COLLAS CRILL

The great wealth transfer and the rise of offshore structures for Saudi families

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Introduction

The concept of wealth transfer is reshaping the global financial landscape, particularly in the Middle East, where a unique confluence of factors has led to a pronounced shift in the way that wealth is managed.

As younger generations inherit significant wealth, the dynamics of financial stewardship are evolving, prompting an increased demand for offshore structures – particularly trusts. This article delves into the nuances of this wealth transfer phenomenon, particularly in Saudi Arabia, and examines how offshore trusts are becoming pivotal tools for preserving and managing this wealth.

The great wealth transfer

The great wealth transfer refers to the shift of assets from the older generation to their heirs. It is estimated that trillions will be passed down over the coming decades, a phenomenon that is not just limited to the West but is increasingly relevant in the Middle East. In Saudi Arabia, where vast oil revenues have created immense wealth, a significant portion of this wealth is starting to transition to the next generation.

This generational shift is not merely about the movement of financial assets. It encompasses a transformation in values, investment philosophies and approaches to wealth management. Younger generations tend to prioritise sustainability, technology and social impact, contrasting with the more traditional investment strategies of their forebears. As they take the reins, they are also more inclined to seek innovative solutions to safeguard their wealth, leading to a burgeoning interest in offshore trusts.

A surprising spectrum of sophistication

Until very recently it has been relatively difficult to enter Saudi Arabia as an offshore professional adviser without a direct invitation. As such, the discussions that we have had with Saudi clients historically have been with those with an existing international reach, such as a family office in London or existing offshore bank accounts and trust structures.

However, on travelling directly into Riyadh and Jeddah in recent years it is apparent that there are many, many families with substantial wealth who co-own the family business with nothing more than a shareholder's agreement and a bank account to receive dividends. The continuation of these family businesses is at risk

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without offshore trust structures for succession planning; if shareholdings remain personally held and shareholders die, the recipients under local inheritance laws can step in and unintentionally fragment the running of the family enterprise potentially leading to business failure.

There is huge opportunity for us as international advisers to help these families and the more of us who can travel to the region and spread the same positive message about offshore structures, the more reassured these families will be.

The appeal of offshore trusts

Offshore trusts offer numerous benefits such as asset protection, tax efficiency and privacy. For affluent individuals in Saudi Arabia, the appeal of offshore trusts is multifaceted:

1. **Asset protection:** Political stability is a key concern for wealthy individuals in the Middle East. Offshore trusts provide a layer of protection against local legal challenges, creditors and potential expropriation. Jurisdictions such as the Channel Islands also have the benefit of robust firewall provisions.

2. **Tax efficiency:** While it is not tax often a primary driver for Middle Eastern clients, offshore trusts can provide tax benefits in certain circumstances, allowing for more effective wealth management strategies.

3. **Succession planning:** The cultural emphasis on family and lineage in the Middle East makes succession planning particularly significant. Offshore trusts allow for a structured approach to transferring wealth across generations, ensuring that assets are distributed according to the settlor's wishes. This is especially pertinent in Saudi Arabia, where traditional inheritance laws may complicate matters for families with substantial wealth and a more flexible approach may better suit the family.

4. **Privacy and confidentiality:** Privacy is a paramount concern for many wealthy individuals, particularly in the Middle East, where social standing and reputation are closely linked to financial status. Offshore trusts offer a level of confidentiality, allowing individuals to manage their wealth discreetly.

Regulatory changes and trends

Confidentiality and client safety must also, of course, be balanced with global regulatory changes and the drive by governments towards increased transparency to combat financial crime.

In response, many offshore jurisdictions – including the Channel Islands - are adapting by enhancing their regulatory frameworks to attract clients and structures comfortable with appropriate reporting and sharing of information.

The advantage for clients in setting up their structures in white listed jurisdictions, such as the Channel Islands, are many but ease of doing business – particularly getting the structure banked and able to transact -

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is clearly one.

The future of wealth management in the Middle East

As the great wealth transfer continues, the landscape of wealth management in the Middle East is set to undergo significant transformation. The younger generation, more tech-savvy and globally minded, will likely leverage advancements in fintech to manage their wealth. Digital platforms for setting up and managing structures are also emerging and evolving.

Moreover, the emphasis on sustainability and social responsibility is driving investment strategies. As young inheritors take control, we are witnessing a shift towards impact investing, where financial returns are aligned with social and environmental goals.

In Saudi Arabia, Vision 2030—a strategic framework aimed at diversifying the economy away from oil revenues—will also influence wealth management trends. As the country seeks to attract foreign investment and develop its private sector, the financial ecosystem is rapidly evolving, incorporating innovative solutions that cater to both local and international investors.

Conclusion

The great wealth transfer in the Middle East, particularly in Saudi Arabia, is not just a financial phenomenon but a cultural shift. The rising demand for offshore trusts reflects a growing recognition of the need for sophisticated asset management strategies that prioritise asset protection, efficiency, and privacy.

As the younger generation navigates this transition, the role of professional advisers is becoming increasingly crucial, guiding clients through the complexities of wealth management in an ever-evolving global landscape.

The future promises not just challenges but also opportunities for innovative solutions that align with the values and aspirations of a new generation of wealth holders.

This article by Angela Calnan was first published in issue 17 of ThoughtLeader4's Private Client magazine. Click here to read the full publication.

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