





# Private Wealth and Asset Management in the Middle East and the role of ADGM<sup>1</sup>

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The last decade has confirmed the region's position as a financial center, as well as, a trading hub connecting the West, East, developed and emerging worlds. The oil and gas financial boom has created several sovereign wealth funds and a vast amount of wealth for individuals and family groups.



The total wealth pool in the region today amounts to approximately US\$5.2 trillion and local Sovereign Wealth Funds (SWFs) together sum up to 50 percent of this wealth. The remaining wealth is split between other institutional investors such as local pension funds, as well as, mass affluent investors and Ultra High Net Worth Individual (UHNWI) investors in the non-professional segment. The increase in local wealth results from global capital markets growth, as well as, the strong growth of GDPs in the region. International along with local asset managers have recognized the importance of the region in terms of potential asset collection and have started to increase their local activities over the past decade. Strong interest and vast potential necessitated several countries in the region to take actions in order to capture this interest and support the growth of the private wealth and asset management sectors. United Arab Emirates is one of the countries that has taken a holistic approach and committed to putting the necessary regulation and infrastructure in place to have a prosperous private wealth and asset management industry.

Abu Dhabi as the capital city and heart of the United Arab Emirates and as a key success pillar of its development plan Abu Dhabi 2030 Economic Vision, has established the Abu Dhabi Global Market that will be a catalyst and enabler for the future prospects of its promising financial services sector in the UAE. Abu Dhabi Global Market (ADGM), like its neighboring counterparty Dubai International Financial Center

(DIFC), is a financial free zone established to promote the growth of the financial services sector in the Middle East, a wealth hub for the growing economies. ADGM's establishment demonstrates not only the Emirate's commitment to provide long-term partnership and collaboration with the sector locally and globally, but also its long-term strategy in promoting the region as a financial hub. As stressed by the Chairman of ADGM, Mr. Ahmed Al Sayegh, its initial focus will be on private banking and wealth and asset management, which is a core strength of Abu Dhabi, however, it will eventually incorporate the full spectrum of the financial services industry. This will further enhance and develop the positioning of ADGM to enable additional contribution to the global financial services network, international markets and related business networks.

Wealth and asset management in the Gulf Cooperation Council region (GCC), which is still in its infancy, has significant prospects in the future—yet it faces some specific challenges to achieve its potential. With oil prices at their lowest this decade and the financial services industry growing in size and sophistication, wealth and asset management is changing in the region—squeezing margins in some areas and opening up opportunities in others. Competition is heating up among banks, asset managers and asset service providers with a local presence, which will create the demand for free zones such as ADGM that will be offering operational and legislative advantages to help these players have a leaner and lower cost base.



Despite these challenges, certain opportunities will arise in the market. The recent opening of the Saudi Arabian stock market to foreign investors, the inclusion of the United Arab Emirates (UAE) in the Morgan Stanley Capital International (MSCI) Emerging Markets Index, and the launch of numerous local and international financial institutions will all drive growth in the entire wealth and asset management sector, including pensions and support services. Besides these, one of Dubai Islamic Economy Development Centre's strategic goals is to make Dubai a global reference and economic engine for Islamic Finance.

In the last decade, the asset management industry experienced significant growth of Shari'a compliant products. This growth has been across different asset classes including mutual funds, private equity and debt instruments (sukuk). Shari'a compliant products are projected to continue this trajectory of high growth over the coming years. This trend also resulted in an increase in the number of providers of Islamic funds, increased diversity of Shari'a compliant products and increase in the number of pure play Islamic asset managers, in addition, to investment managers voluntarily providing investment opportunities with Shari'a compliant structures. These have all collectively added to the significant growth of Islamic assets under management in the last few years.

As of now, sukuk that are listed on Dubai's two exchanges, Nasdaq Dubai and Dubai Financial Market, rose to US\$36.7 billion (Dh134.38 billion), according

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## Strong interest and vast potential necessitated several countries in the region to take actions in order to capture this interest and support the growth of the private wealth and asset management sectors

to Thomson Reuters data. Nasdaq Dubai accounts for the substantial chunk of US\$33 billion, while Dubai Financial Market accounts for US\$2.75 billion. This put UAE ahead of the world's three traditional sukuk centers: Malaysia with US\$26.6 billion listed on Bursa Malaysia and the Labuan free trade zone, the Irish Stock Exchange with US\$25.7 billion, and the London Stock Exchange with US\$25.1 billion. ADGM's role as a regulator and free zone will be critical in creating new Shari'a compliant assets and promoting the sustained growth of sukuk and other Islamic finance products in UAE. Institutional asset managers that are domiciled in ADGM, due to its proximity and access to the wider market participants in the region, have vast potential to attract the institutional investors, such as the Sovereign Wealth Funds and other regional Islamic Finance Institutes (IFI), which create the demand for Shari'a compliant products.

The first and foremost objective of ADGM is to offer a business-friendly environment with regulations and set rules aligned with international best practice standard-setting bodies. The key advantage for international financial sector players and foreign investors will be the ability to operate within a transparent legislation that offers higher certainty and familiarity, along with less risk compared with other jurisdictions in the region. Like the DIFC, ADGM will be a special free zone carved out of the UAE jurisdiction that will not be subject to UAE civil and commercial law. English common law will apply in and form part of the law governing in ADGM, established with appropriate measures in order to ensure that any unfavorable results of the common law may be overridden by ADGM.

One area of difference at ADGM will be the work environment, devised to attract the best global and local talent by offering a framework that is not only aligned with the global best practices but is also fair to both the employers and employees. Main employment-related topics that are different compared to existing employment practices in the free zone are regarding areas such as data protection and sick and maternity/paternity leave. Overall, the regulations set by ADGM will likely be perceived well by the businesses as they relay a strong welcoming message.

While the overall regulatory framework is adhering to international best practice standards, ADGM proved its commitment to international integration by signing a Memorandum of Understanding with the Luxembourg financial center, further developing its relationship with the wider industry and stakeholders. The government's actions demonstrate its commitment to creating the required organizational and administrative support, which promotes a network of collaborative relations. The efforts will connect various state and private institutions in the UAE with its partners and stakeholders abroad.

While the Islamic and conventional finance market's considerable growth potential in the region is known, innovation and technology will be crucial in supporting this growth going forward. FinTech enables growth opportunities for many sub-sectors, including payments, software, data analytics and platforms such as crowd-funding and mobile banking applications. Today the FinTech surge is starting to reshape the financial sector on a global scale with a flourish of new actors attracting significant attention from markets, customers, and investors. As mentioned by Sayegh during the six years between 2008 and 2014, globally the FinTech sector experienced a threefold increase in investments to US\$3 billion, which is expected to double by 2018 to US\$8 billion. The FinTech movement is also gaining momentum in the private wealth and asset management industries.

**Several driving forces can be identified:**

- Emerging new technologies: Blockchain, artificial intelligence, machine learning techniques, digital investment platforms, peer-to-peer (P2P) lending
- The new generation of investors desire more knowledge interactions with asset managers, an increased ability to compare their investments with peer groups, to invest in a socially responsible way, and are willing to use online investment platforms

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- Big Data and analytics make sense of data and can produce descriptive and predictive analytics on investor behaviors, performance measurement, market intelligence and risk metrics
- Regulation in the historical ecosystem is still evolving and regulation of the fast evolving FinTech solutions is uncertain
- “RegTech” emerges as a technology-based solution creating efficiency and automation in non-subjective compliance tasks

With these bright growth prospects ahead, one of ADGM’s objectives is to become a regional hub for the fast-growing financial technology industry. Currently there is no FinTech ecosystem in the surrounding region that could meet the demands of the financial community in the region and beyond. Tapping on this need for a deeply established FinTech sector, ADGM will be working closely with key industry players and stakeholders to explore and set up a sustainable FinTech environment to develop innovative solutions, products, and services. With this collaboration and assistance, Abu Dhabi would like to make financial markets and systems more efficient in order to promote growth opportunities and build on FinTech knowledge and expertise in local banks and financial institutions to capture the recent trends and risks emerging.

As a result, the establishment of ADGM sets the trend in the UAE and Middle East to develop an open market and an industry-clustering strategy. An increasingly open market, diversified economy, and political stability have all contributed to making the UAE an attractive option for foreign investors. ADGM with its structure as a business friendly set-up, international integration, technology focus, and vast potential in the region, will further boost the UAE’s position as one of the leading financial hubs in the world.

#### To the point:

- The oil & gas financial boom in the last decade has created several sovereign wealth funds and a vast amount of wealth for individuals and family groups in the Middle East Abu Dhabi has established the Abu Dhabi Global Market that will be a catalyst and enabler for the future prospects of its promising financial services sector in the UAE
- Competition is heating up among banks, asset managers, and asset service providers with a local presence, creating the demand for free zones that offer operational and legislative advantages
- The key advantage for international financial sector players and foreign investors will be the ability to operate within a transparent legislation, offering higher certainty and familiarity