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\$60 oil a bonanza for private bankers, Islamic sector included

By Otto Pohl International Herald Tribune
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Private bankers are giddy with excitement - to the degree that private bankers ever are - as they vie for the business of the newly rich and the newly richer resulting from \$60 oil. "We're seeing a growth situation in the Middle East that's a once-in-a-lifetime opportunity," said Mark Morgan, chief officer of Citigroup Global Wealth Management for the Middle East, based in Dubai.

Morgan compares the current wealth accumulation in the Gulf region to the epic fortunes created by the industrial revolution in Britain and America a century ago. "This is when the dynasties of the next 50 and 100 years are being created," he said by telephone.

Oil wealth has long sought out the services of private bankers in discreet financial centers like Geneva, Luxembourg, and London. Now, the private bankers are coming to their customers.

Despite rules that effectively bar them from participating in the region's booming stock and real estate markets, banks including Citibank, ABN AMRO, and Barclays have recently founded or expanded their private banking offerings across the Gulf region.

Dubai is experiencing the greatest influx, while the established banking center in Bahrain, and rapidly internationalizing centers in Qatar and Kuwait, are also eagerly courting banks.

Although still in its infancy, the Islamic banking sector, governed by Shariah law, has also gained from the wealth explosion.

Wealth accumulation has taken on a new intensity worldwide, wealth management reports say. But oil has pushed the Gulf region to the forefront of private banking growth. ABN AMRO has reported 50 percent revenue growth for the last three years from its private banking Gulf division, and profit growth has been even higher, said Gilles Rollet, ABN AMRO's chief executive for private banking in the Middle East.

According to the latest world wealth report by Merrill Lynch and Capgemini, millionaires in the Gulf region controlled \$1 trillion in 2004, up by nearly 30 percent from 2003.

Morgan, of Citigroup, who set up the bank's first private banking office in the region only 18 months ago, is now planning its fourth office there, in Kuwait, after opening in Dubai, Abu Dhabi and Bahrain. Fortis, Julius Baer, and Standard Chartered are all also actively expanding in the region, while LGT Bank, the private bank of the ruling family of Liechtenstein, plans to open an office in Bahrain by the end of this year.

"We've found that wealthy people the world over look the world over," Morgan said. "The best opportunities are now on their doorsteps."

The wealth pool is also spilling over into the bank accounts of a growing number of foreigners living in the region. Ashburton, a South-African-owned offshore financial management company based in the British island tax haven of Jersey, plans to open an

office in Dubai early next year to serve expatriates living there, its managing director, Trevor Falle, said.

"The Middle East has always been a happy hunting ground from an offshore point of view," Falle said. His research indicates that it is becoming even happier; tens of thousands of British and South African citizens have flocked to the region to take often high-paying jobs.

The region's stock and real estate markets have absorbed - and created - much of the wealth. Gulf stock market indices have been among the world's best performers this year, while real estate price gains have made more established markets like London seem tame.

Recent market action has underscored the region's remarkable financial liquidity. In May, a \$135 million initial offering of Aabar Petroleum Investments on the Abu Dhabi stock exchange was oversubscribed more than 800 times.

In this exuberant climate, wealth managers are trying to remind investors of the importance of diversification. A return of "6 to 10 percent doesn't exactly get them excited," Rollet, of ABN AMRO, said. Some of the bank's most popular offerings include high yield fixed-income investments in Pakistan and India, as well as private equity funds with investments in China and Japan. Citigroup has found success with venture capital funds concentrated in China, India, and Eastern Europe.

As Dubai's financial center has grown, banks have moved into smaller regional hubs. A loosening of restrictions for foreign banks in Kuwait has prompted HSBC and BNP Paribas to plan to expand there, in addition to Citigroup. Qatar inaugurated a financial center in May and is now accepting license applications. The first bank to receive a license there was Ansbacher, a British wealth management group that became a wholly owned subsidiary of Qatar National Bank last year.

Meanwhile, the region's original banking capital, Bahrain, is increasingly focusing on Islamic banking. Bahrain has 28 registered Islamic financial institutions, a number that is expected to grow quickly, said Andrew Jeffreys, editor in chief for emerging markets reports published by Oxford Business Group, a consultancy firm.

Investors complying with Shariah law outlined in the Koran avoid interest-bearing investments, and companies involved in banned activities, including gambling, and alcohol.

To help serve this market, estimated to be growing by about 15 percent annually, Dow Jones is expanding the number of its Islamic indices around the world from the current 44.

The company added conventional indices in Kuwait and Bahrain this year, with an eye to building experience in the region in preparation for launching Islamic indices, said Lars Hamich, the managing director of STOXX, the unit that handles Dow Jones's index business in Asia, Europe and the Middle East.

Tracking Shariah-compliant investments is not only interesting for Islamic investors, Hamich said, since those investments have often outperformed competing investments in recent years.

"The branding, the name, is sometimes a challenge," Hamich said. But compliance with Shariah debt requirements has helped Islamic-style investors to avoid financial land mines, like Enron and Global Crossing.

Bankers say the trends that are attracting them to the Gulf will continue for the foreseeable future. The Institute of International Finance recently predicted that the countries that make up the Gulf Cooperation Council - Saudi Arabia, the United Arab Emirates, Kuwait, Qatar, Bahrain, and Oman - will earn more than \$300 billion in revenues in 2006, or about three times the average for the previous decade.

Even for Rollet, of ABN AMRO, living in Dubai, the continuing flow of money and the rise of the stock markets still amazes. "It continues to surprise me every morning when I turn on the radio in the car," he said.

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