



# Fast growth, divergent paths

The EY GCC wealth and asset  
management report 2015



# Contents

04 Foreword

05 Introduction

06 Asset management

10 Pension funds

14 Wealth management

16 Asset services

18 The route ahead



# Foreword



The wealth and asset management industry is poised to enter an exciting stage in its evolution in the Gulf Cooperation Council (GCC) region. That shift is partly driven by global events. Substantial market volatility in China and continual pressure to start raising US interest rates from their current low levels are affecting sentiment. Market uncertainty is exacerbated by deflationary pressure in the Eurozone and the threat of recession in many emerging market countries. In the GCC, these concerns are overshadowed by the current decline in oil prices, which impacts the economies at all levels.

The shape of the wealth and asset management sector in the GCC is unique. The last two decades have confirmed the region's position as a financial center, as well as a trading hub connecting East and West

and developed and emerging worlds. Indeed, financial services have contributed to the impressive growth rates. The recent opening of the Saudi Arabian stock market to foreign investors, the inclusion of the UAE in the Morgan Stanley Capital International (MSCI) Emerging Markets Index, and the launch of numerous financial free zones, have not only reinforced this trend but will specifically drive growth in the entire wealth and asset management sector, including pensions and support services.

We are delighted to release the first EY GCC wealth and asset management report, which is intended to provide a snapshot of these sectors and insights into key trends and challenges.

**George Triplow**  
MENA Wealth & Asset Management Leader



# Introduction

It is clear that there are significant growth opportunities in the GCC wealth and asset management sector, but it is less clear who will benefit from the expanding business. Many of the factors shaping and driving the expansion of the industry are specific to the region; as a result, its development seldom follows global trends.

The decade-long oil boom has created enormous sovereign wealth funds and a vast pool of wealth for individuals and family offices. In comparison, mutual funds – the most publicly visible part of the asset management industry – are small, private equity is largely invested outside the region and public pension funds are only just coming of age.

With oil prices lower, however, and the industry growing in size and sophistication, wealth and asset management is changing in the GCC – squeezing margins in some areas and opening up opportunities in others. While the era of “briefcase banking” is well and truly over, competition is heating up among banks, asset managers and asset service providers with a local presence.

Information and data on the sector are hard to come by. In this report, we have pulled together and analyzed multiple sources to create a snapshot of the industry and provide an insight into future opportunities and challenges.

# Section 1

## Asset management



The mutual fund industry is set for significant growth as local markets mature and open up to foreign investors.

In most countries, mutual funds represent by far the largest share of assets under management (AUM). In the GCC, however, they are small and represent just the tip of the iceberg in the industry. Indeed, they often serve as a marketing tool for asset managers to attract the big prize – separately managed portfolios for wealthy individuals, companies and government entities that form the bulk of AUM.

Across the GCC as a whole, EY estimates that separately managed portfolios could total about US\$200 billion, five times larger than mutual funds. In the US, in contrast, mutual fund assets are four times larger than the amount invested in separately managed portfolios. A leading Gulf fund manager estimates that the multiplier may be around 2 to 3 times the size of mutual fund assets in Saudi Arabia, but as much as 40 to 50 times for the UAE and Qatar, given the much smaller size of the mutual fund sector in those countries relative to significant savings by individuals, companies and the state.

While this imbalance will remain, mutual funds are set to grow fast. Part of the reason for the small size of local mutual funds is that there is limited awareness of the advantages of investing through professionally managed funds: retail investors in the GCC are much more likely to invest directly in equities and real estate. There is also significant competition from abroad, with both nationals and expatriates investing with asset managers based outside the region.

This is changing as GCC countries start to regulate the “briefcase marketing” of foreign funds and look to develop a unified GCC system that would enable investment schemes to be authorized centrally to cover the whole region, similar to the Undertakings for Collective Investment in Transferable Securities (UCITS) and Alternative Investment Fund Managers Directive (AIFMD) marketing passports in Europe. That will open up opportunities for locally based banks, asset managers and online fund supermarkets.

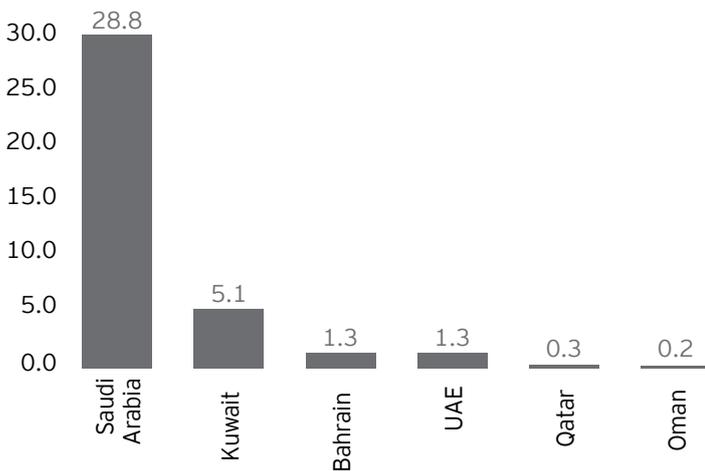
# The mutual fund market

As of July 2015, mutual funds accounted for around US\$36 billion in assets, held across 375 funds.<sup>1</sup> Saudi Arabia accounts for 80% of the total but, even there, this is equivalent to less than 4% of GDP – just a tenth of the share in the US (see Figures 1 and 2). What’s more, less than a third of these funds are invested in GCC equities, representing less than 1% of the capitalization of GCC equity markets – compared with more than a quarter of market capitalization in the US (see Figure 3).

The sector is highly concentrated in a few funds. The top 10 (8 from Saudi Arabia and 2 from Kuwait) account for 42% of AUM; the 65 funds that are larger than US\$100 million together hold 78% of assets. Across the region, one-third of the market is focused on equity funds and one-third on the money market, but this hides significant regional differences:

- ▶ In Saudi Arabia, more than half the assets are in money market or trade financing funds, which are not available elsewhere in the Gulf. In Saudi Arabia, 70% of funds are Sharia-compliant, compared with just 21% in the rest of the region.
- ▶ In Kuwait, the bulk of the funds are equity focused.
- ▶ In Bahrain, almost half of the assets are in fixed income funds.

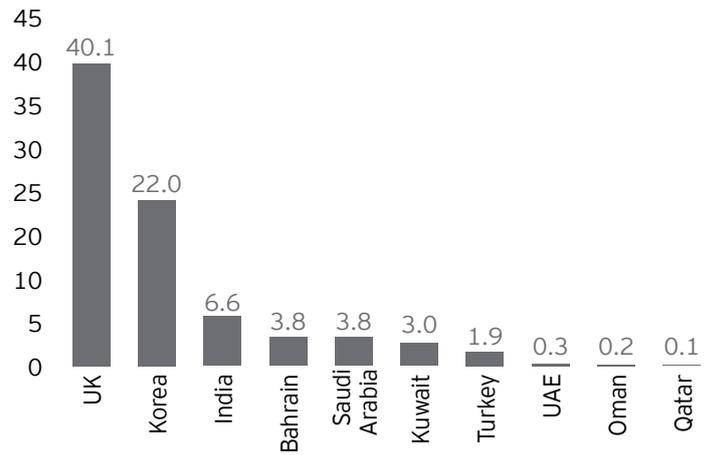
Figure 1: mutual fund assets in the GCC (US\$b)



Source: Bloomberg, EY analysis.

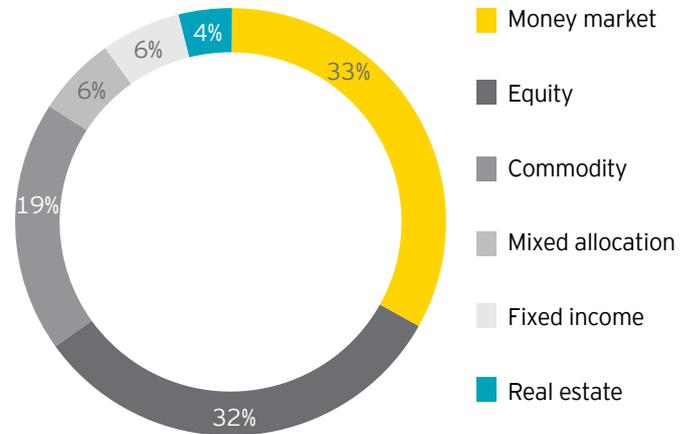
<sup>1</sup> Data is not readily available on GCC mutual funds. To provide this analysis, we searched Bloomberg’s database for details of all 709 funds in its records domiciled in GCC countries. We filtered out 159 that are no longer active and cleaned other apparent errors from the dataset. We then used pivot tables to sum up assets by country, manager and asset class for the tables, and mined the dataset for performance data. We sense-checked this against public data on 393 funds available from GulfBase.

Figure 2: mutual fund assets (% GDP) for GCC and selected countries



Source: Bloomberg, IMF, Investment Company Institute, EY analysis.

Figure 3: mutual fund assets, by class (%)



Source: Bloomberg, EY analysis.

Given the very wide range of fund types and geographic focuses and strategies, it is difficult to assess the performance of the GCC asset management sector as a whole against relevant benchmarks. Across all countries and asset classes, EY analysis shows the average total return to be 11.5% over three years (based on data for 246 funds). However, in Saudi Arabia, where the bulk of the region’s domestically focused equity funds are based (US\$7.8 billion across 39 funds), we estimate that the total return averaged 18% over the last three years, significantly outperforming the Tadawul All Share Index, which returned 13%. The relatively small size of the mutual funds, and the inefficiencies in the market, provide scope for active managers to outperform the index.

Figure 4: the three largest mutual fund managers per country

Country	Firm	US\$m
Saudi Arabia	National Commercial Bank	8,162
	Riyad Bank	4,810
	Al-Rajhi Bank	3,797
Kuwait	Kuwait Financial Centre	1,036
	Kuwait Investment Company	740
	National Investments Company	623
UAE	National Bank of Abu Dhabi	338
	First Gulf Bank	292
	Invest AD	253
Bahrain	Blominvest Bank (Lebanon)	372
	Global Investment House (Kuwait)	235
	GIC Funds Company	234
Qatar	Al Rayan Investment	136
	Qatar National Bank	60
	Commercial Bank of Qatar	48
Oman	Vision Investment Services	90
	Bank Muscat	59
	Oman Arab Bank	26

Source: Bloomberg, EY analysis

As the industry grows, opportunities will expand for pure-play asset management firms. These are overwhelmingly dominant in the US and Europe, but independent asset managers have found it hard to take market share from large local banks, which control the distribution channels to individual investors through their retail operations and corporate relationships. These banks also dominate separately managed portfolios.

Kuwait, which experienced the first major oil boom in the region and has the longest history of investment, is an exception, with several well-developed investment companies, such as Markaz, Kuwait Financial Centre and Kuwait Investment Company, major players in the asset management sector. Elsewhere in the GCC, too, bank dominance is likely to change over time as the market matures and more multichannel distribution emerges, such as the fund supermarket operated by Derayah, a Saudi brokerage, and SEDCO, a leading Sharia asset manager. These distribution channels will be strongly influenced by digital trends. With the absence of traditional mutual fund distribution channels, the GCC is well placed to take advantage of new distribution channels.

## Private equity

The private equity sector in the GCC is sizable and growing fast, but there is relatively little information available on it. Preqin, a firm that researches alternative investments, estimated that in 2012, there were 72 private equity firms in the GCC that had collectively raised more than US\$15 billion over the previous decade, with more than half raised by firms in the UAE. However, these funds do not all originate in the region and not all are spent in it. Abraaj of Dubai, for example, now has US\$9 billion AUM, but recently raised a US\$1 billion Africa fund, largely subscribed to by US and European investors. The MENA Private Equity Association estimates that US\$1.5 billion was invested in the wider region in 2014, with 55% going to the UAE and 21% to Saudi Arabia.

Private equity traditionally falls under the alternatives umbrella, and there is more discussion and open dialogue with regulators regarding the use of more interesting instruments to develop this part of the GCC asset management industry. Many alternative managers have looked to create liquid alternatives for a wholesale market that has shifted from the longer-lock vehicles that were popular with institutional investors before the crisis and the demand for greater liquidity. These UCITS and 40 Act funds have seen exponential growth in developed markets and, as international regulators embrace the use of derivatives to protect investors, manage risk and enhance return, it is highly likely that regional regulators will be more accepting of these instruments in local markets too.

### Where are the opportunities?

- Dedicated asset management
- Exchange-traded funds (ETFs) and online fund supermarkets
- Derivatives and other more liquid vehicles

## The Saudi market opens to foreign investment

The opening of the Tadawul to qualified foreign investors in June 2015 was a landmark moment for GCC markets, following on the heels of increases in the permitted levels of foreign ownership in Qatar and the UAE. In the first full month of trading after liberalization, foreign investors comprised about 3% of trading.

Foreign investors have been able to get some exposure to the Saudi market since 2008, through mutual funds, swaps and participatory notes, but these were not particularly popular and only resulted in foreign holdings of about 1.6% of the market. The new regulations permit direct investment, restricting total foreign holdings in the market to 10% of value, with a limit of 5% in individual stocks for each qualified investor. The qualified foreign investor criteria, requiring investing firms to have US\$5 billion in assets and be appropriately regulated in their home country, is similar to onshore requirements in China, but the licensing process is much quicker and more transparent.

Ownership limits may be revised up over time, and this, together with technical factors such as the operation of the T+0 real-time settlement system, is likely to influence when the Tadawul is added to the MSCI Emerging Markets Index. This could happen in 2017 and, with Saudi then becoming the seventh-largest component in the index, it could drive inflows of US\$10 billion or more in indexed funds.



# Section 2

## Pension funds



The GCC is rethinking both public and international pension funds to ensure they are sustainable – but it is unlikely just to follow global trends.

Public pension funds are a relatively recent development in the GCC, as the responsibility for providing for older members of society traditionally rests with the family and charitable donations. Saudi Arabia launched the region's first formal social insurance scheme in 1969, but Qatar's didn't emerge until 2002. The region's specificities – the public financial support of nationals and large expatriate workforces – mean that international trends in pension schemes, such as the disappearance of defined benefit pensions in favor of defined contribution schemes, are less relevant in the GCC.

Two big issues are currently driving significant rethinking in the sector. The first is the sustainability of public pension funds for nationals, given the relatively small size of the funds, unfavorable demographics and the gap between contribution and benefit levels. This could require further recapitalization of the funds and reforms to benefits and retirement age. Where fiscal means are limited, it may also involve the kind of three-tier system that is increasingly common elsewhere, combining a minimal state pension, defined contribution workplace pensions and additional personal contributions – but a wholesale shift in this direction is unlikely.

The second driver of change is a growing recognition by many employers that end-of-service benefit (EOSB) payments received by expatriates are neither adequate nor suitable as an alternative to a pension. This is leading to growing interest in enhanced EOSB schemes and international pension plans.

### Size and strategies

Public pension provision in each country is generally divided into separate funds for the military, civil servants and the private sector. In most cases, the pension funds also cover social insurance, such as disability cover and life insurance. Oman has the most complex structure, with a private sector fund and eight different public sector funds, although efforts are under way to merge the assets under a single authority. This is part of a broader trend both to improve administration and to harmonize, as far as possible, the terms of pension policies for nationals across the public and private sector.

Figure 5: estimated pension fund assets (for mid-2015)

	US\$b	% of GDP	US\$ per national	% invested in local equities	% share of equity market
Bahrain	11	32%	18,000	19%	13%
Kuwait	65	38%	52,000	6%	4%
Oman	12	15%	6,000	22%	10%
Qatar	14	7%	51,000	70%	6%
Saudi Arabia	270	36%	13,000	24%	12%
UAE	25	6%	24,000	3%	1%
GCC	397	24%	15,000	21%	8%
UK (employer)	3,309	116%	55,000	5%	5%

Sources: Towers Watson, IMF, Bloomberg and national stock market, EY.

Across the GCC, EY estimates<sup>2</sup> that public pension funds amount to US\$397 billion, representing nearly a quarter of GDP and US\$15,000 per national (see Figure 5). Just over one-fifth is invested in local equities. The size of the funds is relatively small compared with employer-provided pension funds in the UK, for example, where these assets are larger than GDP and funds per individual are nearly four times the GCC average.

Kuwait has the best-capitalized fund relative to the size of its economy and citizen population. This follows an initiative to recapitalize the pension fund from the budget since 2008, filling an actuarial deficit that had been estimated at nearly US\$40 billion. In international terms, its assets relative to population are similar to those of the UK's pension funds.

Qatar's pension assets are also sizeable relative to the population, following a capital injection from the Ministry of Finance in 2012. Since then, Qatar's General Retirement & Social Insurance Authority appears to have focused heavily on investment in local equities, including stakes in major companies such as Industries Qatar (16%) and Ooredoo (13%). In 2012, a report by the authority noted that 47% was invested in local equities – but the level now appears to be as much as 70%, with most of the rest in local bonds. At the other end of the spectrum, market disclosures reveal local pension fund holdings of over 5% for just three stocks in Kuwait and none in the UAE – although smaller stakes may be held in many companies (and, possibly, stock may be held through other vehicles in a way that is not visible in market disclosures).

Saudi Arabia naturally has the largest pool of pension assets – but the level per national is the second-lowest after Oman. Assets are split between the Public Pension Agency (for public sector workers) and the General Organization for Social Insurance (for private sector workers). The two often co-invest in companies together and alongside the Public Investment Fund. Aside from stakes in dozens of major listed companies, such as Saudi Telecom (14%) and Riyadh Bank (26%), they also invest in private companies, such as ACWA Power. However, about 85% of the pension assets are invested abroad, mainly in US Treasuries managed by the Saudi Arabian Monetary Agency (SAMA).

## Sustainability

Without more information than is publicly available, and extensive actuarial calculations, it is hard to assess the solvency of pension funds and the sustainability of current pension schemes. It does appear, however, that some of the schemes are underfunded for the generous benefits provided. At the World Social Security Forum in Doha in 2013, officials from the GCC's public pension funds posed the question: "What if the oil price declines, as happened in the 1980s? Would the governments have the ability to finance generous insurance benefits?" This decline has now happened and, while the oil market is notoriously hard to forecast, many analysts expect low prices to persist for some years; in the longer run, the development of new renewable technologies may fundamentally reduce fossil fuel demand levels. This scenario could necessitate significant changes to ensure that pension funds are sustainable.

<sup>2</sup> EY estimated the local equity holdings of pension funds based on trawling disclosures by market regulators and by individual companies, via Bloomberg and regulator websites. We estimated the total current size of the funds based on disclosures by the Bahrain and Qatar funds, and past estimates, including from the IMF, Towers Watson and Muhanna & co (a regional actuary firm). We then used this to compare in relative terms against GDP and our estimates of the number of nationals in each country, and against the UK.

As part of its regular checks of financial soundness, the International Monetary Fund (IMF) told Bahrain in 2014 that it was imperative that the pension fund be placed on a more sustainable path. Conversely, its consultation with Saudi Arabia concluded that its pension system was financially sound but needed careful monitoring. Oman's pension system appears to be the most underfunded in the region, and a locally based actuary has estimated that the deficit is nearly one-third of GDP. In the current context of low oil prices and a prolonged period of budget deficit, Oman may have challenges to recapitalize the funds.

One cause of actuarial deficits is that Gulf pensions tend to be extremely generous by international standards, both in their levels and their age and work requirements. In Qatar, it is possible to retire after just 20 years of work and receive the maximum pension, with early retirement permitted at age 40 for women and 45 for men. Moreover, pension levels have received hikes in many countries in recent years, with Qatar boosting pensions by 60% in 2011. The lowest average retirement age is 49, for Saudis in the public sector, and even the region's highest, 57 in Kuwait, is still well below the UK average of 64. Not only is this expensive, but it also enables employers to use early retirement provisions for laying off employees while passing the costs over to the public pension funds.

In the future, more Gulf countries will have to consider changing retirement ages, benefit levels and contribution requirements. Kuwait is currently phasing in an increase in its early retirement age, from 46 to 55 by 2020, while in Bahrain, a proposal was made in 2011 to raise the retirement age to 65, though this was rejected by the Parliament. More systematic reform is also possible in the most fiscally strapped countries to incorporate additional pension insurance elements. Recent changes in Gulf health care, with a steady shift toward private insurance, may set a precedent for such reforms.

## Expatriate pensions

EOSB schemes typically provide expatriates with a payout equivalent to a month of basic salary (which is often less than half of total remuneration) per year of service. This means that an expatriate who worked for 30 years, about the average working life for Gulf nationals, would receive a payment equivalent to about 2 years of earnings – as long as the company remains solvent. As a result, less than a quarter of expatriates plan to allocate their EOSB to finance retirement, according to a survey by Zurich International Life. The pension issue makes recruitment and retention of more experienced staff difficult, even for governments, with Dubai recently requesting advice from the World Bank on retirement planning options for expatriates.

Some employers provide enhanced EOSB schemes beyond the statutory minimum, for example, by increasing the multiplier of monthly salary after a certain number of years, to encourage retention in a job market with high turnover rates. There is also an increasing trend toward international pension plans. Zurich International Life provides a scheme whereby employers make regular contributions of 12% of salary into an investment fund that vests at the end of service and may be worth more than the statutory EOSB (if not, the employer then tops it up to the required amount). Employees can also make additional voluntary contributions into these funds, similar to a defined contribution pension plan, albeit without the same limitations as pension funds in countries that charge income taxes. Emirates Airline has been providing a similar scheme, its Provident fund, to senior staff since 1991.

Another development in the pensions sector, relevant to both expatriates and nationals, is the emergence of Islamic retirement products. Pension savings need to be invested in Sharia-compliant assets. Some Islamic scholars have concerns about annuities, which are typically purchased at retirement using pension fund pots, and the concept of a longevity sukuk instrument has been developed as a Sharia-compliant alternative.

### Where are the opportunities?

- New levels of regulation and governance
- Expanded EOSB schemes
- Sharia-compliant retirement products



# Section 3

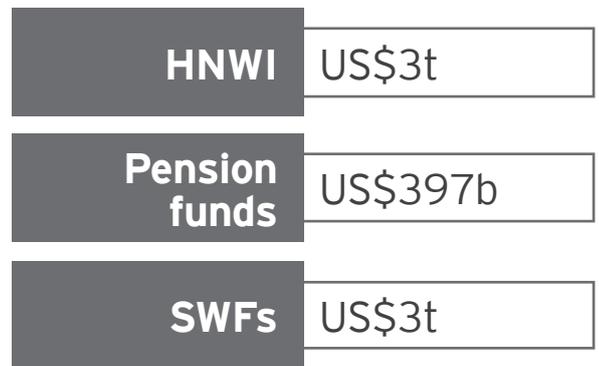
## Wealth management



Wealthy individuals and families have as much to invest as pension funds and sovereign wealth funds – and local banks are increasingly taking the business from established private banks.

Wealth management, by entities such as family offices, private banks and independent brokerages, is understandably discreet, producing little publicly available information. Global surveys of high net worth individuals (HNWI) show significant growth in personal wealth over the past few years. The McKinsey Global Wealth Management Survey, for example, suggests that personal financial wealth in the four wealthiest GCC countries amounts to US\$2.7 trillion in 2015, up from US\$1.6 trillion in 2011. The total is probably closer to US\$3 trillion, including wealth in Oman and Bahrain – similar to the level of total state wealth invested through sovereign wealth funds (SWFs) and several times the amount in pension funds (Figure 6). The BCG annual wealth survey found that the GCC countries were all in the top 15 countries worldwide (with Bahrain and Qatar in second and third place respectively) in terms of the proportion of households with over US\$1 million in personal financial wealth.

Figure 6: GCC wealth sources



Sources: SWF Institute, McKinsey, Towers Watson, IMF, Bloomberg and national stock market, EY analysis

Private banking in the region is highly lucrative, but it is becoming increasingly competitive as local banks challenge the long-dominant Western private banks, which still book about 70% of assets. Leading local universal banks have been steadily developing their own private banking offerings, including offshore subsidiaries in Switzerland and Singapore.

A recent survey of high net worth individuals by Emirates Investment Bank found that 59% preferred to use a local bank as their main banking partner. It also found that there was a growing preference to keep assets close to home, primarily in their own businesses, real estate and cash. Indeed, since the crisis, and as domestic regulation has become more robust, the traditional model of placing all family assets offshore and the family business onshore is disappearing, with more assets being held in the region. Europe will continue to be a strong center for wealth management – and remains a preferred location for holding real assets – but its dominance is increasingly being challenged by the Gulf and Asia.

This shift is compelling some international banks to up their game by developing onshore operations rather than relying on the traditional briefcase banking model, with bankers traveling to the region from London and Switzerland. The Dubai International Financial Centre is the preferred base for international players, and private banks such as Swissquote, La Cloche Wealth Management and Arbuthnot Latham opened offices there in 2014, but Riyadh is also an important location. Others, squeezed by the expansion of international regulation and high-profile tax cases, are consolidating operations and have withdrawn from the region. Institutions understand the competitive dynamics and have become far more active in segmenting clients and searching for quality relationship managers that add more value than just the relationship itself.

While the local banks have advantages in terms of personal relationships, the international banks, in general, are still able to provide more comprehensive value propositions and continue to dominate rankings in surveys. But local banks have begun to feature more prominently in recent years, and this trend will continue.

There is a strong opportunity for the development of attractive investment products in the GCC, to take advantage of the shift away from investing offshore. Exchange-traded funds (ETFs), for example, could show substantial growth, taking the lead from more developed markets, where investors are happy to accept lower-cost funds that have outperformed over recent years (see box on page 17). The ongoing development of real estate investment trusts (REITs) will also offer excellent distribution opportunities in a market where both residential and commercial property remain a popular investment.

### Where are the opportunities?

- ▶ International wealth management services with a local presence
- ▶ Stronger product offerings and value proposition within the GCC
- ▶ Increased client segmentation

## Trends in sovereign wealth funds

The Gulf's sovereign wealth funds remain by far the dominant investors in the region, with over US\$3 trillion in assets. There are very significant differences between the management and strategy of the funds, which range from the SAMA, which invests largely in US Treasuries, to highly activist and thematic direct investors such as the International Petroleum Investment Company in Abu Dhabi. Although the bulk of sovereign wealth assets are invested abroad, some funds, such as the Saudi Public Investment Fund, focus domestically, and others, such as Qatar Foundation Endowment, hold a mix of local and international assets. Mubadala in Abu Dhabi and Mumtalakat in Bahrain are notable for having mandates that include using their investments to spur the development of the local economy.

Despite these differences, a few clear trends have emerged in recent years. A long-term trend is geographic diversification, in particular toward fast-growing emerging markets such as Asia and Africa. The Qatar Investment Authority (QIA), for example, has typically focused on European blue chips and real estate, but is now starting to invest significant sums in Asia and the US. The Investment Corporation of Dubai (ICD) has started taking direct stakes in a number of African companies. There has also been an expansion in the share of assets managed in-house, rather than outsourced to third-party managers. The Abu Dhabi Investment Authority (ADIA), the region's largest fund, has expanded staffing and created new thematic teams to manage this process.

Another trend, albeit a gradual one, is increased transparency. Bahrain's Mumtalakat is the only fund to publish audited accounts, and there is a widespread reluctance among most of the others to reveal any data on asset size, let alone performance. Nonetheless, ADIA began publishing annual reviews in 2010, providing some general information about its operations and data on its 30-year performance, and QIA has announced that it is planning to produce something similar in the near future. Lower oil prices are reducing the inflows into funds and may require some countries to draw on their capital, which could increase the level of scrutiny over their operations from local citizens.

# Section 4

## Asset services



Regulators have begun to appreciate the value of separating asset services from investment management and brokering, opening up significant new opportunities.

The asset services sector in the GCC has changed considerably in recent years, in both the number of market participants and the sophistication of offerings. This has been driven in large part by the growing demand from foreign investors, spurred by capital markets that are larger, more liquid and more accessible than even a few years ago. At the same time, local regulators have begun to appreciate the value, in terms of risk management and efficiency, of separating asset services from investment management and brokering, opening up significant new opportunities.

In custodial services, HSBC is the dominant player in the GCC, holding around two-thirds of domestic assets. Until a few years ago, it was the only foreign participant, providing other international firms with sub-custody services in the region. A few brokers and local firms, such as Gulf Custody Company (established in Kuwait in 2001, and now present in Bahrain and Oman) and SICO in Bahrain, provided custody for retail clients. As market liquidity and foreign interest began to increase, other service providers set up shop. Standard Chartered launched custody operations in 2008 and Citigroup in 2009, building on their existing networks in other areas of banking.

Some of the major local banks have also entered the custody space. Qatar National Bank and National Bank of Abu Dhabi, for example, are the only local firms licensed as custodians in their respective home markets, both launching in 2011. Other major global custody banks have developed their presence to support Gulf clients, particularly sovereign wealth funds, in administering their assets outside the region.

Regulation is playing a key role in developing the sector. A 2012 resolution by the Emirates Securities and Commodities Authority, for example, required mutual funds to appoint custodians, fund administrators and auditors. The transition has been particularly notable in Saudi Arabia, which only recently codified the role of an independent custodian and a dual account model permitting clients to trade with multiple brokers. The Capital Market Authority has also given custodians a significant role in mediating the process of certifying qualified foreign investors on the exchange.

As the sector becomes more crowded, merely providing custody will not be sufficient. Indeed, there is already growing pressure to compete by bundling in a range of additional services to support clients, part of a global trend in this direction. As well as detailed reporting, many provide risk analytics, cash management and currency exchange. Looking ahead, a broadening of financial products available in the region should create new opportunities for asset services. In particular, if ETFs (see box) were to take off in the same way that they have in Europe and the US, they would create significant new demand.

### Where are the opportunities?

- ▶ Service packages bundled around custody operations
- ▶ Services for ETFs
- ▶ Data management and accessibility

## Exchange-traded funds emerge

The rapid growth of exchange-traded funds (ETFs) has been a major trend in international markets over the past decade. In the US, there are more than 1,500 ETFs, accounting for US\$2.1 trillion of assets, twice as much as five years ago, but still just one-eighth of the size of the mutual fund sector. That spectacular growth is due to a number of advantages over mutual funds. ETFs are cheaper to administer, can be traded in real time and enable much lower minimum investments. They are also well suited to index tracking and thematic investment strategies.

If ETFs were to catch on in the GCC to the same extent as in the US market, they would account for assets of US\$4 billion. At present though, they are just a hundredth of this size, with US\$40 million spread across four funds listed on three exchanges. The first, and largest, is the National Bank of Abu Dhabi's OneShare MSCI UAE, which was launched in 2010 using swaps, but then revised in 2012 to appeal more to investors by using physical assets. In Saudi Arabia, Falcom has two small ETFs, one based on the broad market and the other on petrochemical stocks, and HSBC has one based on the 20 largest Sharia-compliant companies on the Tadawul. Al Rayan Investment launched an Islamic index for the Qatar Exchange in 2013, with a view to creating an ETF around it, but this has not yet been approved by the Qatar Financial Markets Authority.

For the time being, there are more options to invest in the region through ETFs listed outside the GCC, with about US\$200 million in assets across seven funds. Market Vectors, Wisdom Tree, db x-trackers and iShares all offer regional exposure. The largest ETFs are the iShares funds for the UAE and Qatar, launched last year in response to their inclusion in the MSCI Emerging Markets Index. Lyxor also has a Kuwait-focused ETF. With the opening of Saudi Arabia to foreign investors, however, both Saudi-focused ETFs and genuinely pan-regional offerings are expected to emerge.

# The route ahead



The wealth and asset management industry is one of the fastest-growing parts of the GCC financial services sector. All segments discussed in this inaugural report – asset management, pensions, wealth management and asset servicing – are growing in different ways and with different dynamics.

Many factors are influencing and shaping the industry:

- ▶ The emergence of digital as a disrupting influence
- ▶ Increased client demand for world-class services delivered locally
- ▶ An intensifying regulatory environment
- ▶ A more difficult fiscal environment

This time of change is opening up significant new opportunities in every field for players that understand the drivers of growth. The competitive environment is, however, changing too. Many new institutions are entering the market, and the winners will be those offering the advantages of product choice and a full array of services, along with local presence and knowledge. The macro picture is undecided for emerging markets – there will be pockets of rapid growth, but other areas will suffer. One thing is certain, emerging markets have led the way in the growth of asset and wealth management over recent years, and this is set to continue.

The background of the slide is a close-up photograph of green grass with several water droplets. The droplets are in various stages of focus, with some showing a rainbow-like reflection. A bright yellow rectangular box is positioned in the lower right quadrant of the image, containing black text.

Many new institutions are entering the market, and the winners will be those offering both a broad range of services and local presence

#### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](http://ey.com).

The MENA practice of EY has been operating in the region since 1923. For over 90 years, we have grown to over 5,000 people united across 20 offices and 15 countries, sharing the same values and an unwavering commitment to quality. As an organization, we continue to develop outstanding leaders who deliver exceptional services to our clients and who contribute to our communities. We are proud of our accomplishments over the years, reaffirming our position as the largest and most established professional services organization in the region.

© 2015 EYGM Limited.  
All Rights Reserved.

ED None  
EYG no. EH0252

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

[ey.com/mena](http://ey.com/mena)

# Contacts

#### George Triplow

MENA Wealth & Asset Management Leader  
[george.triplow@ae.ey.com](mailto:george.triplow@ae.ey.com)

#### Robert Abboud

MENA Financial Services Advisory Leader  
[robert.abboud@qa.ey.com](mailto:robert.abboud@qa.ey.com)

#### Gordon Bennie

MENA Financial Services Leader  
[gordon.bennie@bh.ey.com](mailto:gordon.bennie@bh.ey.com)