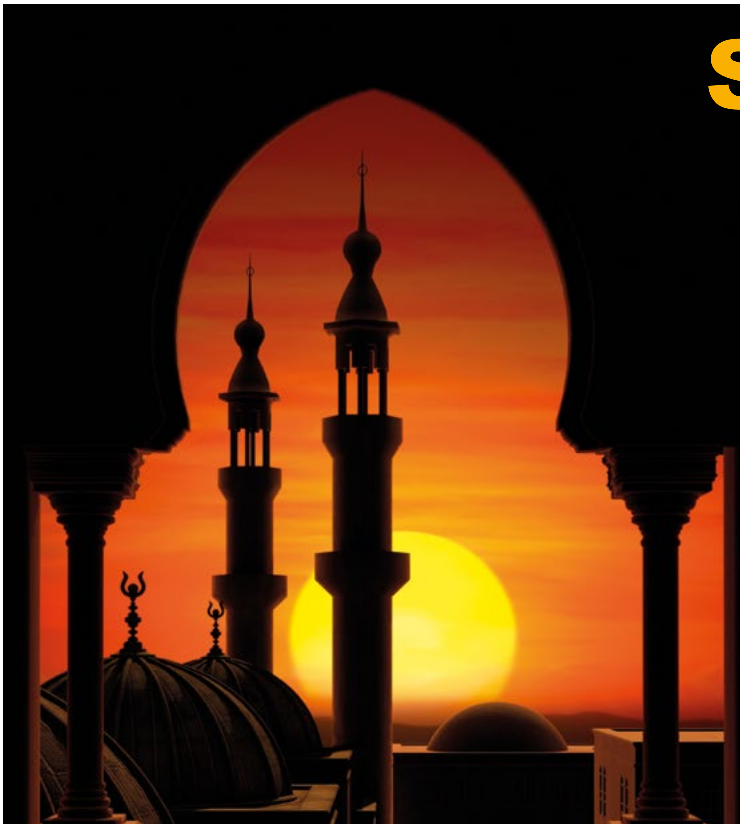

SUCCESSION PLANNING FOR MIDDLE EASTERN FAMILIES

SOLUTIONS THAT ARE FIT FOR A KING

In this article Angela reflects on what is a significant period of accelerated growth for Middle Eastern private clients and how business-critical it is for us, as advisors, to adapt or die.

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Legal change

When we used to discuss acting for Middle Eastern clients, we would often talk about 'the education piece' – meeting the family five to ten times to talk about the nature of trusts and the concept and benefits of separating legal and beneficial ownership.

Many of those conversations would be with the patriarch of the family and his gatekeeper and, all too often, those conversations would never materialise into a structure as (a) it was too soon – everyone was very much alive and well; (b) the trust concept was simply too alien; (c) there was suspicion around offshore in general; and (d) the benefits of succession planning did not feel material.

Wind on a few years and we have seen the death of a significant number of these patriarchs where structuring did not get over the line. The fallout has been incredible.

We have seen shares in the family business passing, often very slowly, by Shariah to numerous heirs – many of whom have no knowledge of (or desire to become involved in) the family business. This has resulted in fragmented boards, businesses becoming hamstrung during the inheritance process and ultimately business failure in many cases.

Other areas of fallout from the failure to structure and succession plan have included loss to trophy assets – we have seen large family villas passing by Sharia to 40 - 50 third-generation heirs – too many stakeholders to come to a coherent decision as to renovation or sale so these sizeable assets simply fall into disrepair and neglect.

We have also seen this fragmentation of business and other assets causing friction in the family and disharmony which could have been avoided had the family been brought into the succession plan and enfranchised earlier – for example by way of a Family Constitution.

In addition to this we have seen the consequences of failing to tax plan effectively (or at all), resulting in the erosion of family wealth overall.

With the pain of the failure to plan fresh in the minds of a lot of families, our conversations are now much more dynamic and purposeful. We are no longer regarded as a speculative salesforce selling untested wares; we are part of the much-needed solution.

Pursuant to this, our toolkit has expanded exponentially. As well as having traditional offshore structures for global wealth, we now have local Gulf Cooperation Council (GCC) trusts and foundations, thus finally being able to take a truly holistic approach to wealth planning for regional assets as we can now even bring in local GCC real estate which previously was relegated to the 'too difficult' box.

We have seen a resurgence in the popularity of Family Charters/Family Constitutions which all front-line heirs sign contribute to and sign. These have become hugely bespoke and interesting documents in recent years. Of particular interest are areas such as avoiding nepotism in the family business – the rigour around the interview process and qualification for roles in the family enterprise.

There is a huge amount of change in the services that we are able to offer and the demand for those services.

It is absolutely critical for offshore and UK advisors alike to have at least a baseline level of familiarity with GCC structures and when and how to deploy them in order to deliver the very best of breed for the client. We cannot simply stay in lane without keeping pace with the legal developments in the clients' own territories or we will be left on the side lines.

Cultural change

Evolution in succession planning for Middle Eastern families isn't just limited to legal change. We have seen a huge shift in the region in terms of cultural change and that has also impacted professional advisors and their ability to deliver services.

This is, perhaps, most apparent in Saudi Arabia.

Saudi clients have structured wealth offshore for many years now but professional advisors would often meet them at the family office in London, Dubai or Bahrain rather than travelling into Saudi itself – particularly if a female advisor.

This has changed dramatically in the last couple of years with Western advisors tripping into Saudi to see clients at home. This has, in large part, been possible due to Saudi Vision 2030.

Vision 2030 sets out the Crown Prince Mohammed bin Salman (MbS)'s flagship development plan for diversifying and improving the jurisdiction's competitiveness globally – particularly diversification into non-oil revenue. This is built around three main themes or pillars: a vibrant society, thriving economy and ambitious nation.

The vision was set out in 2016 so we are now halfway through its lifecycle and a huge amount of progress has already been made.

A core part of the vision is to increase the participation rate of women in the workforce, the targets for which have been exceeded.

There is also a key focus in building out Saudi's non-oil economy which is positive for those providing professional services.

We are seeing service providers not only visiting the region but actually opening offices there to be closer to clients.

The focus on having a 'vibrant society' has also meant that Saudi is no longer perceived as a hardship posting with the leisure and hospitality sectors booming.

Setting the right pace

Great care must, however, be taken and this cannot be stressed strongly enough.

Although the changes in the region are bold and fast-paced, we as Western advisors still need to be very mindful and respectful of the deep-rooted history and traditions of the region. It is not appropriate for us to talk about the region 'opening up' or 'liberalising' as the region's deep roots remain fundamentally unchanged. We must always take our cue from the client and continue at their pace and in line with their values in order to deliver solutions that are truly fit for a king.