

A \$1 Trillion Opportunity for the GCC Financial Sector

Challenges in introducing digital wealth management

Digital wealth management (“DWM”) - either in the form of an automated portfolio management platform, commonly referred to as ‘robo-advisory’, or a funds supermarket platform - is familiar to most financial firms in the GCC. The GCC financial sector is aware of the under-served mass affluent segment for wealth management services and the many benefits the introduction of DWM can bring to these customers.

The issue is not a lack of awareness or access to the relevant technology solutions - the challenge is one of economic viability. While the customer benefits of DWM are self-evident, its market launch needs to make economic sense. In this context, there are many factors that make DWM a less than economically viable proposition when looked at from the vantage point of an individual financial sector firm in the GCC.

The biggest hurdle is the fragmentation in the GCC banking sector. For instance, the top 5 banks in the UK hold 87% of the total banking deposits. In comparison, the top 5 banks in the GCC region hold 27% of the region’s banking deposits. The impact is that the total potential revenue pool for DWM services for the mass affluent segment is too small for most banks, let alone relatively smaller insurance and brokerage firms in the GCC region.

Against this small revenue pool, any one bank has to be brave to incur the significant costs needed to launch a DWM service for its limited affluent customer base. The costs to cover in order to be viable are first, an upfront capital expenditure to set up the technology infrastructure, second, an even bigger expenditure on customer conversion campaigns over the first 3 - 5 years and, lastly, other fixed and variable costs for obtaining and maintaining regulatory approvals for DWM and provision of these services.

Given the above, it is no surprise that for most GCC banks, insurance and brokerage firms the financial case for launching DWM business does not “stack up” and therefore never happens. In addition, small and medium size GCC banks, insurance and brokerage firms will have difficulties in convincing international asset managers to provide funds and portfolio management services given their preference for dealing with a very limited number of leading financial sector firms in each country.

So, where do we go from here!

While the economic viability of DWM initiative is decidedly shaky when looked at from the vantage point of an individual financial firm, the same is not true when looked at an aggregate GCC financial sector level.

At an aggregate level, the liquid investible assets of the mass affluent segment are projected to reach \$1 trillion in the GCC by 2022. If we assume that DWM could potentially get 10% share-of-the-wallet, it could create a new annual fee revenue pool of \$1.5 billion

for the GCC financial sector.

If addressed at an aggregate level, the capital expenditure on a technology platform and customer conversion campaigns can cost a fraction of what it would cost if each individual bank did it alone. Similarly, there is significant potential to reduce the on-going fixed and variable costs of providing DWM services to clients through economies of scale. At an aggregate GCC financial sector level, the economic viability of the DWM initiative starts to look very attractive.

With such an exciting opportunity, it is quite realistic to think of building an industry-wide, interoperable DWM platform that is available to any GCC bank, insurance or brokerage firm to offer a standardised set of wealth management services to its mass affluent customers. It is not a pipe dream to think that such an interoperable platform access could be made available, ready for DWM service launch for any financial firm without the need for complex and time-consuming integration with that firm's technology framework.

The GCC banking sector is already using such an interoperable platform for credit cards. The largest as well as the smallest GCC banks are able to offer identical credit card services using Visa and MasterCard interoperable platforms without the need for any complex systems integration projects. The same can be done for DWM through the launch of a pan-industry, regional initiative in the GCC.

With different regulatory requirements in various GCC states and a highly fragmented financial sector requiring a lengthy effort to gain a broad consensus and active participation from banks, insurance and brokerage firms, the goal of setting up a regional interoperable DWM platform is challenging and rewarding at the same time. The rich rewards are evident from multiple perspectives: a new and profitable line-of-business for financial firms; mass affluent customers achieve a levelling of the investment playing field between the rich and not so rich, significantly enhanced buying experience and lower costs; and lastly, it helps in the development of a transparent, modernised wealth management sector, greater involvement of international asset managers and a more sophisticated GCC financial sector - all cherished goals of financial regulators in the region.

It is indeed a \$1 trillion opportunity for the GCC financial sector!

Nadeem Mujtaba is the CEO of Gulf Wealth Management Limited ("GWM"). 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. Nadeem can be contacted at nmujtaba@gwmholdings.co.uk.

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