FINANCIAL SERVICES INDUSTRY GROUP

The rise of family-owned businesses in the Middle East: Diversifying into financial services

As their core businesses mature, family offices in the Middle East are broadening their ambitions and expanding the scope of their activities into the financial services industry.

The Middle East is booming, exemplified by the growing confidence of wealthy families in the region. According to Knight Frank, wealthy families in the Middle East rank as the most confident globally, with a score of 4.41 compared to a worldwide average[1] of 3.86. This has also resulted in an influx of ultra-high net worth individuals (UHNWI) into the region, growing 6.2% year-on-year to 18,790, the second biggest jump globally after the United States. By 2028, it predicts their number will increase by a further 28.3%.

The evolution of family offices in the Middle East

This burgeoning wealth has prompted many families to establish family offices — private wealth management entities dedicated to preserving and growing their fortunes across generations. Family offices go beyond mere investment management, offering a comprehensive suite of services tailored to the unique needs of each family. These may include services such as:

1 https://www.knightfrank.com/wealthreport

By combining these functions, family offices are streamlining wealth preservation, enabling families to focus on core businesses and personal goals.

However, as the region's family offices grow and mature, there is a need for them to transform, for which the motivating factors are the same as they have ever been for first or second generation business owners the world over.

These are, firstly, a desire to broaden beyond the industry that made the family successful in the first place and, secondly, to secure a financial legacy for the generations that follow. The two are entwined since diversification ensures that future generations are not overly exposed to concentration risk from the original business as market circumstances change.

This transition typically occurs when the original business starts to mature and the founders or their heirs begin to focus on longer-term succession planning, bringing in professional managers and/or raising capital by either selling an equity stake or going public. The release of this financial firepower enables family members to put their vision and expertise to good use in the development of new ventures that can establish a more optimal risk/reward balance for their assets over the long-term.

A promising and lucrative industry for family offices to consider is financial services. Once an industry that was capital intensive and known for stringent regulations, it is now more accessible through a range of business models, and supported by governments in the region through the establishment of dedicated hubs such as the Dubai International Financial Center (DIFC), Abu Dhabi Global Market (ADGM), Qatar Financial Center (QFC) and more broadly the King Abdullah Financial District in Saudi Arabia.

Why financial services?

Moving into financial services helps business owners achieve a number of objectives ranging from wealth creation to boosting investment returns. In other regions, many have taken their first steps by setting up family offices and investing their assets under management (AUM) through financial intermediaries such as hedge funds and private equity funds.

However, the Middle East is following the more recent global trend towards direct investments in start-ups, either at the seed or growth stage, or setting up their own financial service business. The appeal of this approach is amplified by the sweeping wave of digitalization transforming the financial landscape. New technologies such as AI, machine learning, and data analytics are not just buzzwords but powerful tools that are transforming the customer experience and reshaping how financial services are conceived, delivered, and used.

The younger generations, often inheriting the reins of family offices, are digital natives, fluent in these technologies and eager to harness their potential. They recognize that AI can enable hyper-personalized financial advice, automate routine tasks, and uncover investment insights from vast datasets – capabilities that traditional models struggle to match. By directly integrating financial services, family offices can not only capture synergies, radically improve performance, and realize operational efficiencies, but also position themselves at the forefront of this digital revolution, leveraging these cutting-edge tools to develop sophisticated, tailored financial offerings that enhance customer loyalty, engagement, and attract a new generation of clientele.

How to enter financial services

However, making the choice about which area of the financial services industry to enter can be a daunting one. Getting the strategy right boils down to four key factors:

Market dynamics: this is critical and encompasses consumer behavior, the competitive landscape and regulatory trends. Strategic objectives must be aligned with evolving market dynamics in order to succeed.

Synergies with existing businesses: Identifying what to leverage within the family's current businesses provides a platform to develop complementary products.

Scalability: It is often easier to kickstart the process with niche offerings that fit into a broader strategic roadmap, and which can then be ramped up over time after proving their revenue-generating abilities.

Ease of entry: Non-bank financial services require less capital and simpler licensing, making them appealing to newcomers.

What we find is that while most family-owned businesses understand the need to develop a comprehensive business plan to pinpoint the optimal entry point, they often struggle with collecting and analyzing the right information. This hinders ideas from taking flight or reaching their full potential.

In essence, there are two approaches to resolving this:

Greenfield

This involves starting from scratch, building a new financial service offering from the ground-up, often utilizing technology vendors for key infrastructure and services. There are clearly a lot of advantages in this strategy if it is designed and executed correctly, ideally with suitable strategic and/or technical partners. It facilitates full control, customization and the freedom to innovate.

Brownfield

This involves entering the financial services sector through acquisitions, joint ventures or partnerships with existing entities. The advantages are accelerated market entry and a reduction in initial risk. This represents a good first step in addressing certain objectives.

Family offices are seizing these opportunities

Within the Middle East, there are a number of pioneering family-owned businesses which have diversified into financial services.

Gargash Group

Gargash Group[2], one of the UAE's biggest privately-owned business groups, is an example of a conglomerate that has reaped the benefits of diversification through establishing and acquiring stand-alone financial services operations. Having made its name as a trading house and distributor of global automotive brands, the family founded Daman[3] Investments in 1998 to provide asset management, securities brokerage and wealth management. They then established Gargash Auto Leasing, called Purple[4], to boost sales of their own automotive brands. The venture proved so successful that they expanded it to offer car leasing services for other brands as well. Then in 2021, the family purchased digitally-led Deem Finance[5] to expand into personal loans, credit cards and wholesale deposits.

Zahid Group

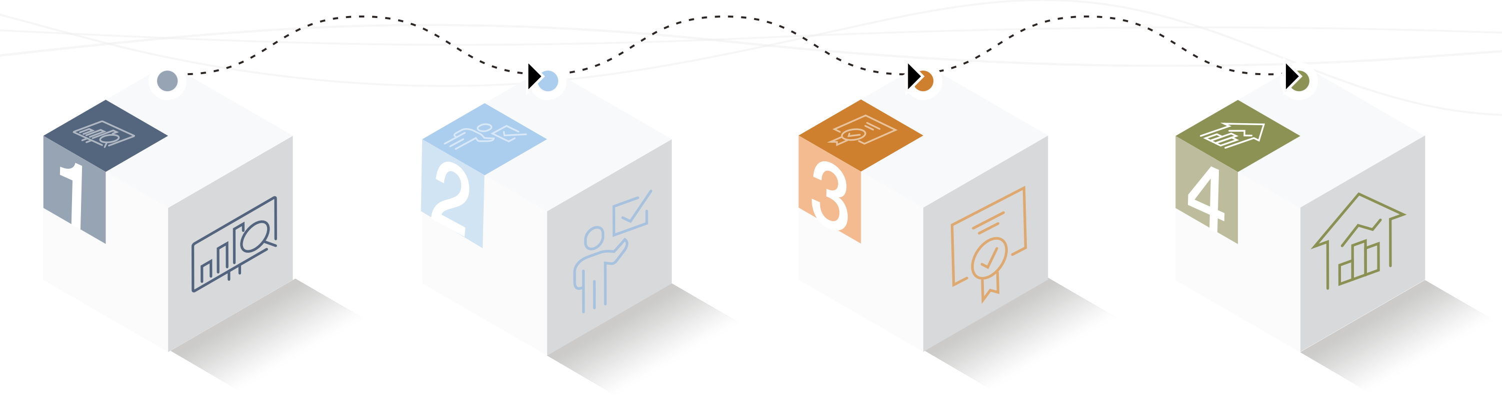
Across in Saudi Arabia, Zahid Group is a prime case study of a company that has used financial services to complement an existing business. It was founded in 1943 to represent General Motors in the Kingdom and, in 1996, established a financial leasing arm, which has evolved to form partnerships with Riyad Bank and Mitsubishi UFJ Lease & Finance Company, among others.[6] Today, it has its own ATM machines too.[7]

Aspiring entrants into the financial services sector must embark on a journey marked by meticulous planning and strategic foresight:

- The first crucial step is a thorough introspection to determine the kind of financial service that best aligns with the family office's existing strengths, long-term ambitions, and the needs of its target clientele. This involves careful consideration of the specific financial service offering, the preferred business model, and the associated licensing requirements.
- Once the strategic direction is clear, the next phase involves crafting a robust business plan that articulates the vision, mission, and objectives of the financial services venture. This plan should encompass detailed business and operating models, outlining the target market, competitive landscape, revenue projections, risk management strategies, and compliance frameworks.
- Armed with this comprehensive business plan and supporting documentation, the family office can then initiate the formal application process with the relevant regulatory authorities. It is at this juncture that maintaining a continuous and transparent dialogue with the regulator becomes paramount. A cordial and cooperative relationship fosters trust and understanding, which can significantly expedite the approval process.

By adhering to this systematic approach, family offices can enhance their chances of success in navigating the complex regulatory landscape and establishing a thriving presence in the financial services arena.

A **four-phased** approach for designing, implementing and launching a specialized bank



Phase 1

Assessment stage:
Assess current situation & align on way forward

Phase 2

Pre-approval stage:
Develop and submit business plan

Phase 3

Post preliminary approval:
Implement and setup financial services entity

Phase 4

Post final approval:
Launch and stabilize business

2 https://www.gargash-group.com/about
3 https://daman.ae/board-of-directors/#:~:text=the%20Gargash%20Group.-,Mr.,United%20Arab%20Emirates%20since%201998.
4 https://www.purplepreowned.ae/about-us/
5 https://www.zawya.com/en/business/uaesgargash-group-acquires-deem-finance-mnv60x0y
6 https://www.zahid.com/about/
7 https://www.zahid.com/businesses/financial-services/

Diversifying into financial services is still at a nascent stage for many family-owned businesses across the Middle East. Some of the bigger groups have been successful for several decades. Many more are now entering the fray, aided by the region's strong growth and digital transformation, which lowers the barriers to entry. The rewards will flow to those that get their strategy right.

How A&M can help

Alvarez & Marsal (A&M) has deep financial services expertise needed to help family offices diversify into the financial services sector. Given our extensive experience, we can assist family offices in understanding their requirements and identifying their value proposition, followed by building a bespoke operating model and go to market plan.

If you would like to learn more about our expertise in this sector, please reach out to us using the contact details below.

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