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Digital Wealth Management in the GCC

Levelling the investment playing field between the rich and the not-so-rich

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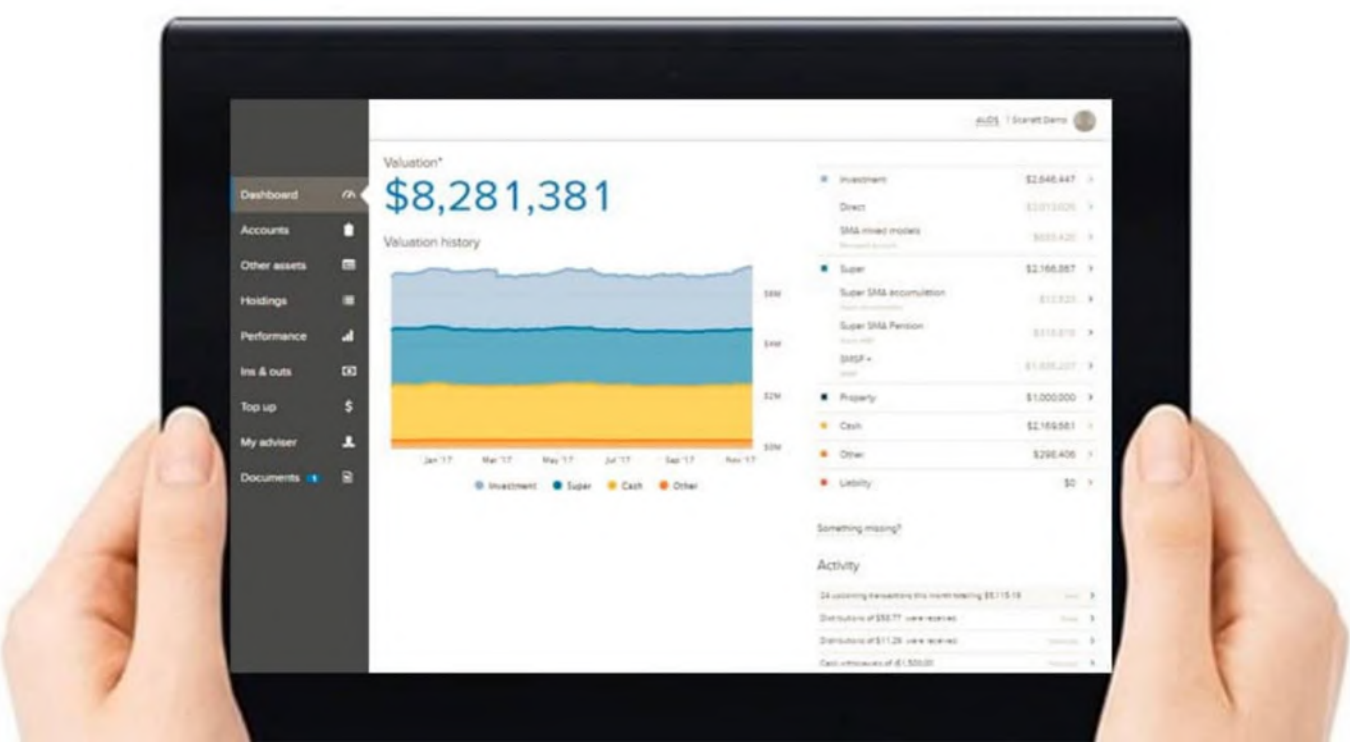
The rich in the GCC have not had any problems in getting international wealth managers to beat a path to their door to provide support and manage their money

A steady stream of private bankers willingly visits the region to help GCC high net worth ("HNW") individuals determine their investment goals, ascertain their risk appetite, use Nobel Prize winning research to reduce their risks through diversification and invest their funds in global financial markets on a discretionary basis - commonly known as discretionary wealth management - so that the rich can focus on their businesses while private bankers manage their wealth. For those among the rich who prefer to choose their own investments - the self-directed investors - an array of mutual funds managed by some of the largest global asset managers is made available through a telephone call. And all of this is offered at a cost that is broadly comparable to what the rich pay in any other part of the world....!

But what about the not-so-rich in the GCC? The circumstances feel very different if you are one of the mass affluent with an investment pot of a few thousand dollars or even if you are one of the more well-to-do with liquid investments of a couple of hundred thousand dollars. The GCC banking sector has very little to offer to link the savings pot of the mass affluent with the international asset managers in a user-friendly and cost-effective manner. For domestic banks the financial returns do not justify the provision of the full relationship manager service to mass affluent investors - the cost of acquiring and servicing customers in this segment of the banking market far exceeds the potential fee revenue that could arise from managing these smaller sums compared to the millions invested by HNW individuals.



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While more sophisticated economies have an established network of 'independent financial advisors' to service the investment needs of the more well-to-do among the mass affluent investors, this type of financial intermediation is very much at an early stage in the GCC region. In addition, there are serious concerns about the excessive and non-transparent fees charged by these new entrants. Even for the self-directed mass affluent investors, the choice of international mutual funds offered is limited with the funds often managed by the bank's internal team instead of global asset managers, the experience in finding a suitable fund to invest in is inconvenient and time consuming, and the cost is well above what mass affluent investors pay in international jurisdictions.

In the above context, FinTech has the potential to change the situation dramatically. FinTech is fundamentally reshaping the financial system globally and the advent of digital wealth management has already begun to level the investment playing field between the rich and the not-so-rich in the wider world and is now about to do the same in the GCC region. For the first time, digital wealth management in the form of 'robo-advise' will offer the not-so-rich online access to discretionary wealth management so that their funds could be invested in light of their investment objectives while reflecting the specific risk appetite of each investor and benefiting from the use of Nobel Prize winning research to reduce risk through diversification.

Given the above, it is not a surprise that the Financial Conduct Authority in the UK stated: "We see automated advice as a valuable vehicle to help tackle the issues faced by those consumers who are unserved or underserved by more traditional advice models, as well as promoting competition in the UK financial advice market."

Similarly, digital wealth management in the form of 'investment supermarket platforms', will allow the not-so-rich self-directed investors access to mutual funds managed by some of the most reputable international asset management firms. All of this will be available at a cost broadly similar to those paid by the rich in the GCC region for such services and accessible through tapping the keys of the laptop or the use of an app on a mobile phone. Both robo-advise and investment supermarket platforms will be as easy to use as online banking - a service regularly used by the mass affluent individuals in the GCC region.

The real challenge facing the GCC financial sector is to introduce digital wealth management in a manner that can spur its mass adoption and allow the GCC financial sector to generate adequate fee income to cover the capital and on-going operational costs of this transformational initiative. One could argue that there is a strong case for looking at the potential benefits of setting up a pan-industry initiative for digital wealth management somewhat similar to Visa international that made it possible for banks, large and small, to launch credit card services for the masses and spurred its speedy adoption. I am convinced that it is time for the GCC region to act and join other developed markets in using digital wealth management to reach a much wider personal investor community.

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Falcon Capital Group Limited recently announced its decision to take a 20% stake in GWM, a UK-based digital wealth management initiative focused on the GCC region.