STARTING A FAMILY OFFICE TREND

The Middle East accounts for almost 30% of global wealth with virtually all businesses there being run by families. Financial institutions, both home and abroad are waiting to tap this wealth management market, but progress has been slow, finds **Melanie Stern**

"We can't speak with much authority on the subject of family office in the Middle East since we don't know that much about it. Families here are extremely secretive." So said the press officer of a leading Saudi Arabian bank in response to an interview request with one of their executives, who had recently given a presentation in Dubai about family offices in the Middle East.

That isn't an unusual response from financial players in the region to questions about family offices there or, for that matter, any topic relating to family wealth. While the concept of the family office receives a fair bit of lip service in the region, and increasingly so as Western financial institutions look to plumb the vast reserves of family capital in the Middle East, there is not much evidence of a family office market yet. Evidence of demand remains scarce too. This could be as much to do with Middle Eastern families guarding their assets and their privacy, making it hard to find families who will discuss their family and/or business, as it is to do with the key differences between regions. In the Gulf Co-operation Council region, the absence of taxation and the increasingly strict adherence to Shariah law means that key family office functions in the West, such as tax and estate planning, are far less relevant. Asset management seems the most crucial service family offices in the region can provide in the future, alongside Shariah-compliant funds.

IN A REGION WHERE REPUTATION REMAINS CRITICAL TO BUSINESS SUCCESS, SHARIAH-COMPLIANT PRODUCTS SATISFY A TASTE FOR INTERNATIONAL INVESTMENT

"The concept of the family office is not so alien in the Arabic Gulf region as one might think," John Sandwick, managing director of Swiss-based private wealth consultancy, Encore Management – and a seasoned private banker to families in the Middle East – tells *Families In Business*. "There aren't any 'real' family offices that are independently run by professionals who own their businesses. Nearly all the ones I can think of are a wholly-owned unit inside the family business.

"In some cases you still see untrained, uninformed people managing incredible responsibilities and doing a very poor job," he continues. "Often this is because the family never bothered to hire quality talent anywhere, inside or outside the family office. However, you do see some first class, highly professional family offices inside Arab family businesses. The only difference between these units and their counterparts in the west is independence."

Certainly, a framework is in place for the professionalisation of Middle Eastern family wealth management. Several local banks, such as United Arab Emirates' Mashreqbank, Bahrain's Noriba and the National Bank of Dubai have shown a dedicated interest in private family wealth, the latter launching a 'private office' in 2001.

But most serious players at the moment are the foreign entrants. As most major foreign institutions already do corporate business in the region, they're ready to service the wealthy families behind much of the financing and construction work in the area. HSBC, Deutsche Bank, UBS and JP Morgan are some examples; even the global auditor PricewaterhouseCoopers is in there, working through its family business advisory arm.

Some domestic players are working to accelerate the entry of foreign players to their market. This June, the Dubai International Financial Centre (DIFC) is mooted to set up a division dedicated to bringing in foreign banks to set up family offices, having gone to the extent of overhauling the country's constitution to pave the way. Some 350 different institutions have shown interest. And they've been doing their homework on the amount of unmanaged family wealth in the region. Data from the Merrill Lynch/Cap Gemini World Wealth Report showed that in 2005, the Middle East accounted for 28.9% of global wealth, and 9.5% of global high net worth individuals (classed in the report as individuals with a net worth of at least $1 million, excluding their primary residence, though many of the region's wealthy easily surpass that figure). As roughly 95% of all companies in the Middle East are said to be family-owned, one can only take a guess at what percentage of those figures is composed of family money just waiting to be maximised and organised by this influx of professionalism.

For the most part, though, local institutions prefer to wait to see a head of steam before involving themselves. Salem Balleith, chief financial officer of Saudi Arabia's SEDCO, a single family office for the founding Bin Mahfouz family that has transformed itself into one of the region's most successful institutional private banks, says it is too early to be leading a foray into family offices. "I'm not sure I can see a lot of competition out there to contend with at the moment – if we decided to pursue this market," Balleith tells *Families In Business*. "From the way we

HSBC, Qatar: leading the way with a range of Shariah-compliant products

SHARIAH COMPLIANCE AND FAMILY OFFICES

In recent years, leading financial institutions have begun consultation with Islamic scholars, banks and regulators in Islamic communities to develop a range of Shariah-compliant financial products. These must avoid the payment of receiving of interest, and must avoid investment in any channel that could directly or indirectly fund arms manufacture, pork products, drugs or alchohol, and pornography.

HSBC led this foray with its Amanah Finance division, and was one of the first institutions along with others such as SEDCO to offer Muslim investors interest-free wealth management, trade corporate finance advisory and products, as well as a liquidity management facility to redirect excess cash into compliant instruments. A board of esteemed Shariah economists oversee the division's activities.

Citibank and UBS have operations in the Middle East that purport to offer Shariah-compliant products too. Noriba Bank, part of UBS, offers Shariah-compliant family trusts and other investment structures alongside family office services, and al-halal equity investments listed on the Dow Jones Islamic Market Indices. Market observers say these initiatives are chiefly funded by wealthy Arab investors and while some are concerned that they can never be sure any Western financial institution they invest in has no links to any of the aforementioned unethical activities, incumbents have tried to answer this by setting up completely independently of their parent companies.

HSBC, for instance, takes its parent brand but is understood to be totally financed by outside, Halal sources of money. They have no operational links with the rest of the bank that risk 'contaminating' its activities.

have developed we are positioned to provide services to family investor groups, but we have chosen not to do so because we don't think it is the right time."

If SEDCO was to try its hand at expanding its family office expertise to other families, it may have a head start. Strong reputation aside, the bank was one of the first to launch Shariah-compliant investment products for Middle Eastern investors, ranging from hedge funds to multi-manager funds, and simpler investments like timber. In a region where reputation remains critical to business success – especially as many are now seeking to join the public share markets and increase their business overseas – Shariah-compliant products satisfy a taste for international investment and the need for Islamic investors to avoid paying or receiving interest on their money.

"Family groups do want superior investments and risk-adjusted returns, so the market [for family offices to provide those] is definitely there," Balleith believes. "But we see that some families are going down the public listing route now, so the structure of the family business world here is changing, and that affects the need for family offices."

Local institutions have a good blueprint of an Arab family office in Prince Al Waleed bin Talal's holdings. Many believe these holdings are in fact a private investment company, or a multi-family office, managing wealth and assets on behalf of various families.

The development of this market seems set to broadly replicate the maturity of Europe and America's. At the moment, those family offices in operation tend to consist of just one or two outside professionals to manage the entire family wealth, but at the same time, these professionals are also put to work on corporate work for the family business, such as project development or management. This is not unlike the classic family office model in the West which, for many years (and in some cases today) would extend its responsibilities to selecting good schools for the children, organising dog walkers and private jets – in short, diverting the family office's attention from the job of protecting family wealth to other unrelated tasks. "In these cases, the role of the so-called family office becomes highly diluted and ambiguous," says Encore's Sandwick. "Is it a family office, a business development office or something in between?"

With observers guessing at a substantial family office market to be at least a decade off, perhaps this remains to be seen. ■

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