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***GCC private  
banking study  
2015***

**Seizing the  
opportunities**

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# Executive summary



When we released our first report on the state of private banking in the Gulf Cooperation Council<sup>1</sup> in 2010, the industry had recently emerged from one of the most difficult periods in modern financial history. A global crisis of asset-price declines and the near, or actual, collapse of well-known international wealth management firms had altered the competitive field and the behavior of wealthy clients. Despite those challenges, we anticipated that the region's already quick recovery — especially compared to some Western markets — would make the GCC an attractive market for local and global private bankers.

Five years on, that conclusion has been vindicated. Indeed, the GCC wealth market has grown even faster than anticipated. Although challenges — including increased competition, pressure on profit margins, and intensifying regulatory and compliance requirements — remain for private bankers entering or looking to expand in this market, the opportunities are robust and enticing. From 2010 to 2014, liquid wealth in the region grew at an average of 17.5 percent per annum, doubling from US\$1.1 trillion to \$2.2 trillion. That is partly owing to the global rebound in equities and partly thanks to GCC-specific drivers, particularly the impact of high oil prices during that period, as well as increasing government spending on megaprojects, infrastructure, further economic diversification, and job creation.

Going forward, there are significant opportunities in the rapidly expanding affluent segment for private bankers that develop the right capabilities — such as more digitized offerings and open product platforms. This segment has been growing faster than the high-net-worth (HNW) and ultra-high-net-worth (UHNW) segments, with a compound annual growth rate of 21 percent. The number of its households has increased by 50 percent, outpacing other wealth segments. There is another, more subtle, opportunity. The GCC wealth market contains more sub-segments than is always obvious. By identifying one or more of these sub-segments, tailoring meaningful value propositions for them, and putting the proper capabilities in place to serve them, private bankers can make significant gains in the GCC.

# *Growth accelerates*

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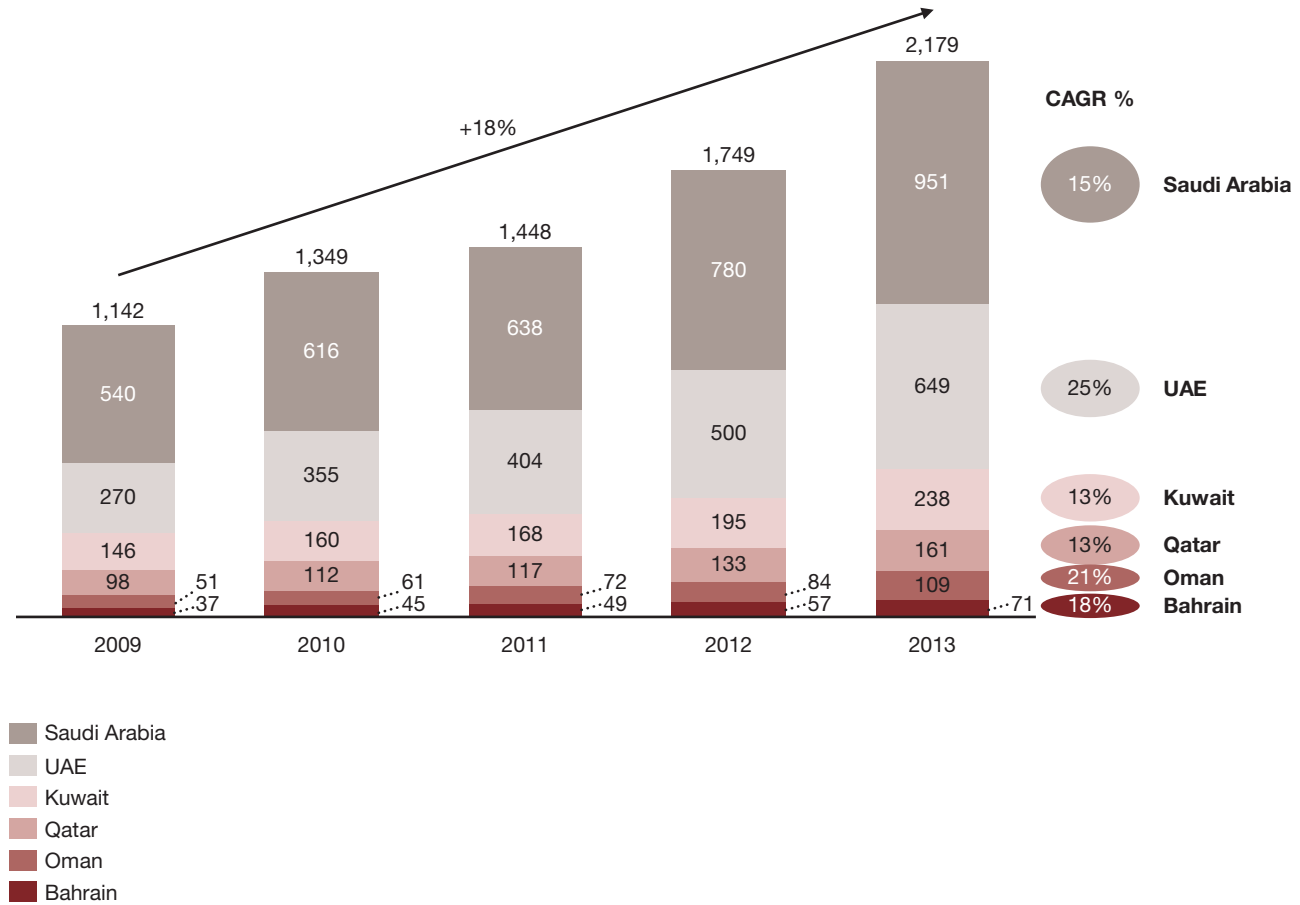
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Globally, investable and liquid assets have been growing rapidly, with emerging markets leading the way over the last five years. Moreover, according to Strategy&'s recently released "Global wealth management outlook 2014–15: New strategies for a changing industry,"<sup>2</sup> the GCC has been the most consistent of the emerging markets, recording growth of 16 percent or more each year since 2010 and doubling total private wealth from \$1.1 trillion to \$2.2 trillion for an overall compound annual growth rate (CAGR) of 17.5 percent. The United Arab Emirates (UAE) led the GCC countries with 25 percent CAGR, followed by Oman (21 percent) and Bahrain (18 percent), which grew from much smaller bases (see *Exhibit 1, page 5*).

Exhibit 1

Rapid growth has caused GCC private wealth to exceed \$2 trillion in 2013

Private Wealth Growth by GCC Country (US\$ billions)



Source: Strategy& Middle East Wealth Model 2014; Strategy& analysis

Today, almost half of the region’s wealth resides in Saudi Arabia (44 percent), but the UAE has made notable gains. The UAE’s share of the GCC’s wealth has increased from 24 percent to 30 percent from 2009 to 2013. Together, Saudi Arabia and the UAE control 74 percent of the region’s wealth, up from 71 percent in 2009.

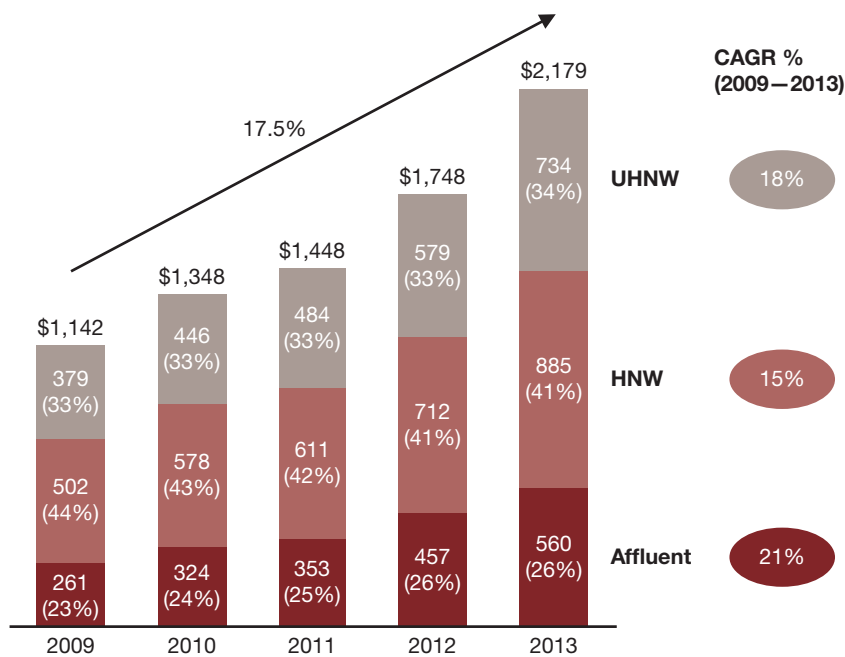
High-net-worth individuals (HNWIs) continue to account for the largest chunk of the region’s wealth at 41 percent, followed by ultra-high-net-worth individuals (UHNWIs) at 34 percent. However, the affluent segment has been growing the fastest over the last five years at 21

percent CAGR, more than doubling in absolute dollar terms from \$261 billion in 2009 to \$560 billion in 2013. However, during the same time frame wealth creation for the region’s HNWI, at 76 percent, and UHNWIs, at 94 percent, was hardly anemic (see *Exhibit 2*).

Likewise the growth of affluent households from 2010 to 2013 was strong, with total households increasing about 50 percent, from an estimated range of 850,000 to 880,000 in 2010, to a range of 1.25 million to 1.325 million. What is noteworthy is that the household growth among the HNWI and UHNWI was far slower and only in the low single digits (see “Who qualifies as wealthy?” page 7).

*Exhibit 2*  
**The affluent have been the fastest-growing segment**

GCC Wealth by Segment (US\$ billions and % of total, 2009–2013)



Note: UHNW = ultra-high-net-worth, HNW = high-net-worth.

Source: Strategy& Middle East Wealth Model 2014; Strategy& analysis

## Who qualifies as wealthy?

Strategy& estimates that today there are between 1.5 million and 1.6 million wealthy households in the GCC with total investable assets of around \$2.2 trillion (see Exhibit 3). We define “wealthy” as any household with stable investable assets of more than \$200,000 on an annual average basis. Affluent or mass-affluent clients are included in this definition. The high-net-worth bracket begins at \$1 million of investable assets, while the ultra-high-net-worth segment threshold is at \$50 million (see Exhibit 4, page 8).

Of these wealthy households, 240,000 to 275,000 households have more than \$1 million in assets. These figures include total investable assets; these assets are held both within the region (onshore) and outside (offshore). Investable assets

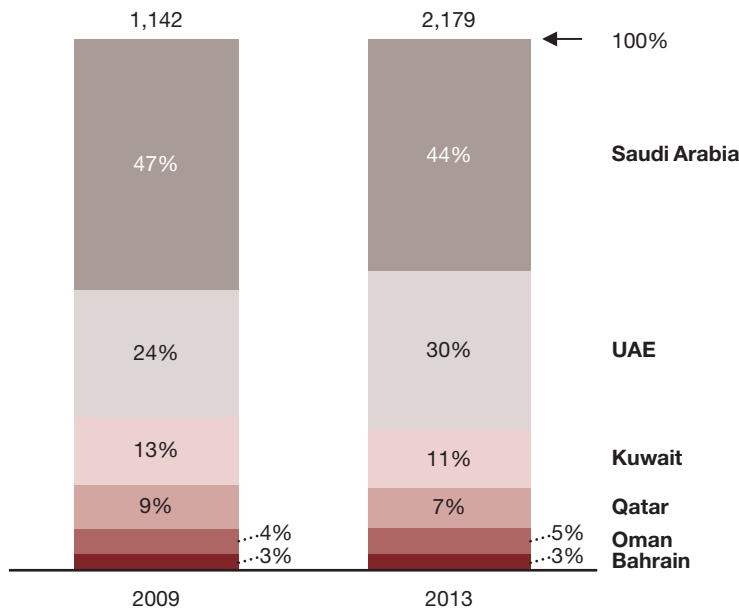
include deposits with banks, fixed income, equities, mutual funds, real estate funds, derivatives, real estate investment trusts, and alternative investments (e.g., private equity and hedge funds).

Non-investable assets are not included in wealth calculations for two reasons. The first is technical: illiquid assets like real estate, business equity, or collector’s items are difficult to value. The second reason is practical: these assets are not easily liquidated for the purposes of wealth management and require collateralized financing or derivative instruments.

Within each country of the GCC the investor profiles vary (for a more detailed breakdown by country, see Appendices, page 24).

### Exhibit 3 Saudi Arabia and the UAE account for most GCC wealth

GCC Wealth by Country (US\$ billions)



Source: Strategy& Middle East Wealth Model 2014; Strategy& analysis

Exhibit 4

**Saudi Arabia dominates the share of wealth, but the UAE has doubled its number of wealthy households**

Segment Distribution of Investable Assets in the GCC, 2014, by Number of Households per Segment and Country

Country	Affluent				HNW				UHNW			
	Households		Wealth (US\$ billions)		Households		Wealth (US\$ billions)		Households		Wealth (US\$ billions)	
	From	To	From	To	From	To	From	To	From	To	From	To
Bahrain	40k	50k	25	30	7k	8.5k	25	35	90	130	12.5	13.5
Kuwait	60k	75k	25	35	28k	35k	95	105	700	1k	100	110
Oman	70k	85k	40	50	8k	10k	35	45	100	200	17	25
Qatar	35k	40k	20	25	17k	21k	65	75	500	550	68	72
Saudi Arabia	720k	740k	290	300	105k	115k	350	360	2k	2.1k	290	310
UAE	325k	335k	135	155	70k	80k	275	295	1k	1.1k	215	225
<b>Total</b>	<b>1.25M</b>	<b>1.325M</b>	<b>535</b>	<b>595</b>	<b>235k</b>	<b>269.5k</b>	<b>845</b>	<b>915</b>	<b>4.4k</b>	<b>5.1k</b>	<b>702.5</b>	<b>755.5</b>

Note: Household numbers are estimates based on macroeconomic data as well as projections and calculations from the Strategy& Middle East Wealth Model 2014.

Source: Strategy& Middle East Wealth Model 2014



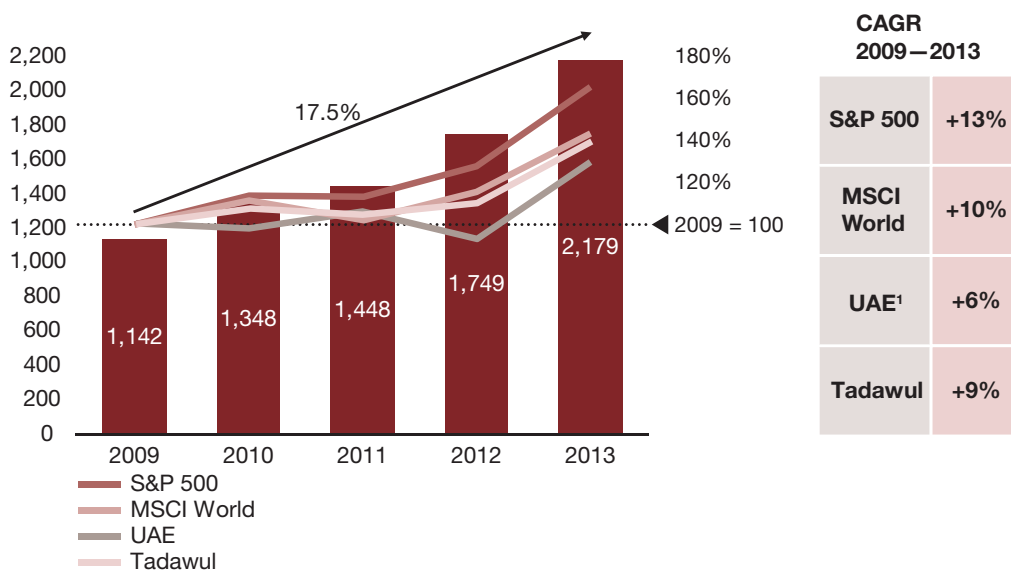
# Drivers of growth

Powerful macroeconomic and sociodemographic forces are propelling the growth of wealthy households in the GCC. One driver has been the strong rebound in global equity markets as increasingly aggressive allocations among the region's wealthiest helped them recapture value destroyed during the crisis. From 2009 to 2013, global equities saw 50 percent gains. Those gains were not smooth, however, and investors had to cope with a fair amount of volatility along the way. For example, Saudi Arabia's Tadawul All Shares Index (TASI) was quite volatile during the 2010 to 2012 period, trading between 5,000 and 7,000. However, since January 2012 the index has grown by over 50 percent — yielding a CAGR of around 13 percent between 2010 and 2014. By comparison, the MSCI World Index recorded 10 percent CAGR from 2009 to 2013 while the S&P 500 had 13 percent CAGR (see Exhibit 5). Of the \$1 trillion net increase in wealth during the period, we estimate that the global equity rally's impact on existing wealth accounted for around 40 percent of that gain.

## Exhibit 5

### Wealth growth in the GCC followed the global equities rally

GCC Wealth Growth vs. Global Equities Market (2009–2013)



<sup>1</sup> The UAE stock market performance has been computed based on a market-cap weighted average performance of the respective Abu Dhabi Securities Market General Index and Dubai Financial Market General Index.

Source: Strategy& Middle East Wealth Model 2014; Strategy& analysis

Besides these global equity trends, GCC-specific drivers accounted for the other 60 percent of the \$1 trillion in net new wealth. From 2009 to 2013, GCC regional GDP grew steadily at an average rate of 10 percent per annum as the oil price rose and then was sustained at near-record levels. After increasing from \$52 per barrel (\$/b) in 2009 to \$111/b in 2011, the price tailed off just slightly to \$99/b in 2013, and was consistently above GCC countries' fiscal breakeven points (except for Bahrain).<sup>3</sup> Governments have used this windfall to spend generously on megaprojects, infrastructure, and job creation — all of which helps to produce more income for wealthy individuals and create a generation of newly affluent citizens and expatriates. For instance, government spending in Oman jumped 50 percent from 2010 to 2013 as the government created 100,000 new jobs. As the oil-led growth environment prevails in the GCC, we will see more inflow of qualified expatriates who seek work and better career prospects on the back of this growth trend.

Concurrent with this macroeconomic and sociodemographic growth have been geopolitical events that intensified the migration of new wealth to the region. Since the start of the Arab Spring and in its aftermath, the security and economic situation in countries such as Egypt, Iraq, Libya, Syria, and Tunisia has deteriorated, and no change is expected in this challenging state of affairs in the foreseeable future. As a result, many wealthy households migrated to the more stable UAE, Kuwait, and Qatar. These households also moved a significant portion of their wealth to either regional or foreign banks based in the GCC countries to which they relocated. The UAE has benefited from this regional phenomenon the most and seen the largest inflows from the wider Middle East and North Africa region.

In addition, sluggish macroeconomic growth in the Western hemisphere, paired with turmoil in the international financial services industry (due to operating failure scandals, regulatory fines, compliance issues, and strategic retrenchments), has contributed to some degree of capital being reallocated to its countries of origin, including the GCC. Many locals also repatriated funds in pursuit of more dynamic, tangible, local investment opportunities. Many of these funds have been invested locally or regionally, mostly in real estate and equities.

### **Industry challenges**

Despite the surge in regional wealth, the private banking industry faces challenges. Most of these issues are not new, but the need to address them and find solutions is becoming more urgent as competition increases and wealthy clients become more demanding in terms of net performance, quality of investment advisory, customer experience, and digital channels.

First are the top line issues. The rally in equity markets has been a boon to wealthy clients and has significantly increased assets under management. The problem for private bankers is they derive little additional revenue

*Many locals also repatriated funds in pursuit of more dynamic, tangible, local investment opportunities.*

from these gains. In fact, when funds stay put and asset allocations are not shifted — or shifted much less than the pre-2008 era — due to unchanging risk appetites or views on market direction, no subscriptions nor up-front fees are incurred. For private bankers who usually do not get any management fee concessions from asset managers, they will see their commission income decimated as fewer re-allocations or new subscriptions occur.

Second is the issue of intensified competition. The expansion of wealth has encouraged more local GCC players to enter the private banking market. Meanwhile, global banks are joining the fray in search of opportunities to offset relatively slow growth in their home markets. These global and local players are being joined by other mid-market entrants from traditional safe offshore havens (such as the U.K., Switzerland, Hong Kong, and



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Singapore), as well as niche independent players with focused expertise, such as structured products, alternative investments, and personal advisory services for the affluent.

However, it is not just the competition that is threatening the top and bottom line of private banks. Their offerings remain fairly basic and largely undifferentiated. This is especially true among local banks. Such a simple approach might not have mattered too much in the past. Today it

can be a liability as GCC investors have become more selective and demanding. Many have multibanking relationships both locally and offshore and can easily compare prices and returns for identical or nearly identical products and services.

The truth of the matter is that many local private banking players are still trying to get the basics right and have been unable to evolve their client offerings into the upper HNW and UHNW segments or starkly differentiate themselves in the market. Thus, they have been unable to command the premiums they would have liked and avoid price competitions. On the positive side, there are still ample opportunities for local banks to build out their wealth management offering and capture more share of wallet from existing clients. Also, no local bank in the GCC has successfully expanded its coverage model across the GCC or beyond. This is most likely due to strict domestic and cross-border regulations in the GCC that limit the ability of local banks to grow outside their home markets.

Private bankers also face an array of customer service issues that affect the top and bottom lines. First, they have generally failed to rein in expenses adequately. The legacy costs associated with old operating models and outdated branch-based coverage strategies damage their efficiency, not to mention service levels. Second, many still use the traditional “product push” sales model instead of investing in a more sophisticated advisory process that tailors distinct offerings based on customer segmentation and life-stage needs. Third, old, clunky reporting systems create increasingly unacceptable “pain points” across their wealthy users’ journey. Clients want better reporting (consolidated versus account-by-account, benchmark comparisons, etc.), improved accessibility (ad hoc versus planned, and cross-channel versus branch only), and increased transparency (readable reports with clear breakdowns of fees, risk-return profiles, and “what if” scenarios). To deliver on these demands and create a truly customer-focused experience, private banks will need to continue to invest significantly in technology while in parallel aligning their objectives and operating models to be more client-centric.

Besides these cost and investment challenges, regulatory pressures continue to mount. On the one hand, the global trend toward tougher regulations, tax declaration, and transparency — particularly in the U.S. and EU — has made the GCC an attractive alternative to the traditional safe havens. However, local GCC regulators are also getting stricter, managing the capital markets in ways that could potentially put some drag on growth. For instance, the Arab version of the Glass-Steagall Act requires the strict separation of banks from their wealth and asset management operations in some GCC countries. It has hampered the ability of GCC banks to design more efficient and streamlined offerings and service-friendly operating and engagement models, and so has prevented them from being at par with international best practices.

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# *Market opportunities*

We believe that the rapid growth of the wealth market in the GCC, combined with an unsettled competitive environment in which many global and local players are still struggling to define themselves and serve wealthy individuals satisfactorily, creates a rare and exciting opportunity to grab market share. We see two areas of significant opportunity: the broader affluent segment and various inadequately served wealthy sub-segments.

## **Market opportunity number 1: The affluent**

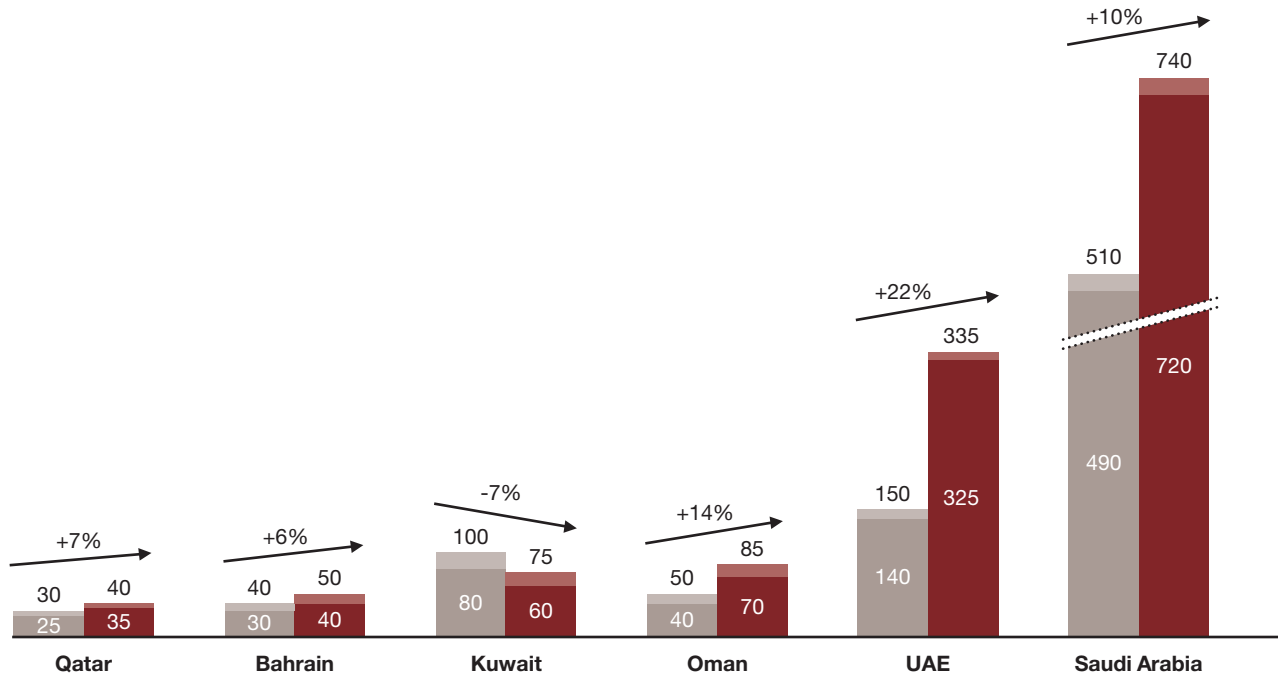
The temptation for many private bankers is to pursue the very wealthy with tens and hundreds of millions of dollars of investable assets. However, these established and very rich individuals often already have multiple, long-standing private banking relationships, both locally and internationally. The better, longer-term opportunity may be the affluent, particularly the upwardly mobile, newly affluent who are looking to forge premium banking relationships for the first time and may move higher in the wealth pyramid.

As noted earlier, the affluent represent the fastest-growing wealth segment in the GCC. Their wealth more than doubled between 2009 and 2013 — swelling from \$261 billion in 2009 to \$560 billion in 2013, with a 21 percent CAGR. Importantly, their numbers are also growing. From 2010 to 2014, the region's affluent population has increased from an estimated range of 850,000 to 880,000 in 2010, to a range of 1.25 million to 1.35 million in 2014 (*see Exhibit 6, page 14*). That nearly 50 percent growth in the number of affluent households represents a large number of new potential clients, far ahead of the single-digit growth in the HNW and UHNW segments (*see Appendices*). The robust growth of the affluent is clearly tied to the GCC's relative geopolitical stability and its booming job market. High oil prices have allowed governments to spend on megaprojects and infrastructure, creating opportunities for home-grown companies as well as the international business community. These companies generate many well-paid managerial jobs for locals and expatriates, thus creating further affluence.

Exhibit 6

**There has been rapid growth in affluent household numbers in Saudi Arabia and the UAE**

Affluent Households, Upper and Lower Estimates (in Thousands, 2010 and 2014; CAGR %)



- Number of affluent households, lower estimate, 2014
- Number of affluent households, upper estimate, 2014
- Number of affluent households, lower estimate, 2010
- Number of affluent households, upper estimate, 2010

Note: There has been a net outflow of affluent households from Kuwait because of increasing cost of living pressures and stagnant salary growth, particularly for expatriates.

Source: Strategy& Middle East Wealth Model 2014; Strategy& analysis

The affluent in the GCC are mainly white-collar professionals, executives, households with dual incomes, and small business owners who tend to be younger and more tech savvy than most HNWIs. Although many are local, they also originate from outside the GCC — and include Arab, Asian, Indian subcontinent, and Western expatriates. The UAE has created the most affluence in the GCC, growing its share of affluent households from 16 percent to 26 percent from 2009 to 2013. No local bank has proven particularly adept at

capturing a dominant market share, however. Additionally, no local player was able to expand its affluent offering significantly cross-border to other GCC markets. As a result, a few international players that have historically provided private-banking-like propositions for the affluent have maintained a dominant position in this segment.

Additionally, the affluent segment is demanding and price sensitive. Shopping around and price comparisons are typical behaviors of this segment. Although affluent individuals like to be more engaged than not with their own investments and watch them closely, they remain, by and large, unsophisticated investors. They need investment advisors to be available to educate them and explain matters to them. This drives demand for basic investment services and financial planning, as well as open-product architectures and platforms that give unbiased advice and offer solutions with relatively attractive and varying risk-return profiles. These demands are common to both locals and expatriates, but there are also important differences between these two groups. Expatriates need multi-account openings onshore and offshore with convenient transfer of funds via partner banks, and foreign exchange products to hedge currency exposure. Meanwhile, the GCC affluent show an increasing interest in Shari'a-compliant offerings.

With all of the above in mind, we recommend a four-pronged approach to win in the affluent market:

First, in response to competition among local and international banks, it is critical for any bank to differentiate its offering. This is a tech-savvy population much of which grew up during the rise of the Internet, making a mobile, “high-tech, high-touch” proposition and customer experience more appealing to its constituents.

Second, banks should provide products and services across channels in a seamless way, focusing on simplified asset allocations, financial planning, and private-banking-like services (such as do-it-yourself asset allocation simulators, consolidated statements, and access to exclusive services) to increase product penetration through a pull (not push) marketing strategy.

Third, banks should digitize and streamline the on-boarding, compliance, and suitability processes to reduce overhead and improve the overall client experience.

Fourth, banks need to transition into a “smart” and highly adaptive coverage model that allows clients to move and transact seamlessly across online and offline channels. Innovative branch formats will remain an important factor for affluent clients in the GCC, and industry leaders with the foresight to roll out the new branches of the future, with high-tech/high-touch, simplified designs and modern customer journeys, will set the bar for the rest of the market.

*The affluent in the GCC are mainly white-collar professionals, executives, households with dual incomes, and small business owners who tend to be younger and more tech savvy than most HNWIs.*

## Market opportunity number 2: HNW sub-segments

The other major opportunity for private banks is tapping wealthy niche sub-segments in the GCC that are still often ignored or inadequately served. As noted earlier, local private banks have by and large failed to differentiate themselves. They offer many of the same “perks” (e.g., waiving of brokerage fees, concierge services, premium credit cards, and exclusive gifts), as well as a “one-size-fits-all” product offering. Meanwhile, advisory services are slowly rising and shifting the service landscape from a legacy product-push approach into a more comprehensive and holistic needs-based advisory model.

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These common business strategies by regional banks seem to imply that local private banking clients are uniform in their needs and expectations, when nothing could be further from the truth. The distinct sub-segments in the Middle East demand more sophisticated and custom-tailored advisory from their relationship manager, as well as enhanced and targeted product and service offerings based on their needs, lifestyles, and behaviors. Put simply, the often stark differences among HNW sub-segments have not been well leveraged, and local players that identify niches they want to target and focus



on will be able to design leading propositions that make for meaningful client experiences (see Exhibit 7).

A prime example is female investors, who control 20 to 25 percent of HNWI assets in the region. This important wealth segment often faces restrictions that male investors do not. In some countries they must visit branches exclusively designed for ladies and staffed primarily by female staff. Although they are being served the same “plain vanilla” propositions that are available to all other wealth segments, research shows that female investors have different investment styles and preferences, on average, in terms of trading frequency (more stable and accepting of volatility) and risk profile (keener on growth markets), among other traits. Additionally, women allocate their wealth differently than their male counterparts. For example, married/dependents feel freer to get more aggressive with their allocations, whereas single/divorced ladies tend to be more cautious. Women investors are also more interested in philanthropic advisory offerings and social-impact investing. Despite the distinct characteristics of this segment, there is still no major proposition that caters to their specific needs and behaviors.

*Exhibit 7*

**Local players that identify niches they want to target will be able to design attractive offerings**

Examples of HNWI Sub-Segments & Offerings by Source of Wealth

	Key value proposition	Entrepreneurs	Female investors	Inheritors	Wealthy families
Advice	<ul style="list-style-type: none"> <li>- Holistic advice</li> <li>- Interdisciplinary teams with complementary background</li> <li>- Access to specialists</li> </ul>	<ul style="list-style-type: none"> <li>- Strategic dialogue</li> <li>- Succession planning</li> <li>- Tax optimization (compensation)</li> </ul>	<ul style="list-style-type: none"> <li>- Strategic dialogue</li> <li>- Liquidity planning</li> <li>- Retirement</li> <li>- Generational transfer of wealth</li> </ul>	<ul style="list-style-type: none"> <li>- Inheritance planning</li> <li>- Financial planning</li> <li>- Tax &amp; estate planning</li> <li>- Legal advice</li> </ul>	<ul style="list-style-type: none"> <li>- Advice on family/multiple advisory options</li> <li>- Office solution offering</li> </ul>
		<ul style="list-style-type: none"> <li>- Advisory process</li> </ul>	<ul style="list-style-type: none"> <li>- Strategic asset allocation</li> </ul>	<ul style="list-style-type: none"> <li>- Access to dedicated specialists</li> </ul>	
Products	<ul style="list-style-type: none"> <li>- Exclusive investment opportunities</li> <li>- Tailor-made, innovative solutions</li> <li>- Life-cycle related products</li> </ul>	<ul style="list-style-type: none"> <li>- Single stock lending</li> <li>- Leasing</li> <li>- Special credit/corporate finance</li> </ul>	<ul style="list-style-type: none"> <li>- Trust and fiduciary services</li> <li>- Special credit financing facilities</li> </ul>	<ul style="list-style-type: none"> <li>- Consolidated client reporting</li> <li>- Trust and fiduciary services</li> </ul>	<ul style="list-style-type: none"> <li>- Consolidated client reporting</li> <li>- Family office products &amp; services</li> <li>- Prime brokerage</li> </ul>
		<ul style="list-style-type: none"> <li>- Exclusive investments</li> </ul>	<ul style="list-style-type: none"> <li>- Tailored financing solutions</li> </ul>	<ul style="list-style-type: none"> <li>- Alternative investments</li> </ul>	
Services	<ul style="list-style-type: none"> <li>- Local service and part of an attractive international client franchise</li> <li>- Access to exclusive events &amp; individuals</li> </ul>	<ul style="list-style-type: none"> <li>- Business networking</li> <li>- Service level taking limited client time into account</li> <li>- Merchant services</li> </ul>	<ul style="list-style-type: none"> <li>- Access to exclusive “women angel investor” networks</li> <li>- Special events for female executives and entrepreneurs</li> <li>- Philanthropic services</li> </ul>	<ul style="list-style-type: none"> <li>- Generational transfer</li> <li>- Philanthropic services</li> </ul>	<ul style="list-style-type: none"> <li>- Business-to-business relations (gate keeper)</li> <li>- Philanthropic services</li> </ul>
		<ul style="list-style-type: none"> <li>- Service at client’s eye level</li> <li>- Risk managers &amp; specialists available 24 hours a day</li> </ul>	<ul style="list-style-type: none"> <li>- Access to top management</li> <li>- Fostering creativity and cross-divisional awareness</li> </ul>	<ul style="list-style-type: none"> <li>- Locally anchored with worldwide franchise</li> </ul>	

= Applicable for all HNWI segments  
 = Specific

Source: Strategy& interviews

Another example is tech-savvy, self-driven investors. These are often well educated, widely traveled business owners, entrepreneurs, or executives who are accustomed to making and executing some, or most, of their investment decisions. They are less interested in face-to-face meetings and holistic advice than short, timely, and focused communications on investment opportunities and important market events, as well as technical support for their own trading and portfolio monitoring. They are very flexible about channels, as long as they are digital. These may include text messages, chats, video chats, emails, and perhaps online forums and communities.

Another sub-segment is the “next generation” or “inheritors” of UHNW families, those 45 years of age and younger. It is not uncommon for large UHNW families to have upward of 60 members and many young adults. Today, these wealth inheritors control about 22 percent of GCC wealth, and they expect UHNW attention. The problem is that most do not yet control the level of assets necessary or command the social gravitas required to justify the very high level of attention that UHNW individuals enjoy. Private banks must decide how to cost-effectively service this next generation — perhaps through innovative digital offerings — without losing them along the customer journey. This is a difficult line to walk.

As a result of all these dynamics, private banks that want to capture a larger share of these sub-segments need to follow a four-step approach:

1. Sub-segment the HNW population using relevant criteria to differentiate from the majority of private banks — for example, female investors, inheritors, senior executives, entrepreneurs, small and medium-sized enterprise owners, self-directed and heavy day-traders, traveling jet-setters, clients who only want Shari’a-compliant products.
2. Study local demographics to determine which of these sub-segments the bank is best positioned to serve from profitability and capabilities perspectives.
3. Tailor offerings that are relevant and attractive for the sub-segment and, more critically, put a team in place that is responsible for a fast time-to-market delivery time, as well as enhancing and institutionalizing the product development and innovation process for these new propositions.
4. Local players should move toward customer-centric, branch-agnostic, and flexible coverage and service models, where clients can move seamlessly across channels but still maintain a high degree of personalized and relationship-based interaction. In that context, “smart” branches — i.e., traditional branch formats tailored more specifically to sub-segments, redesigned using the latest UX (user experience) principles and enhanced with the latest technologies — will play an increasingly important role.

*Those private banks that want to capture a larger share of HNW sub-segments need to follow a four-step approach.*

# Playing to win

Whether a private bank decides to target the affluent or a wealthy sub-segment by geography or type of client, it needs to develop the right capabilities. The private banking capabilities necessary to serve a technology-savvy executive in Abu Dhabi will be different from those required for the wife of a UHNW Saudi business magnate. There is no one-size-fits-all approach and it is important for a private bank to clearly understand who it is targeting before developing strategic capabilities.

Regional and local players are lagging behind banks in the West, which are way ahead in terms of building and refining their delivery capabilities. Today, some local private banks are building up basic private banking capabilities to support, direct, and guide clients, in an effort to close the offering gap with international private banks. For most of these regional banks, their IT is not able to integrate efficiently the information stored in fragmented core systems. They have also struggled to create customer-facing enterprise solutions that extract business intelligence and insights to deliver tailored offerings. Moreover, their policies and procedures are often clunky and outdated. Consequently, these policies and procedures can hinder the client experience, especially when they use legacy wholesale or commercial processes and guidelines that are not tailored to private banking. There is also a surprising lack of focus on and investment in talent, as well as a stark misalignment of pay and incentives within local private banks compared to their international counterparts. This directly affects the motivation, quality, and productivity of client-facing staff, which also hurts client relationships and continuity, mainly due to high staff turnover.

In order to win in select sub-segments, it is paramount that regional players follow a systematic and focused road map to build the essential capabilities required.

The first priority is to develop an elaborate digital agenda and technology road map. This requires investment in a digitization strategy that is completely aligned with and supportive of the business strategy. In the mid- and back-offices, this involves rationalizing systems architecture, running data-cleansing exercises in order to develop robust and insightful data warehouses, and then overlaying integrated front-end client

*The private banking capabilities necessary to serve a technology-savvy executive in Dubai will be different from those required for the wife of a UHNW Saudi business magnate.*



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interfaces with an enhanced experience that empowers both relationship managers and clients. As more HNWIs adopt new technologies and digital channels to manage their wealth, the industry is moving gradually toward a 24/7 multichannel, digital environment. Keeping young and technology-savvy clients, and winning more like them, will require building a digital agenda and executing it consistently. Above all, this means recognizing the importance of digitization. Not enough private bankers in the Middle East do. A recent survey conducted by Strategy& found only 50 percent of Middle East wealth managers believe that digitization is of medium to high importance.

To develop a robust digital agenda in wealth management, there are five priorities to consider.

The first is to build an internal 360-degree view of clients' assets (both in the current share of wallet, and increasingly beyond) and the corresponding behavioral profiles to provide high-quality, timely, and relevant personalized advice.

The second is to provide high-speed, "always-on" (and increasingly real-time) access to portfolios, research, and advice through mobile and tablet technologies, such as advisor–client chat, video-conferencing, and interactive applications (e.g., financial planning, portfolio simulations, alert centers, peer comparisons, or recommendations, etc.).

The third is to enhance the quality and personalization of advice and service-related interactions using Big Data or even simple business intelligence analytics to identify the most relevant opportunities for each client based on historical behavioral data, latest cross-channel interactions, or major life changes along the client life cycle. As an example, this allows relationship managers to automatically check the risk profile alignment of a client's current or changing asset allocation in volatile times and market dislocations, and to provide timely and proportional responses.

The fourth is to streamline and automate mid- and back-office operations to eliminate time-consuming manual activities and shorten processing turn-around times. Private bankers must simultaneously create a bulletproof risk and compliance environment in which all required checks and balances are automated and validated by technology, while trying to eliminate "pain points" from the client experience and ensuring transactions are processed straight through as much as possible.

The fifth is to establish a social media presence to evaluate customer sentiment (e.g., text mining on blogs, online forums, etc.), and enhance the lines of communication with existing clients through external social platforms such as LinkedIn groups or Twitter. They must also strengthen the financial advisors' community, such as through internal blogs or enterprise social networks, using tools such as Yammer.

Outside the digital agenda, certain capabilities are necessary to develop a strategic competitive advantage. Specifically, private bankers need to work on their ability to manage their spending and investment budgets. Owing to their premium branding and higher costs related to real estate, human capital, and campaigns, private banks tend to be more costly than other bank divisions. That said, given continued margin compression due to increased competition and regulatory pressures, it is important for private bankers to identify costs, classify them into different categories, and deal with them differently. Investments in talent, digitization, and innovative value propositions, for instance, are "good costs" that should generally be safeguarded or even increased to strengthen differentiation. Meanwhile, costs such as discretionary spending, offerings with limited competitive differentiation, or massive low-impact product-push campaigns could be scaled back.<sup>4</sup>

Just as important, private banks need to develop the core capabilities necessary to deliver their value propositions to the sub-segments they are targeting. Private banks that decide to roll out advisory capabilities, for instance, need to support their relationship manager with the necessary competencies, such as a chief information officer who can own the bank's investment view and support the smooth delivery of the advisory process. They also need proposition heads who, with their teams, work closely with both internal and external asset and product managers to develop and deliver the best investments and services for clients. Additionally, dedicated and highly responsive service models are necessary to attend to clients 24/7. Underlying this effort must be a robust talent management capability to recruit, compensate, and retain highly skilled personnel who can provide a superior client-relationship experience. It is worth noting that local private banks with clear ambitions and incentives will be well positioned to lure skilled Western bankers who may be looking to leave a global employer if that employer is retrenching or scaling back its ambitions in the GCC.

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# Conclusion

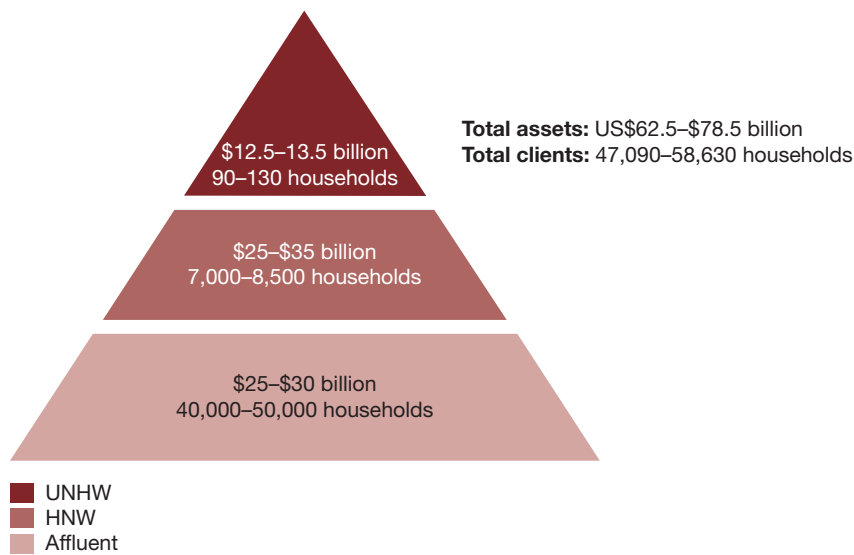
When we looked at the growth of wealth globally in our “Global wealth management outlook 2014–2015” study, the GCC showed the most consistent growth since the financial crisis compared to all other regions. Global and regional macroeconomics, supported by other GCC-specific drivers, suggest that the Gulf region will remain an attractive, though challenging, wealth management market for the foreseeable future. The most exciting trend for banks over the past five years has been the doubling of affluent wealth, a trend that shows no sign of faltering. Additionally, the increased sophistication of various niche segments within the high-net-worth group poses an intriguing opportunity for leading players.

Private banks that recognize these opportunities and work to differentiate themselves with a sophisticated digital presence, superior products, and a top-notch talent development strategy will reap major rewards. Those that do not may miss out on the region’s robust growth trajectory and fall behind early movers.

# Appendices

## Exhibit 8

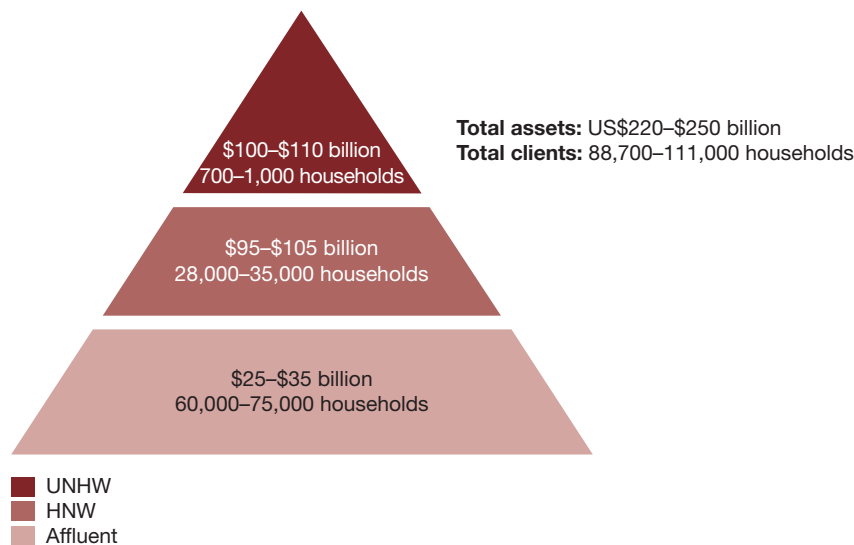
### Segment distribution of investable assets in Bahrain, 2014



Source: Strategy& Middle East Wealth Model 2014; Strategy& analysis

## Exhibit 9

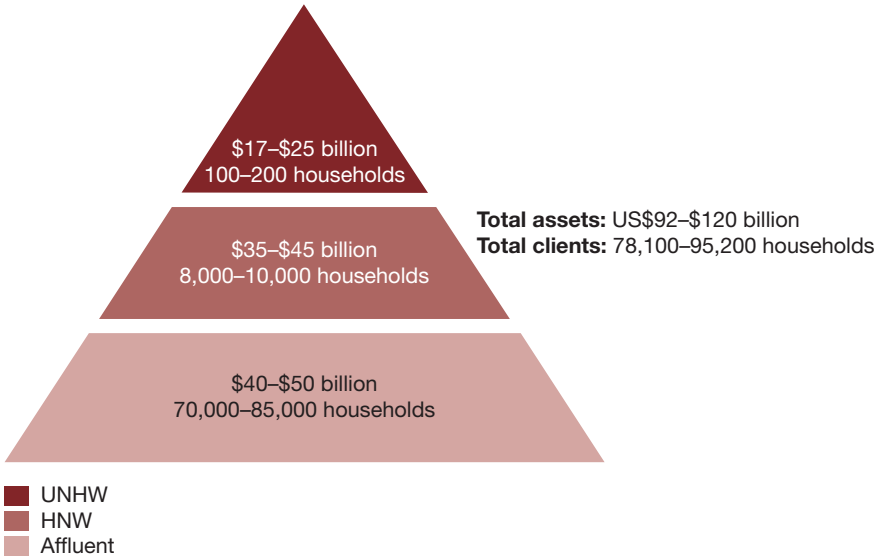
### Segment distribution of investable assets in Kuwait, 2014



Source: Strategy& Middle East Wealth Model 2014; Strategy& analysis

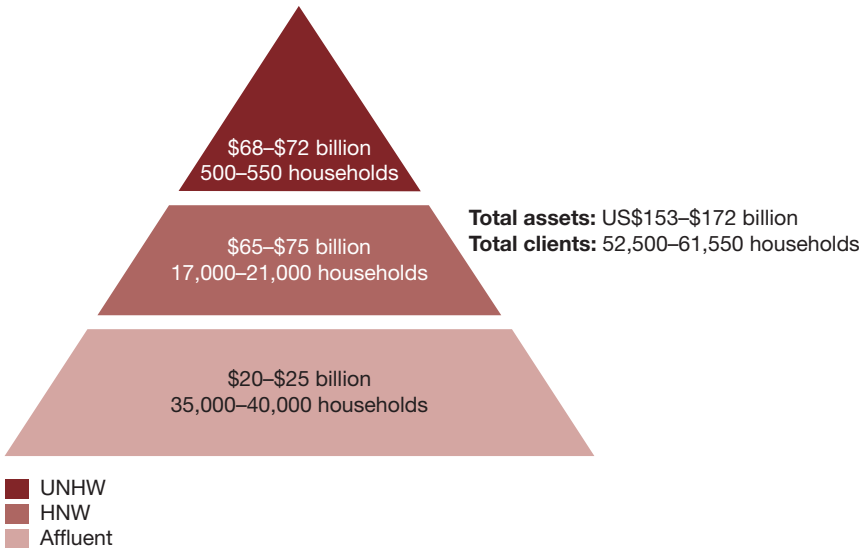


*Exhibit 10*  
**Segment distribution of investable assets in Oman, 2014**



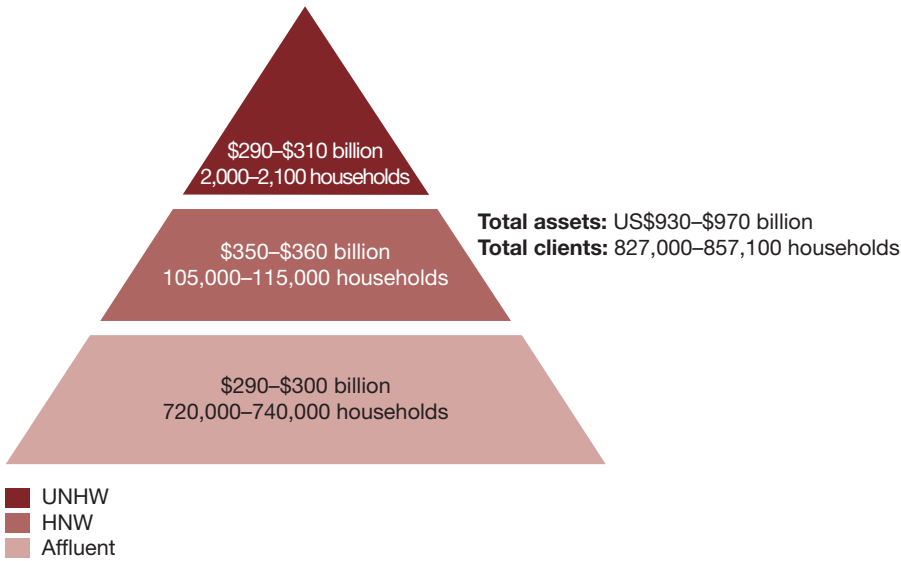
Source: Strategy& Middle East Wealth Model 2014; Strategy& analysis

*Exhibit 11*  
**Segment distribution of investable assets in Qatar, 2014**



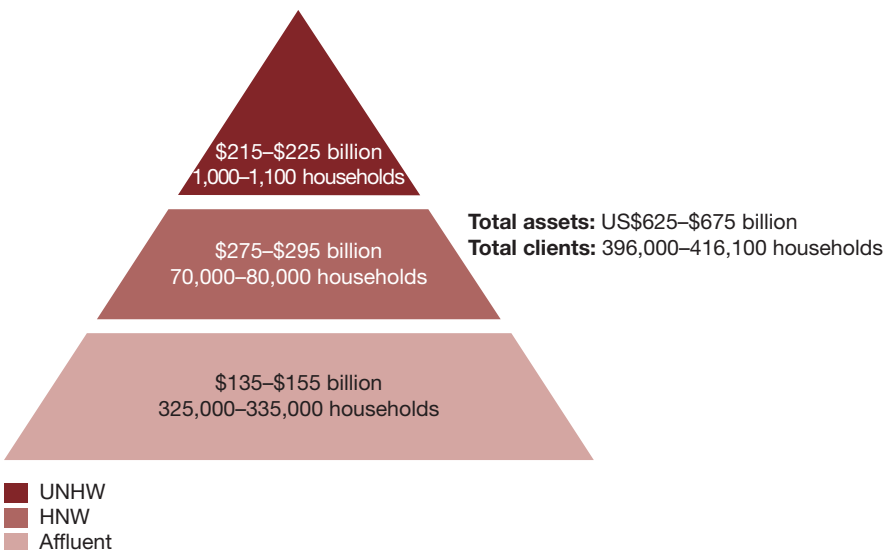
Source: Strategy& Middle East Wealth Model 2014; Strategy& analysis

*Exhibit 12*  
**Segment distribution of investable assets in Saudi Arabia, 2014**



Source: Strategy& Middle East Wealth Model 2014; Strategy& analysis

*Exhibit 13*  
**Segment distribution of investable assets in the UAE, 2014**



Source: Strategy& Middle East Wealth Model 2014; Strategy& analysis

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# Endnotes

<sup>1</sup> The GCC countries are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. The original study was: Peter Vayanos and Dr. Daniel Diemers, “GCC private banking 2010–2011: Successful growth strategies after the perfect storm,” Strategy&, 2010.

<sup>2</sup> Alan Gemes, Andreas Lenzhofer, Sid Azad, and Dr. Daniel Diemers, “Global wealth management outlook 2014–15: New strategies for a changing industry,” Strategy&, 2014: [http://www.strategyand.pwc.com/media/file/Strategyand\\_Global-Wealth-Management-Outlook-2014-15.pdf](http://www.strategyand.pwc.com/media/file/Strategyand_Global-Wealth-Management-Outlook-2014-15.pdf)

<sup>3</sup> The breakeven point is the oil price needed for any oil-producing state’s budget to be in balance.

<sup>4</sup> Shumeet Banerji , Paul Leinwand, and Cesare R. Mainardi, *Cut Costs, Grow Stronger* (Harvard Business Press, 2009): [http://www.strategy-business.com/ccgs\\_book](http://www.strategy-business.com/ccgs_book).

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