banking and securities law.

Source: author, based on database provided by the World Bank. See Appendix II for legislation under review.

The analysis suggests that countries like Tunisia and the UAE could develop more quickly if they generalized their zona franca approach to finance. Both countries have a financial center with relatively few restrictions (Tangiers and Dubai respectively). Their zona franca status has allowed both countries to become wealthy quickly. However, to continue growing their wealth, and thus, their wealth management industries, they will need to extend reforms beyond isolated geographical areas. Countries like Yemen, Oman, Algeria, and Syria require nothing less than a full-scale rewriting of their banking and securities laws.

To Conclude

Wealth management in the GCC represents both a boon and a potential bust for local and international financial institutions. The future of wealth management in the Middle East will depend on whether policymakers and bankers can develop local wealth management services, which grow local economies, and thus, increase the number and portfolios of affluent individuals. Policymakers will need to encourage local financial institutions to become more competitive by letting in foreign competition, changing banking and securities laws, and growing local companies whose share are worth buying.