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Middle East

2020

PLANNING FOR THE FUTURE

Living during lockdown

Which IFC to choose?

Women and wealth

PAM INSIGHT

Contents

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introduction

Welcome to the 2020 eprivateclient Middle East Report – an in-depth look at some of the most important topics affecting wealthy individuals and families from the region as well as their advisers across the globe.

This report is published at a time of tremendous uncertainty in both the region and across the world as governments and the global economy struggle to combat the impact and lasting damage the COVID-19 pandemic has had on financial, political and healthcare systems.

Whereas some jurisdictions in the Middle East have combatted the virus with some success, places such as Yemen and Lebanon have fared less well and are dealing with the pandemic at the same time as political turmoil making the recovery much more difficult. Coupled with ongoing regional tension brought out by fractious relations between Gulf states and both Qatar and Iran, the Middle East continues to be a region divided.

Despite this, the Middle East continues to generate significant wealth for individuals and families in the region and this report features articles from law firms, property and fiduciary services providers looking at ways that wealthy Middle Eastern clients can build and maintain this wealth for generations to come despite pitfalls such as the COVID-19 pandemic, political turmoil and economic strife blighting parts of the region.

Will Sidery
editor
eprivateclient

What are the go-to jurisdictions for wealthy Middle Easterners and why?

Why would UHNW Middle Eastern clients look to be using offshore jurisdictions?

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Historically, UHNW Middle Eastern families and individuals (UHNW MEs) may have looked to the Cayman Islands (Cayman) and the British Virgin Islands (BVI) when selecting a jurisdiction to base an offshore corporate structure due to an understanding of the jurisdiction, ease of creation and competitive pricing provided.

This understanding was a result of experienced legal, trust and corporate administrative service providers from Cayman and the BVI being based in the region and providing education and information on a real time basis when necessary. As a result Cayman remains a favourable jurisdiction providing substantive offshore structuring solutions for the region.

Cayman, historically known in the Middle East as a private banking and corporate jurisdiction, has transitioned over the years to being recognised as a preeminent private client jurisdiction. UHNW MEs now look to Cayman as a jurisdiction to structure and house their succession planning vehicles, as well as to grow the family's wealth within those vehicles.

However, more recently, with greater information flow, travel capabilities and the increasing ease of communication (highlighted at the moment by the significant business being done despite the travel restrictions in place as a result of Covid-19), the region's interest in and understanding of Guernsey and Jersey has been ever increasing.

Guernsey and Jersey are regarded as providing a 'gold standard' service and being a 'private wealth hub' for UHNW MEs. Security and discretion are of paramount importance to an individual or family wanting to ensure that not only their assets are protected, but that the jurisdiction in which they are based is secure, stable and has an excellent reputation for service.

UHNW MEs with significant assets may have a variety of reasons for looking to structure all or some of their assets in offshore jurisdictions.

Each of the individual countries that form our understanding of the modern Middle East have their own specific and unique laws and rules (which we will not delve into here), but some of the themes/considerations that make it desirable to use offshore jurisdictions are: geopolitical considerations, diversification of jurisdictional risk, forced heirship, equalization of family assets, international education, intergenerational succession planning, a flatter ownership structure, retention of legitimate control, the ability to invest in worldwide assets/investments in a Sharia compliant manner and greater involvement of women in the ownership and management of family assets.

Each family is different as are the drivers for holding and structuring assets in a particular manner.

Bearing all these themes and considerations in mind, many UHNW MEs are increasingly choosing Guernsey and Jersey, and continue to use Cayman, as jurisdictions to hold and grow their private capital assets.

What makes Guernsey, Jersey and Cayman so attractive?

Guernsey and Jersey are both Crown Dependencies, which means they are not part of the UK but are self-governing dependencies of the Crown. Similar in size, geographic location and international financial centre experience, they each have individual distinctions and specialisms.

Cayman is a British Overseas Territory, which means it has a constitutional link with, but does not form part of the UK and is similarly self-governing. This status of these three jurisdictions has provided them with the economic, legal and political stability to attract UHNW MEs and continually develop their respective financial services industries.

Preferences for one jurisdiction over the other can be for personal or technical reasons and should be considered on an individual basis, but broadly the following applies to all three jurisdictions.

Legal Framework

Guernsey, Jersey and Cayman have their own courts (with ultimate recourse to the Privy Council) and creating and adapting their own laws, which with their widely respected judiciary and reputation for robust judgments ensure that they proactively remain at the forefront of wealth structuring development and as top tier jurisdictions.

An example is that the trusts laws of each jurisdictions have 'firewall' provisions that provide protection from a foreign court seeking to determine matters in relation to a Guernsey, Jersey or Cayman law governed trust. Additionally, the reservation or granting of powers to a settlor or specified party other than the trustee is also permissible under each of these laws.

This can provide added comfort to a UHNW ME if they are entering the realm of asset protection for the first time, are naturally cautious and/or are wishing to retain a larger level of involvement at the beginning. On the other end of the scale, this oversight can be extremely useful when creating a family office for a UHNW ME wishing to take the next step in structuring.

> Over the last 10-15 years the world has changed dramatically in relation to international regulation and oversight, through the implementation of various worldwide anti-money laundering legislation and regulation, FATCA, CRS, economic substance and beneficial ownership laws

Regulation & Business Costs

The Guernsey Financial Services Commission and Jersey Financial Services Commission (the Commissions) are independent bodies that supervise and regulate the finance industries of Guernsey and Jersey respectively. The Commissions ensure that service providers in both jurisdictions remain compliant with standards set by international bodies and that the financial industry remains at a level of professional excellence. The Commissions are able to work with the financial industry to agree proportionate supervision for innovative commercial solutions.

The Cayman Islands Monetary Authority (CIMA) is the principal regulator for the financial services industry of Cayman. CIMA provides appropriate, responsive, cost-effective and efficient supervision to enhance the economic wealth and reputation of Cayman by fostering a growing, competitive and internationally recognised financial services industry.

Over the last 10-15 years the world has changed dramatically in relation to international regulation and oversight, through the implementation of various worldwide anti-money laundering legislation and regulation, FATCA, CRS, economic substance and beneficial ownership laws. This has meant that compliance, anti-money laundering and economic substance have become part of our everyday financial lexicon.

UHNW MEs understand that this is a firm part of doing business, and want to make sure that the jurisdiction where sensitive information is held is secure and would not be forced unnecessarily into disclosing information where it is not appropriate or in accordance with the applicable legislative protocols.

This has significantly levelled the playing field when it comes to the costs of doing business. Guernsey and Jersey are no longer regarded as more expensive jurisdictions, instead that there is a greater understanding, realism and value in respect of costs as they have been adhering to the higher threshold of compliance for a significant period of time.

UHNW MEs now look at jurisdictional experience and excellence in relation to security of information and regulation. Also relevant is where their interest lies in terms of investment opportunities, with the Channel Islands often used to facilitate UK real estate acquisition and Cayman performing the same role for the US.

Quality of Service Providers

UHNW MEs continue to see Guernsey, Jersey and Cayman as the 'gold standard' in private capital structuring due to the multitude of experienced service providers in the jurisdictions. A wealth of experienced lawyers, accountants, fiduciaries, corporate and fund administrators within the region mean that there is a variety of excellence to choose from within the jurisdictions.

Flexibility and understanding of UHNW MEs priorities allow for structures to be created in Guernsey, Jersey or Cayman which are also Sharia compliant. A wide variety of structures can be tailored to meet the specific needs, now and in the future. No two structures or family offices are the same, and a governance framework can be put in place to ensure continuity of the family vision.

Some structuring solutions may use any or all of the following: foundations, foundation companies, trusts, private trust companies, unit trusts, private investment funds, protected cell companies, segregated portfolio companies, companies limited by shares or guarantee and partnerships, to name a few.

There are many reasons why one jurisdiction is chosen over another, sometimes geographical and time zone convenience, other times location of investment opportunities, with Guernsey and Jersey often used to facilitate UK and European investments, and Cayman performing the same role for the US and South America, but it is clear that UHNW MEs have chosen Guernsey, Jersey and Cayman as the main centres for their personal structuring to protect, preserve and enhance their private capital now and for future generations.

Seven benefits of a UAE foundation

Establishing a foundation in the UAE can give expats and UAE nationals a local solution to protect their assets and make succession planning arrangements

Leevyn Isabel
associate director,
Ocorian

Although only first introduced to the UAE in 2017, foundations have become an integral part of the UAE's wealth management offering and are now present in three of the UAE's free zones (DIFC, ADGM, RAKICC).

Composition of a foundation

An independent legal entity, foundations provide the founder with an opportunity to consolidate their wealth in one vehicle at the same time as segregating their personal wealth from their commercial interests (although these can also be owned by a foundation) by bestowing assets to the foundation which owns the assets in its name. With no shareholders, the foundation is an "orphan" entity and both it, and the assets it holds, are managed in accordance with the foundation's charter in support of a purpose or for the benefit of beneficiaries (often members of the same family). This makes foundations ideal succession vehicles.

Benefits

At Ocorian, we are seeing a variety of foundation structures being implemented in the UAE to hold trading companies, real estate and liquid investments. We help clients establish and maintain their foundations so they can make the most of the benefits that the foundation vehicle provides. These include:

- **Asset protection** - The foundation's assets do not belong to the founder and provided certain conditions are met, are not readily accessible to creditors, governments or other family members.
- **Privacy** - The beneficiaries of a foundation are private and so the founder's family wealth can be managed more discretely. This provides its own benefits including:
  - reduction of the risk of claims/ judicial actions from third parties against the founder and their family to extort a monetary benefit/ settlement;
  - better bargaining power when negotiating business deals and/or acquiring assets;
  - reduced risk of being targeted and befriended by unscrupulous individuals in order to access their wealth; and
  - less urgency for potentially uncomfortable discussions around pre-nuptial agreements for the founder or heirs.
- **Flexibility** – With the separation of legal and beneficial ownership, a foundation enables families to facilitate their inter-generational legacy planning and wealth protection objectives, particularly where the family is internationally mobile with assets in multiple jurisdictions.
- **Effective succession planning** - Foundations provide assurance that the assets (or their benefits) will be distributed as per the wishes of the founder under the terms of the foundation, irrespective of succession laws. Even where enforceable wills are possible, they only work on death and do not protect assets against bankruptcy, incapacitation, imprisonment and divorce. Conversely, a foundation can help with all of these issues as well negating lengthy probate issues on death, giving much greater continuity.
- **Improves family governance** - Foundations provide an effective corporate governance framework (similar to a company or single-family office), which allows for wealth to be managed in a professional manner to benefit the founder and their family.
- **Enables philanthropic giving** - A foundation can evolve alongside the founder's vision and ethical wishes and can be used to support issues close to the founder's heart such as healthcare research through regular donations.
- **Establishes a legacy** - Through a foundation, the founder's goals continue in perpetuity.

UAE Finance and Insurance sector GDP, in $m

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Financial and insurance GDP	19,942	20,921	22,387	26,508	29,421	31,606	32,809	33,258	32,417
Total GDP	289,787	309,870	32,376	340,128	354,700	372,810	384,222	393,342	398,022
% of total	6.9	6.8	6.9	7.8	8.3	8.5	8.5	8.5	8.1

Source: FCSA

Islamic Finance

The ultimate SRI investment strategy for Muslims and Non-Muslims alike?

Trevor Norman
director,
VG

My journey in Islamic finance began in the mid 1990's when millennial investors were in primary education and SRI was more commonly associated with a 'hot hatch-back' car rather than sustainable or socially responsible investing (SRI), which was in its naissance.

It was impossible then to imagine that a young schoolgirl could inspire an international wave of school strikes calling for governments and international corporations to adopt policies to protect the environment and prevent climate change. But almost 30 years later, Greta Thunberg showed us the power and weight of social media on policy makers and businesses.

Young investors, who eventually will themselves become the captains of industry, are following suit and demanding change. The desire to be socially responsible for some goes as far as being willing to pay more for sustainable investment products which meet their ethical and moral persuasions.

Now in 2020, the trend towards SRI is not new, but the increased focus on mankind's effect on the environment, sometimes referred to the 'Blue Planet' effect, has led to the establishment of several 'green' investment funds. Investors have become far more interested in understanding the activities of the underlying companies that they are investing in, and the commitment and policies of that

entity towards environmental, social and governance issues (ESG).

The importance placed upon these issues is well understood by corporates; obtaining information about companies' practices used to be difficult, but it has now become a key aspect of both a company's annual report and their website.

So where does this leave Islamic finance?

SRI and ESG is not to be confused with Islamic finance or other faith-based ethical investment, although there will be many overlaps. Ethical investment is generally achieved by negative screening and exclusion of 'bad' companies or sectors that do not comply with specific, pre-set social or environmental criteria such as companies involved in the production, marketing or distribution of alcohol, tobacco, gambling products, weapons manufacturers, nuclear power producers or companies that use child labour.

A core principle of Shariah law is in promoting behaviours and actions that benefit the community as a whole, and are aligned to the principles of ESG. In the case of Islamic screening, companies whose objectives are contra to Shariah law will be excluded; such as conventional banking, trading or production of pork or alcohol, and gambling. However, Islamic investment funds will often include screening of companies for harmful environmental records or bad employee records. It follows that both Islamic finance and SRI are investment screening methodologies which investors can adopt to participate in projects and transactions with an underlying moral or ethical purpose.

Positive convergence

There is a great deal of commonality in screening under Shariah principles and those of other faith-based screening where the underlying objectives are to protect society as a whole. John Wesley, the founder of the Methodist movement, urged his followers to avoid profiting at the expense of others and in particular partnering or investing with those who earned their money through alcohol, tobacco, weapons, or gambling; which, as noted above, are core to any screening under Shariah.

As the line between faith and non-faith based investment goals draw increasingly closer, one has to question if Shariah-compliant investment doesn't offer a one-size fits all solution for socially and environmentally conscious investors?

Green Sukuk: a key driver?

It is in the 'green' sector we can see one example of an investment product that will be of interest to Muslims, non-Muslims, millennials and indeed institutional investors alike. Green Sukuk haves been issued in several countries with Malaysia being the first to announce guidelines for the issuance of socially responsible Sukuk as early as in 2014. Another active player is the UAE, which launched the Green Finance and Investment Support Scheme to promote financial growth through investing in green projects, products and services.

Sukuk are Shariah-compliant securities with many similarities to conventional secured debt products, often with an option to convert into the equity of the issuer, where Green Sukuk are commonly backed by renewable energy and other environmental assets. Standards for green bonds and Sukuk are still evolving, but with greater sharing of information through organisations such as the Climate Bond Initiative and the International Capital Market Association's Green Bond Principles common standards and guidelines are developing.

Asking the question "Could Islamic finance provide the ultimate SRI investment products for Muslims and Non-Muslims alike?" I believe that the simple answer is "Yes". One challenge is in finding an institution with the time and ability to locate suitable investment opportunities. VG has the knowledge and experience to establish Sukuk or other Shariah-compliant funding structures and look forward to the opportunity in working with our existing partners, or other institutions, to locate those suitable investment opportunities. Finally, and possibly the biggest hurdle of all, finding investors, be they Muslims, Non-Muslims, millennials or from an older generation willing to 'walk the walk' rather than just 'talk the talk'.

Room with a View

International property markets, Covid-19 and challenges facing the Middle East

Toby Johncox
head of mortgage sales,
Enness Global Mortgages

When you consider a staggering 60 central banks cut interest rates in 2019, even prior to more Covid-19 related reductions, this reflects the growing concerns regarding international economies. The fact that worldwide interest rates are so low has offered a degree of support for international real estate but there are many challenges ahead.

Government stimulus packages

There have been some huge stimulus packages across the world as governments fight to keep their economies afloat. If you look at the Middle East for example, we know that:-

- The Kingdom of Bahrain introduced a $11.4 billion stimulus package
- Kingdom of Saudi Arabia a $32 billion package
- Qatar a $23 billion package
- United Arab Emirates a $27 billion package

These are huge investments at a time when the Middle East is suffering more than most from pressure on the oil price. Indeed a recent report suggested that foreign direct investment (FDI) in the Middle East could fall by more than 30 percent in the short-term. There are also concerns that limited international air travel for the foreseeable future could prompt many UHNWI/HNWI looking for second homes and real estate investments to look "closer to home".

We have also seen a mixture of deferred mortgage payments, deferred rents, reduced stamp duty and other real estate specific targeted assistance. As with the UK, this kind of financial assistance cannot last forever and we will only learn the real extent of the Covid-19 fallout when this financial assistance is withdrawn.

Middle Eastern economies

While many investors are sceptical of official growth data from some areas of the Middle East, research by the IMF shows year-on-year growth in 2019 together with estimated figures for 2020 and 2021.

The likes of Libya and Lebanon have been

hit hardest by Covid-19 and it will take some time for them to recover. While countries such as Kuwait, Oman, Saudi Arabia and the United Arab Emirates have been least affected there are some rather optimistic economic bounce back figures for 2021!

It is also becoming very clear that countries such as Kuwait, Saudi Arabia and the United Arab Emirates are benefiting from the huge investment in medical facilities. We also know that the general population seem to be more appreciative of government instructions, which has seen the richer countries of the Middle East less impacted by Covid-19.

Real estate finance in the Middle East

If we look at the United Arab Emirates a recent report by the Financial Times highlighted the growing pressure on banks in the region. Property prices in the United Arab Emirates have been under pressure since the oil collapse of 2014. This has led to a number of challenges:

- The quality of bank real estate collateral has deteriorated
- The currency link with the US dollar has led to reduced interest rate led returns
- Project delays have seen development loans restructured
- Smaller banks could be under significant financial pressure
- Commercial property exposure accounts for around 20 percent of UAE gross loans

Despite these financial challenges, a report by Knight Frank forecasts that the UAE will see a 24 percent increase in the number of ultra-high net worth individuals over the next five years. A recent survey also suggested that 48 percent of wealth advisers in the Middle East believe their client's wealth will increase in 2020 (compared to 63 percent in 2019).

Stronger international presence

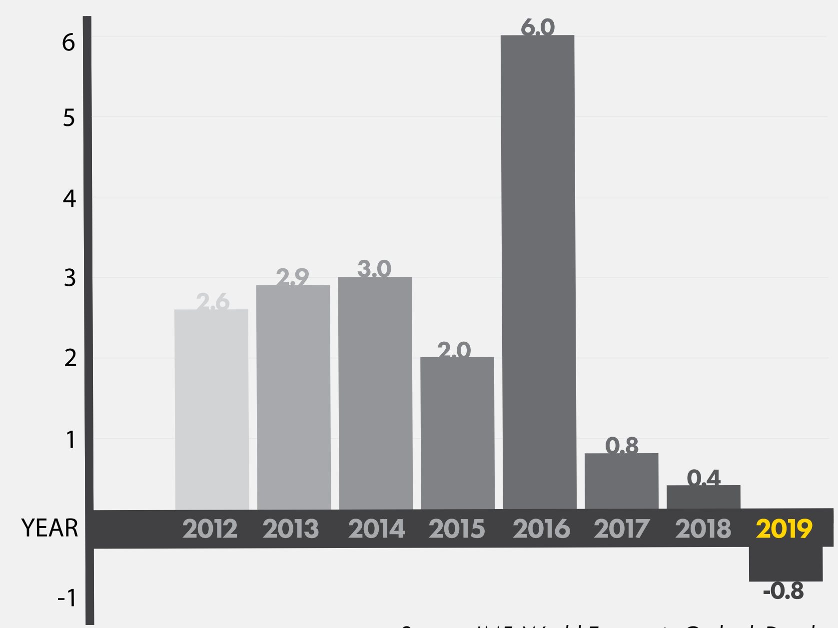
While it is fair to say that no country in the world has escaped the financial consequences of Covid-19 and the impact on real estate, it is worth mentioning that many currencies in the Middle East are pegged to the dollar. Therefore, as the dollar has been relatively strong of late Middle Eastern investors looking towards the likes of London, Paris and other leading prime property markets will have seen their relative spending power increase.

The UK is one market which has always been a favourite of Middle East investors with London the obvious beneficiary. It is a mixture of the lifestyle, education, business environment and the long-term potential for real estate capital appreciation which seems to keep London towards the top end of the worldwide prime property market. When you consider the relatively low level of worldwide base rates, many international investors will see this as an opportunity to raise capital and expand their portfolios. The rumoured collapse in the wider value of UK property has yet to emerge and the prime property sector is even less impacted.

International real estate looking forward

While much will depend on whether the much rumoured second wave of Covid-19 emerges, there is no doubt that investors based in the Middle East have and will continue to benefit from the peg to the US dollar. Locally, banks in areas such as the UAE will struggle from weakened balance sheets and a further increase in bad loans. We also know that the UAE authorities are heavily involved in numerous large property companies which are struggling at the moment. So, the short-term outlook in the Middle East is challenging to say the least for property prices. However, the relative strength of Middle East currencies pegged to the dollar against the likes of sterling could provide yet another windfall for international investors.

Middle East Real GDP Growth, in %



Source: IMF, World Economic Outlook Database

THE GOVERNANCE JOURNEY

amongst Middle Eastern family offices

On an industry-wide level, a look at ongoing trends in the global family office space highlights quite clearly that the modern family office structure is getting more complex, more global, more sophisticated and more digital.

With respect to the Middle East in particular, meanwhile, families – whose businesses make up a sizeable proportion of the economy - are seeking increasingly to diversify their investment strategy and broaden their exposure to new markets.

As families in the region become more institutional in their approach, adopt more digital platforms, increase their exposure to alternative investment markets and broaden their geographical interests, it is vital not to lose sight of a fundamental objective – to ensure family wealth is safe, ready to be passed down through the family for generations to come.

Indeed, if the disruption caused by COVID-19 has taught us anything, it's that resilience, stability and having robust control measures in place is absolutely critical. Good governance is absolutely the cornerstone of that.

As families in the Middle East look to navigate the fallout of the pandemic this year, it's clear that, for a number of reasons, governance is going to play a key part in structuring, investment, succession planning and operational decisions.

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Governance Journey

Of course, adopting the highest levels of good governance is not a trend associated purely with the coronavirus. Whilst current circumstances and market disruption have served to highlight the importance of governance, this is a journey that families in the Middle East have been on for some time.

After a decade of profound change in international regulation and transparency initiatives, for example, families have been busy ensuring compliance with information sharing requirements such as the Common Reporting Standard, as well as substance requirements, data protection criteria and the forthcoming Mandatory Disclosure Rules.

All of these add a layer of complexity, cost and reporting, but there is widespread appreciation that adhering to and embedding these standards into the operating models and culture are necessary in the modern environment family offices operate in.

Now, though, governance is taking on a more nuanced, multifaceted meaning. No longer is it just a regulatory, technical concept aligned with ensuring compliance with broadening international requirements.

It is also about putting in place control measures to ensure a complex family operation doesn't make itself vulnerable to internal disputes and that succession plans are clear and robust – this is aligned with how a family sees the concept of legacy.

It is potentially alarming that, according to a study by the Williams Group, 70 percent of wealthy families lose their wealth by the second generation, and 90 percent by the third. The fact that 28 percent of 'next gens' took control of their family wealth within the last ten years, with 37 percent expected to take control within the next ten years, means that families are facing the stark reality of the importance of putting in place robust oversight, governance and succession planning strategies.

Governance is also about instilling a more purpose-driven culture within the family that creates a joined-up, shared vision that family members can believe in. This can be manifested through a family office's investment strategy, approach to ESG investment and philanthropic activities. On average, 34 percent of a SFOs have an interest in sustainable investing.

Given that the size of the HNWI population in the Middle East increased by 9.3 percent in 2019, while wealth witnessed an increase of 10.2 percent to reach US$2.9 trillion reflects just how much is at stake.

Measures

So what measures should family offices in the Middle East focus on, in order to make sure they are putting in place governance measures that are fit for the future?

The key message to family offices must be to have conversations about what good governance means to them sooner rather than later. What does it mean in terms of succession planning? How does their governance framework influence their investment strategy and their attitude towards ESG?

And operationally how do their governance aspirations translate in terms of how they manage their outsourced specialist service providers, their ability to comply with global regulations and, specifically in the Middle East, their ability to integrate Islamic Finance structures into a globally-dynamic operation?

Importantly, a family governance structure cannot be an off the shelf template – families are bespoke and unique, and different frameworks will work for different families – but what is common is that a governance framework must be shared across family members, not imposed by the first generation if it is to work effectively. That might involve putting in place a family charter or agreeing what level of control a family wants to maintain across its structures through, for instance, private trust companies.

Increasingly in the Middle East, where the diverse ambitions of family offices are particularly marked, there is a need to embrace the expertise of external third parties. Doing so can offer real benefits in terms of receiving independent, neutral advice around oversight, controls and supervision, and can also open the door to opportunities for change and innovation that can support a family's long-term governance ambitions.

In our experience, there can be a reluctance from patriarchs in the Middle East to relinquish control, and there may not a huge appetite amongst the next gen to think about the long-term future – worryingly, financial education amongst family offices tends to begin at around 27 years old (Jersey Finance, 'Flourishing Futures'), but the benefits of having those shared conversations early are significant.

These are challenging times for a family office. They are trying to do more, and they are doing it in a far more demanding environment than they have ever experienced before, faced not only with the prospect of a significant period of multi-generational wealth transfer and regulatory change but also with the prospect of navigating a hugely challenging unprecedented market downturn. Whilst this is a global challenge for family offices, it is particularly so for those in the Middle East where the ambition to diversify is so great.

Starting conversations around what governance means to them early, drawing on the advice of independent neutral experts, and being alive to the need for change will not only ensure the wealth families in the Middle East can survive multiple generations, but can ensure that the impact of their legacy will be felt far beyond that too..

Increasingly in the Middle East, where the diverse ambitions of family offices are particularly marked, there is a need to embrace the expertise of external third parties

Women in the Region

The number of women contributing to the economy of the Middle East is growing and this is in part due to the shared vision of a more diversified and inclusive work environment.

Lucia Perchard
client director,
Highvern

The UAE's strategic plan "Vision 2021" set out ambitious targets for its long term growth and transformation into an economy driven by knowledge and innovation. Education, social responsibility and increased life expectancy were among the key initiatives outlined, as was "harnessing the true potential of national human capital".

This vision and harnessing saw local women entering highly regarded positions to facilitate its success, a clear indication of the direction of travel. We have since seen the release of KSA's Vision 2030 with an equally ambitious plan to see the diversification of the capabilities within their economy.

Vision 2030 specifically references increasing the participation of women in the workforce from 22 percent to 30 percent as a key measurement of its achievement. The KSA is also home to the largest all female university in the world, both in terms of size and in terms of students in attendance with in excess of 52,000 women currently enrolled on a variety of pre, post and graduate courses.

Across the Middle East it is possible to see a marked increase in the number of women not only working in finance but generating significant levels of wealth. Whilst for many the numbers may not be moving fast enough there is no doubt that they are improving. Forbes 2020 list of 100 Power Businesswomen in the Middle East saw 23 nationalities represented and their companies total a combined worth of $500 billion.

These women all hold significant jobs in banking, public sector, family businesses and finance with 79 of the 100 being self-made. Women across the Middle East are therefore not only contributing to the economy but they are also making a positive contribution to their societies with many generating jobs and opportunities for others. It should be noted that three of this Forbes list went on to be featured in the World's 100 most Powerful Women.

With more women earning, inheriting and looking to administer their own wealth many financial institutions are increasingly targeting women as a client base, they see the growth potential for this market as considerable. Understanding that the needs and manner in which women undertake business may differ, institutions are increasing the number of women that they themselves employ specifically to service the Middle East female sector.

Female employees may well be more likely to understand and better evaluate the innovative business ideas of other women enabling both to benefit from a stronger earlier relationship in the entrepreneurial journey. Many women also look to discuss their requirements with other women and want to learn from female experience.

With this in mind one of the other noticeable initiatives has been the growth in the number of female centric groups, events, and programmes that have sprung up to support and share experience, entrepreneurial/ investment advice, structuring and good governance practices.

In fact, Highvern recently sponsored and attended the "Women in Finance" initiative which took place in Jeddah, Kuwait and Dubai. The events organised brought together female professionals from the UK and Jersey with local Middle East business women.

The topics of discussion ranged from the financing of new businesses, the transition of intergenerational wealth, structuring of personal and local assets and the need to professionalise family offices. Discussions around financing new businesses centred on successful or well established women sharing their experiences noting the historic lack of access to information in respect of investment advice, financial structuring/ planning and the availability of seed capital.

This was reflected in the types and size of projects considered by many as they advised that they generally undertook smaller projects needing lower initial capital requirements.

Once they had some success they were then able to develop their initiatives further by using this success as their collateral. Initially direct access to collateral, as required for bank lending, was difficult to achieve so other means of financing were more common, usually taking the form of informal, funding from family and friends who had successful family owned businesses.

Family owned businesses are well recognised as playing a pivotal role in the local and global economy. It is also relatively well understood that the Middle East is undergoing a huge transition of wealth as young businesses in the first or second generation undergo a generational change.

This coupled with a fast changing economic environment, increased regulation and the emergence of digital innovations means that many of the women wanted to discuss and better understand areas such as wealth preservation, succession planning and how to professionalise family offices. We discussed:

Privacy and Confidentiality

- Using the family office as a gatekeeper, knowing who is requesting information and what information is being supplied, monitoring to ensure it is appropriately used, valid and fit for purpose.

Good Governance

- The need for sound governance, management and reporting structures so as to adhere to regulations in multiple jurisdictions.

Risk management and separation of business and personal assets

- The use of DIFC, Jersey and ADGM Trust, foundations and companies to provide for succession, asset protection and diversification of risk across the entire family's assets so as not to be over exposed in a particular asset class or jurisdiction.

Education of the next generation

- Creating opportunities for the next generation to sit on or shadow boards to understand the family's values and the responsibility that comes with inheritance.

Investment capability

- The investment process and its ability to reflect the family's values in the impact they make with the funds they invest.

Providing empowerment and good conflict resolution

- Family charters or constitutions, specifically looking at formalising the various family roles and relationships and developing agreed means of conflict resolution.

Generally we were asked to share examples of actual situations we had worked on or had direct experience of. Whilst the theory was interesting it was always brought back to real situations and their outcomes.

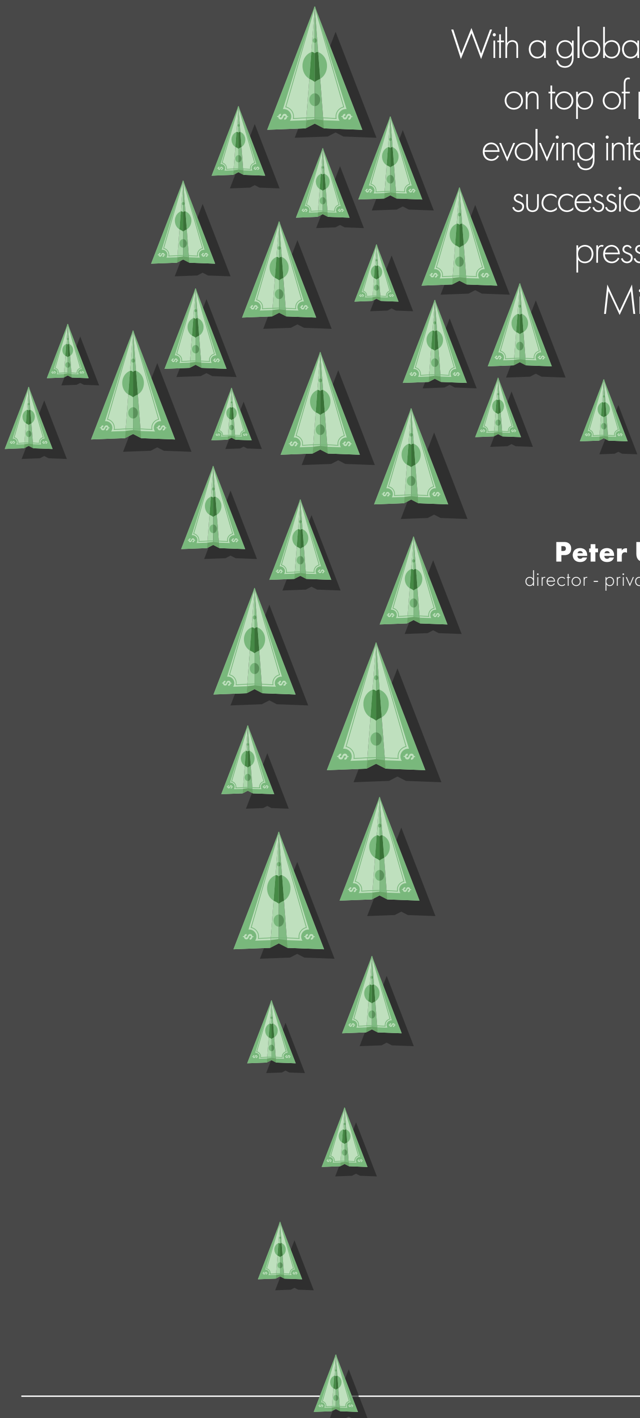
Opportunities to informally meet and discuss such matters face to face create a rich environment not only to share experiences and stories but also to network and showcase the development ability and competence of women in the Middle East. As more women are being encouraged to participate in and more actively contribute to the economy of the Middle East, this growing number of networks is providing women access to increased economic knowledge and understanding..

Middle East Human Development Index (2012-2018)

	2012	2013	2014	2015	2016	2017	2018	Change in %
Bahrain	0.800	0.807	0.810	0.832	0.846	0.846	0.838	4.7
Cyprus	0.852	0.853	0.856	0.860	0.867	0.869	0.873	2.5
Egypt	0.675	0.680	0.683	0.691	0.694	0.696	0.700	3.7
Cyprus	0.781	0.784	0.788	0.789	0.796	0.798	0.797	2.0
Iraq	0.659	0.666	0.666	0.668	0.672	0.685	0.689	4.6
Cyprus	0.893	0.895	0.899	0.901	0.902	0.903	0.906	1.5
Jordan	0.726	0.727	0.730	0.733	0.735	0.735	0.723	-0.4
Cyprus	0.796	0.795	0.799	0.802	0.804	0.803	0.808	1.5
Lebanon	0.760	0.751	0.751	0.752	0.753	0.757	0.730	-3.9
Cyprus	0.804	0.812	0.815	0.822	0.822	0.821	0.834	3.7
Palestine	0.677	0.687	0.679	0.687	0.689	0.686	0.690	1.9
Cyprus	0.844	0.854	0.853	0.854	0.855	0.856	0.848	0.5
Saudi Arabia	0.823	0.835	0.844	0.852	0.854	0.853	0.857	4.1
Cyprus	0.631	0.872	0.550	0.538	0.536	0.536	0.549	-13.0
Turkey	0.760	0.771	0.778	0.783	0.787	0.791	0.807	6.2
Cyprus	0.846	0.851	0.855	0.860	0.862	0.863	0.866	2.4
Yemen	0.498	0.499	0.505	0.483	0.462	0.452	0.463	-7.0

Source: United Nations Development Programme

Succession planning
in an uncertain world



With a global health crisis layered on top of political tensions and evolving international regulation, succession planning is a more pressing issue for wealthy Middle Eastern families than ever before.

Peter Unwin
director - private wealth,
IQ-EQ

Expert guidance is required on structuring and governance, meaning there is considerable opportunity for advisers and service providers with global technical expertise and a deep understanding of the region.

The 2019 Global Family Office Report by UBS and Campden Research reveals that only 54 percent of families and family offices have a succession plan in place, and just 32 percent of these plans are formally written. Moreover, within the emerging markets (including Bahrain, Lebanon, Saudi Arabia and the United Arab Emirates among others), the percentage of family offices with a succession plan is reduced to 44 percent – a full 10 percent lower than the global average.

This data reflects the findings a survey of wealth management industry practitioners conducted by Jersey Finance at the end of 2018. It found that 92 percent of respondents believe high-net-worth (HNW) clients in the Gulf region are poorly prepared and inadequately structured for the transition of wealth across generations. The study also estimated that only 6 percent of family businesses will make it to the third generation if current structures are not made more effective and compliant.

Aside from the impending 'Great Wealth Transfer', in which an estimated $1 trillion will pass between generations in the Middle East alone over the coming decade, this issue gains even more significance in a COVID-19 context.

However, the pandemic also appears to be providing a crucial trigger to make the necessary changes. Across the globe, the coronavirus has forced family businesses to shift their mindset from wealth creation towards wealth preservation. Now, families have more time than ever to revisit and re-evaluate existing structures, identify room for improvement and determine how their wealth should be managed over the long term. The associated market disruption has also triggered a greater appreciation of the need for risk management governance, particularly around investment performance and monitoring.

From my experience working with Middle Eastern clients, I know that important matters such as succession are traditionally kept in-house with locally based family offices and their long-standing advisers. However, for HNW individuals with assets in multiple jurisdictions who want to safeguard them for the next generation, now may be an opportunistic time to lean on international expertise in tandem with key personnel already in their team.

Harnessing a global mindset and network

While we've seen GCC families start to diversify their assets already during the pandemic, I believe succession planning needs to diversify too. Not affected by travel bans or technological limitations, global service providers with a presence in many different jurisdictions can guarantee good governance and seamless business continuity at all times. They can also leverage their global networks of industry partners to connect clients with other professional firms, when needed.

Here's a common scenario: a patriarch who has personal real estate in Forte dei Marmi, Marbella and Beverly Hills, is at real risk of exposure from estate planning and inheritance tax perspectives. Often, it's only when something goes wrong that this comes to light – with a hefty bill. Alongside a family's trusted office or network, global providers can continuously keep the wheels turning where all assets are located. And with expert eyes and ears on the ground, global service providers have a greater ability to assist in limiting exposure to risk.

Backdrop of regulation

Coronavirus aside, international regulations are also challenging the norm. There is increasing pressure from global bodies for the premier finance jurisdictions to take more of an active role in administering and applying higher governance standards onto structures. Nations recently began sharing information under the Common Reporting Standard (CRS). Conceived by the Organisation for Economic Co-operation and Development (OECD), signatories are obliged to share tax information on its tax residents. All six GCC countries have signed up to CRS. This is having a huge impact on structures used by wealthy individuals who have international investment profiles. It's complicated and it needs firm and expert guidance to navigate.

Stronger governance

There is far less benefit to be gained from spreading the domicile of investment structures across multiple jurisdictions and, as a result, we are seeing a trend towards centralised structures with stronger governance. We are also witnessing a greater use of private trust companies and private fund structures, which enable families to exercise greater influence over their international assets. Furthermore, changes to international standards around economic substance mean families and their advisers need to be working with service providers that have strong credentials, the necessary expertise and stringent protocols, especially from an anti-money laundering perspective. A global provider will also help tackle the often-complex issues of tax efficiency and transparency.

Emotionally intelligent support

While succession planning needs an intellectual approach, I believe it hugely benefits from an emotional one too, given the deeply personal and sensitive nature of dealing with private wealth. IQ-EQ has worked and continues to work with more than 500 Middle Eastern families and their advisers over the years. I've been moved by the trusted relationships that I have developed, which go way beyond pure business. However, as well as support, we are not afraid to challenge the status quo and work with fellow professionals to devise innovative global solutions that safeguard a family's assets now and for generations to come.

GDP Growth Rate - Saudi Arabia

Date	GDP Growth Rate
2010	4.76
2011	10
2012	5.41
2013	2.7
2014	3.65
2015	4.11
2016	1.67
2017	-0.74
2018	2.43
2019	0.33

Saudi Arabia Economic Indicators

Date	2018	2019
Real GDP Growth	2.4	0.3
Inflation Rate	2.5	-1.2
Imports ($bn)	-139	N/A
Exports ($bn)	260	N/A
Current Account ($bn)	32	N/A
Current Account to GDP	9	6.3
Ratio of surplus/ deficit in fiscal balance	-5.9	-4.5
Population (million)	33.7	34.2

Source: Saudi Arabian Monetary Authority

LOCKDOWN

how will the COVID crisis affect the region's wealthy

As the international response to the COVID-19 outbreak continues to develop, we know that wealthy individuals and families in the GCC are facing significant challenges. Underpinning these challenges is an undercurrent of uncertainty, particularly with regards to the future of the economy

Nancy Chien
partner,
Bedell Cristin

The lockdown has meant families have had more time to consider issues affecting their investments and family businesses. Also the death rate caused by the pandemic has brought succession planning to the forefront of many minds.

However, given the uncertain economic outlook, families may not know what their assets might look like post COVID-19 which may make the establishment of long term structures or any meaningful restructuring for succession purposes difficult to plan and achieve.

Notwithstanding the challenges, the uncertainty caused by the pandemic will have focussed families' minds on what is important to them and it would be a shame if steps are not taken now to capture those thoughts before life hopefully returns to normal.

In this article, we examine some concerns facing GCC families amidst the COVID crisis and the steps they can take to address them.

The Economic Impact and Asset Protection

Saudi Arabia is the largest producer of oil in the world, and despite efforts to diversify the economy it continues to rely heavily on oil for revenue. Oil prices were falling even before

the pandemic, and the global lockdown caused by the COVID crisis has exacerbated the problem. At the time of writing WTI crude trades at around $24.60 a barrel, far below the range Saudi Arabia needs to balance its budget. To address this fall in revenue, the Saudi government had to take drastic measures and increased its VAT to 15% on 15 May as well as cutting spending on major projects by around $26 billion.

The governments of the other GCC countries have not followed the steps taken by the Saudi government to date but it is foreseeable that they may also need to find alternative funding to compensate for the fall in GDP. For example, the Dubai economy which relies heavily on tourism will have suffered significantly during the COVID crisis. The closure of Dubai International Airport and all the shopping malls will have caused significant losses to businesses in the aviation, hospitality, tourism, retail and commercial property sectors, to name a few.

Unfortunately as with all economic downturns, there will inevitably be a greater number of businesses becoming insolvent as well as creditor claims which no doubt will concern many GCC families. It may be prudent for families to review their businesses as well as other assets in order to determine which assets would be at risk of being attacked by creditors should the main family business and investments lose value. If possible, families should consider asset protection structures which shield personal assets from the business/investment assets which are exposed to creditors.

Timing is critical when it comes to putting in place asset protection structures. If structures are only established once creditor claims have arisen or are likely to arise, it may be too late for the structuring to be effective.

In considering where to establish effective asset protection structures, families should consider jurisdictions which have a robust rule of law and legislation which can insulate the assets within the structure so as to safeguard against creditor attacks. In Jersey, the Trusts Law contains what is known as the firewall provisions. The effect of these provisions is that if a creditor were to obtain judgment outside of Jersey, for example, to claim any interest in the trust property of a validly created Jersey trust, such judgment would not be recognised by the Jersey courts. This means that it would be very difficult for creditors to claim any interest in the trust property.

Development of Wealth in Middle East vs Globally (in $trillions)

	1999	2009	2019
Middle East	1	2.2	4.2
Globally	80.5	124.6	226.4
Percentage of Global Wealth	1.24%	1.80%	1.90%

Source: Boston Consulting Group 2020 Global Wealth Report

Asset Distribution per Wealth Segment for the Middle East, in %

	<250k	250k-1m	1-20m	20-100m	>100m
Currency and deposits	90	67	52	42	37
Direct Bonds	2	4	5	5	8
Direct Equity	7	25	37	44	47
Investment funds	1	5	7	9	8

Source: BCG Global Wealth Market Sizing Database

Death and succession planning

The high death rate globally caused by COVID will no doubt make patriarchs and matriarchs reflect on their own health and possibly their mortality, whether or not due to the risk of contracting COVID. At the start of the pandemic, there was a rush of wills being made, particularly by elderly individuals. The rush seems to have subsided, but for the wealthy families, wills alone may not be an effective succession tool.

Families who have existing structures should look at the governance model of their structures and identify any key man risks. For example, it is often the case that the patriarch and matriarch wish to retain control of their structures. Therefore, it is important to consider whether there are any successors who can take over their role once they have passed away. Whilst the governance structure may be easy to implement when there is a single person or a couple in control in the form of patriarch and/or matriarch, matters may be much more complex where control is passed to the next generation especially where there are several children.

The question of how parents should pass their wealth to their children equitably is not an exact science and there is no one size fits all solution. Any succession model, in order to be successful, will require careful thought and engagement by all members of the family and most important of all, such engagement will take time. For example, whether Sharia law should apply to all the assets or just the GCC assets will not be an easy question to address in a short period of time. Therefore, families who have turned their mind to matters of succession during the lockdown should start the dialogue and channel their thoughts into a constructive framework.

Another aspect of the lockdown is that families may have had a chance to reflect on their lifestyle and where they may wish to reside in the long term. For example, the lockdown requirements in most of the GCC countries were far stricter than the lockdown measures in the US and some European countries. Families may consider whether to establish second homes in countries outside of the GCC in the event that they go into lockdown again. This may in turn affect the families' investment strategy as they may wish to invest in the country or regions close to where they have the second home.

Conclusion

The COVID crisis has accelerated changes in the region and has had a significant impact on the economy. It is inevitable that some businesses will not survive the crisis so families should consider putting in place asset protection structures to shield their non-business assets from creditor attack.

It is understandable that given the uncertainty the pandemic brings, families may not be able to establish or change structures for the long term. However, issues concerning succession take a long time to articulate and implement, therefore families should start engaging with these issues and those who already have a succession strategy in place should revisit it in light of the changing times.