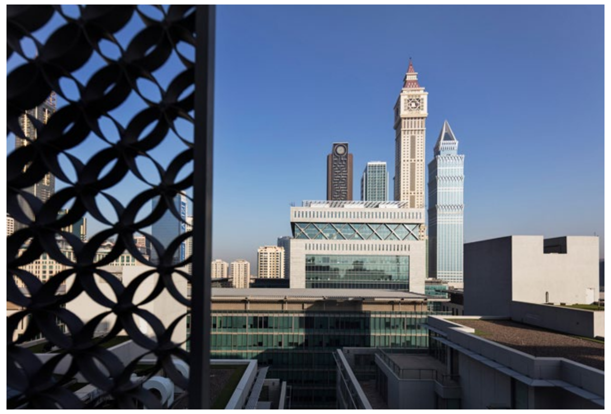
DUBAI: OPPORTUNITIES ABOUND AT THE CROSSROADS OF THE WORLD

Dubai International Financial Centre

Dubai International Financial Centre offers financial firms access to the fast-growing markets of the Middle East, Africa and South Asia.

Dubai straddles three diverse and dynamic regions—the Middle East, Africa and South Asia (MEASA). With a combined population of over 3bn, this US$7.4trn market hosts many of the world's fastest-growing economies, offering diverse opportunities for investors in everything from consumer goods to infrastructure, financial services and real estate.[1,2]



Dubai is a preferred base from which businesses can access these markets and expand their MEASA footprint. Infrastructure is strong, with a reliable power supply and traffic network, along with plentiful domestic and international transport links. A developed financial sector, essential for enabling commerce, combines with a sought-after broader business environment, including attractive regulations. And the general "liveability" setting—with competitive schools, a secure and safe environment and access to good health services—attracts the best and brightest talent and skills.

The emirate continues successfully to "position itself as a bridge between East and West, and between South Asia and Africa", according to Kirit Chauhan, market head for the Middle East, Asian Sub-Continent and Africa at Bank of Singapore. "Dubai is a safe haven with excellent connectivity to all parts of the world, a place where talent congregates and converges, and an open and diverse cultural hub that welcomes people from all over the world." Its benefits are especially key to the financial sector, a growing and important part of Dubai's diversifying economy.

Dubai's diversification drive: building a financial hub

Dubai is one of the most economically diversified members of the Middle East region, with real estate, tourism, leisure, retail, financial services, media and manufacturing all increasing their contribution to economic growth. A 2015 diversification benchmarking analysis by consultancy EY, which tracked the percentage of GDP from non-natural resources, the complexity of the economy and the importance of the private sector, scored the UAE top in the Gulf Co-operation Council (GCC) region, and equivalent to Brazil and Canada.[3]

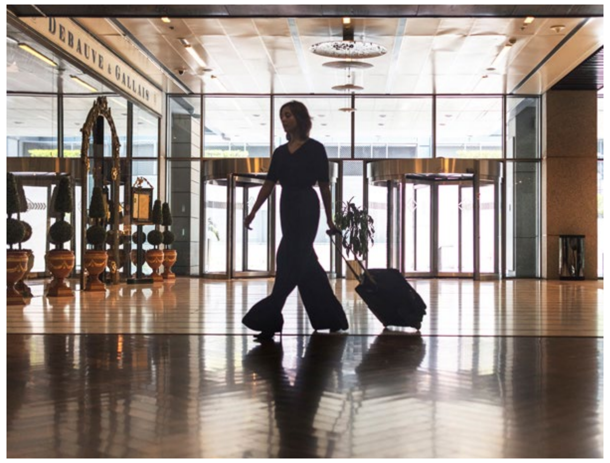
The financial sector has been critical to this transition. From the UAE's formation in the 1970s until the mid-2000s Dubai's financial sector consisted mostly of regional banks and the local offices of international banks. Since the mid-2000s the financial community has expanded significantly, attracting more alternative, frontier and innovative players, including hedge funds, venture capital, private equity and fintech, serving both the Gulf and the broader MEASA region.

Formed in 2004, Dubai International Financial Centre (DIFC) has been at the heart of this growth.[4] A financial hub, its business-friendly regulations and world-class infrastructure provide a platform for financial services firms to build their MEASA footprint. Since its inception, DIFC has seen solid growth in member numbers and diversity. The nominal GDP of DIFC entities grew from US$1.8bn in 2007 to US$3.1bn in 2011, while the number of registered entities increased by 62% from 505 to 817.[5] Member numbers grew by 14% between 2015 and 2016, by which point emerging-market financial players outnumbered firms from the traditional financial centres of Europe and the US.[6] Other growth landmarks include the issuance in 2013 of US$6bn in Islamic bonds (sukuk) on NASDAQ Dubai, the exchange within DIFC.[7] Today, DIFC hosts well-known multinational banks such as HSBC and Standard Chartered, insurance companies such as Lloyd's of London, and private-equity and asset-management players such as global investment group Abraaj, whose investments range from Kenyan coffee to health technology in Pakistan.[8]

"Success stories like Abraaj were created in this part of the world and then started to deploy money here," says Salmaan Jaffery, chief business development officer, DIFC Authority. "Dubai is therefore not just a hosting location for businesses to offer local services, but a catalyst which is stimulating much-needed risk capital to help the region grow."

Competing on the global stage

Competition to attract financial services firms is of course strong. From the established markets of London, New York, Hong Kong and Frankfurt through to rising centres such as Dubai, Kuala Lumpur and Singapore, many locations are competing for the trillions of dollars that move through the international financial system. To excel, each needs to focus on its niche.



DIFC is already listed among the top ten international financial centres in the most recent index of The Banker, a Financial Times publication. DIFC's high score—considering its relatively young age as a financial district—is attributable to several competitive advantages. Its physical infrastructure, from utilities and internet connectivity to air travel, is unmatched in the MEASA region. Its "soft" infrastructure is also ahead of the pack, with a well-regarded business environment: the UAE ranked 26th in the World Bank's most recent Doing Business index.[9] "DIFC uses the English common law code, which is preferred by many businesses, and it has a strong track record for transparency on legal verdicts," says Mr Jaffery. Dubai is also uniquely positioned to promote Islamic finance, a fast-growing industry globally.[10] With population growth across MEASA set to accelerate rapidly through to 2050, demand for shariah-compliant services will only increase.

"There is a competitive global environment," acknowledges Mr Jaffery. "A lot of new financial centres have sprouted up. But in terms of magnitude and size, we've got a first-mover advantage. Plus, we have the commitment of the international players already here, and scale attracts more scale. And we have also created a community that nobody else has. Financial services is not just banks or asset managers—there are lawyers, accounting firms, recruiters and others, and DIFC has that community established."

Firms now present in DIFC attest to these benefits. "Lloyd's needs to operate in an environment that enables our partners and customers to come together, helping to foster a more proactive approach to business," claims Mark Cooper, the company' general representative for the Middle East. "The DIFC provides the infrastructure, ease of access and a concentration of expertise and talent that has not been easily replicated in other financial centres."

"Dubai is unparalleled as a city where people want to live," says Mr Jaffery. "The education system is unmatched in the region for quality and curriculum. And in terms of lifestyle, the year-round sunshine, international food cuisine and its sites and scenes make it a draw not just for tourists but expatriates too." International connectivity is also crucial: Dubai's Emirates airline transports around 50m passengers a year.[11] "This connectivity is the crux of what Dubai stands for," Mr Jaffery adds.

DIFC by 2024

To date, Dubai's financial sector has expanded from its modest beginnings in core banking services to more diverse financial activities, including private equity, asset management and fintech. Going forward, says Mr Jaffery, the goal is to increase both the number of financial firms and the depth and range of financial activity. In the first half of 2017 DIFC was home to 1,750 active, registered firms, 463 of which are regulated financial institutions. By 2024 DIFC aims to have 1,000 financial firms operating from the Centre.

However, while increasing the raw quantity of financial activity is important for an emerging hub, DIFC is also seeking qualitative changes as it deepens its contribution to fintech. One area of focus is the population of 2bn still unbanked globally. DIFC is striving towards the inclusion of different markets through fintech. Reaching the world's remaining unbanked consumers amounts to a US$380bn market opportunity, and technology is at the heart of that process.[12]

From its conception ten years ago mobile money has now spread to everything from government bond purchases to micro insurance. Cloud-based payroll is helping companies to transition from inefficient cash systems to digital payments. Biometric identification is allowing people access to financial services even when they lack conventional documentation, and blockchain-based remittances are eliminating costs in money transfers.

Building on such progress, FinTech Hive at DIFC, an accelerator programme for start-ups and entrepreneurs, hopes to make a significant contribution to this deepening application of technology to financial services. "Our focus is to concentrate on how technology can solve issues for the region," says Mr Jaffery.

In the long run, across both mainstream banking and alternative or frontier finance, Dubai's ambition is to help shape the future of finance globally. By leveraging its skills and infrastructure ecosystem, its location between diverse and dynamic markets and its competitive edge as a sound regulatory environment and a talent magnet, DIFC can ensure that financial services drive growth across MEASA.

1 DIFC Signs MoU with Mumbai Metropolitan Region Developmental Authority
2 WEF: These are the world's fastest growing economies in 2017
3 EY: Digging beneath the surface—Is it time to rethink diversification in the GCC?
4 DIFC Authority Annual Review 2016
5 Wharton: Rise of the International Financial Center—Can Casablanca Emulate Dubai's Success?
6 The National: DIFC rises above the challenges with growth
7 DFSA Annual Report 2013
8 Abraaj: Partner Companies
9 Doing Business: United Arab Emirates
10 NPR: World's Muslim Population Will Surpass Christians This Century, Pew Says
11 Emirates 24/7: Emirates reports Dh1.3bn profit, ferrying 56.1m passengers
12 Accenture: Billion Reasons to Bank Inclusively