May 2017

Risk versus Reward in the Kingdom of Saudi Arabia

The 2030 reform agenda is now in full swing within the Kingdom and the IPO of Saudi Aramco is finally taking shape. The landscape in the Kingdom will look very different if the 2030 plan goes according to plan however as well as requiring a strong hand from the government to push it through it will also require capital, and lots of it.

One of the central platforms of the reform package is the desire to move the private sector contribution to the economy from 40% of GDP to 65% of GDP by 2030. In order to achieve this the government wants to encourage investment in lending to small and medium sized enterprises as well as stimulating the housing market through mortgage lending which will have a knock on effect on consumer spending. In addition the Saudi Aramco IPO could be the first of many in the public sector as the government seeks to raise capital and shake up the publicly owned institutions by pushing a private sector agenda in the way they do business.

Therefore the international banking sector has significant growth opportunities in the retail commercial sector and in the investment and corporate sectors. However whilst the business case for the Kingdom is stronger than ever the challenges of doing business in the Kingdom are also more complex than ever and need to be carefully explored before committing to the market. This McLagan alert highlights some of the key areas which need to be considered when reviewing the business case for the Kingdom of Saudi Arabia.

Local Talent

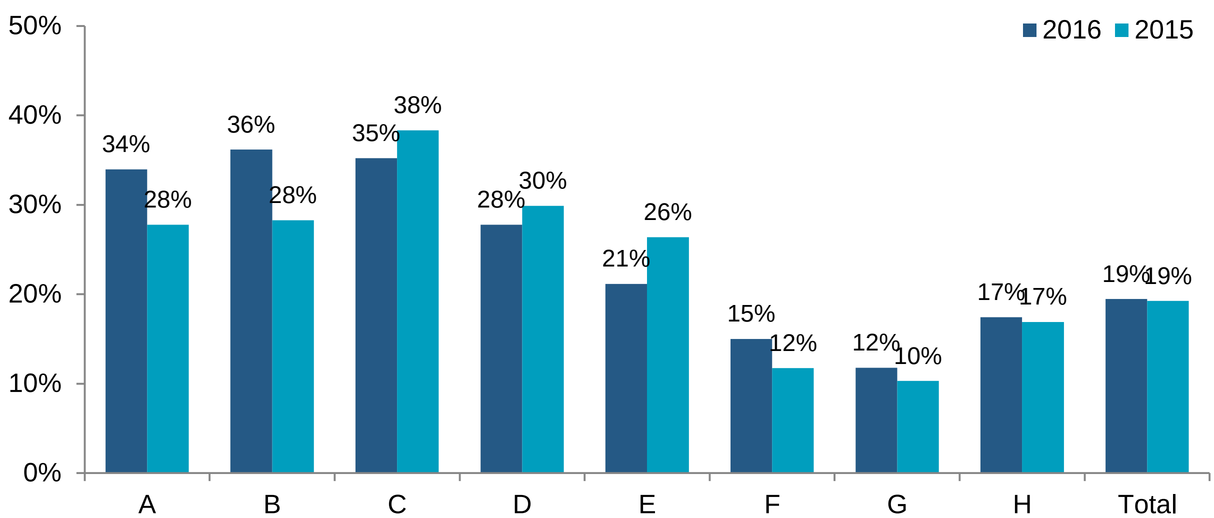
The underlying theme for the 2030 vision is employment and job creation. The Kingdom's population is demographically skewed towards youth, and, as with all millennials, their expectations for their future career prospects are very high. Unfortunately the safe and secure, well paid public sector jobs are no longer going to be readily available and the private sector must take up the slack. This means the increasingly difficult to meet nationalization targets will impact every company in the Kingdom.

Given the relative scarcity of suitably qualified candidates in the market place there needs to be a serious commitment to building a local talent pipeline as the requirements under the Nitiqat system are already challenging and they are expected to be made more challenging after April 2017. The table below shows the required quotas for international banks under the Platinum employer quota system.

Total number of employees	**Saudization Percentage**			
	Red	**Yellow**	**Green**	**Platinum**
10 - 49	0 – 4%	5 – 9%	10 – 39%	≥ 40%
50 - 499	0 – 5%	6 – 11%	12 – 39%	≥ 40%
500 – 2,999	0 – 6%	7 – 11%	12 – 39%	≥ 40%
3000+	0 – 6%	7 – 11%	12 – 39%	≥ 40%

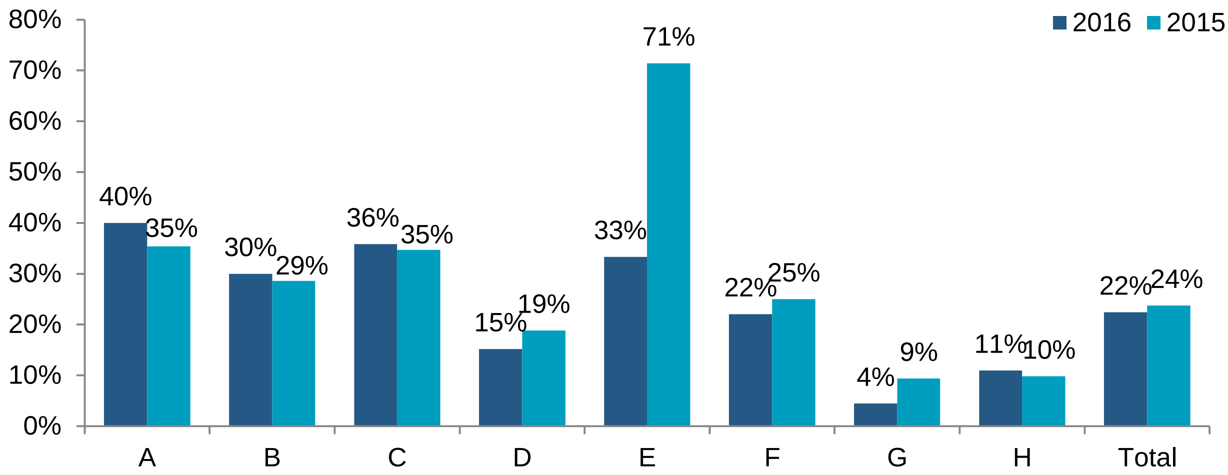
Currently McLagan surveys show that the level of expatriate talent required at all levels in the financial services sector in support functions are well within Nitaqat limits, however at the senior levels where organizations have the greatest reliance on expatriate talent is where the greatest competition for talent exists.

Expatriate Talent – Support Functions

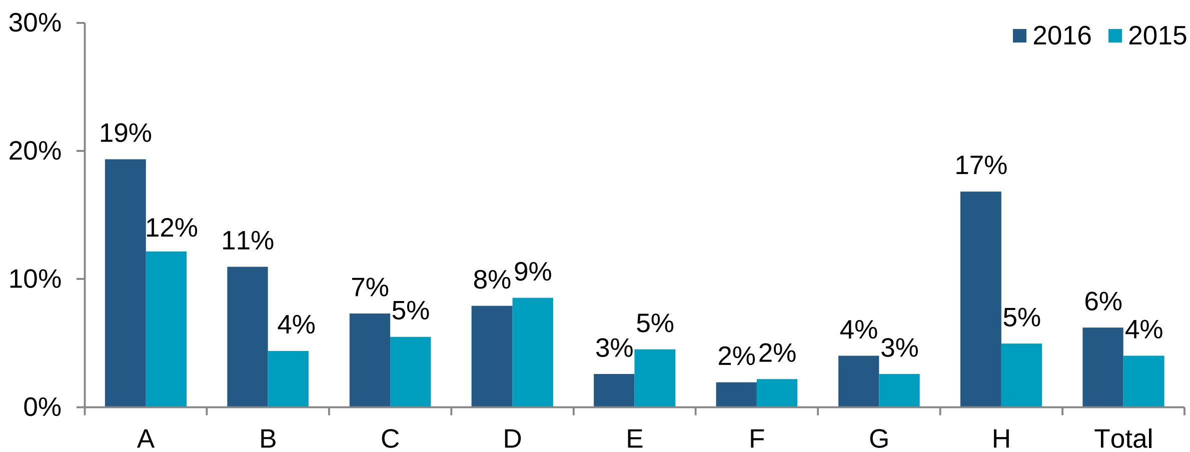


The investment sector faces the same challenge whereas the retail sector is best placed to meet the required quota levels.

Expatriate Talent – Private Equity, Investment Banking, and Investment Management



Expatriate Talent – Retail Banks



The banking sector is one of the highest profile employment segments and therefore a robust commitment to training and developing the next generation of Saudi nationals is crucial for those organizations who wish to plan for long term success.

Tougher Competition for Talent

The Saudi financial services market is buoyant at the minute. The government is funding several large scale investment funds with seed capital in the tens of billions of dollars. The Public Investment Fund is the best known name, but institutions backed with public money such as Saudi Arabian Industrial Investment Corporation, Saudi

Arabian General Investment Authority, Wasayah, Sanabil, and Hasanna are all chasing after the best and brightest local and regional talent which is having an inflationary impact on compensation in the sector.

Family offices, Investment houses with APs (Authorized Persons) within the Kingdom and the ever present draw of regional hubs which offer an easier lifestyle than the Kingdom such as Dubai, Doha, Abu Dhabi and even Bahrain will always make attraction and retention of talent.

Global players have many advantages over local and regional companies as they can offer a career path which can play out on a global stage. This needs to be accentuated as part of the total reward offering which smaller players simply cannot provide.

Regulatory Environment

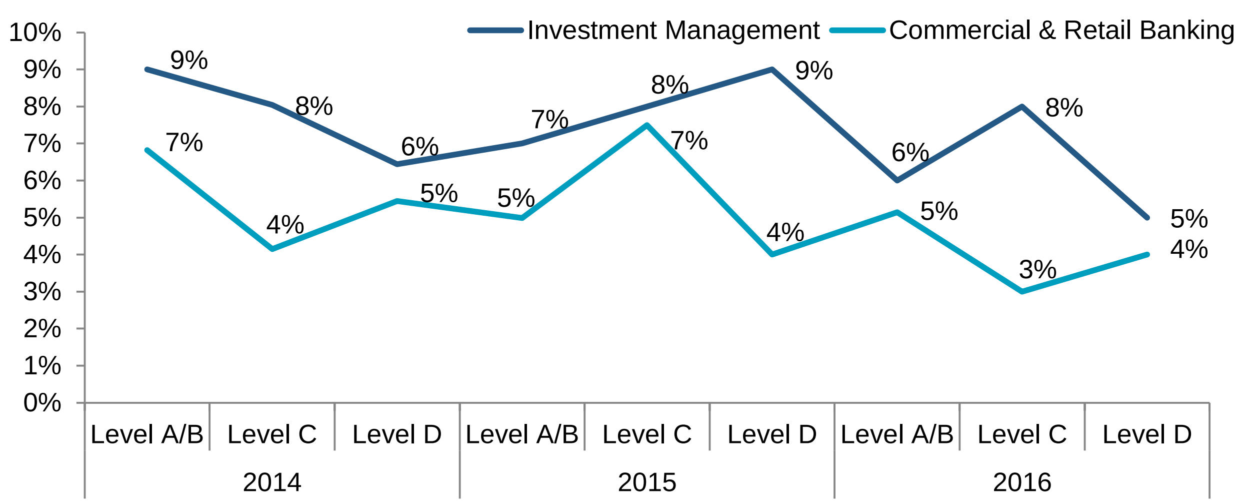
As the only Arab state with a seat at the table within the G20 the Kingdom takes regulation of the financial services sector very seriously. The Saudi Arabian Monetary Authority follows global best practice and they are diligent when ensuring organizations follow best practice.

Risk and compliance professionals are at a premium with the scarcity of talent reflected in the relative pay differentials between these functions and front office functions when compared to established ratios in other markets.

Cost Pressures

Whilst the western economies have seen slow or stagnant salary growth over the last two to three years the Kingdom has had relatively robust growth in pay levels. This is likely to continue in the immediate future and those entering the market will need to track the specifics of the local market rather than aggregating global data and downgrading the investment required to stay competitive.

Fixed Pay Change Year-Over-Year



Competition

The question for those considering entering or in some cases re-entering the Kingdom is “can we afford to wait”. The recent issuance of a license to a Chinese bank demonstrates the Kingdom is willing to allow global access to their market. It is entirely possible that institutions who delay their decision may forever be playing catch up with those who commit now.

To learn more about how recent regulatory changes will impact your firm, contact Martin McGuigan.

Author Contact Information

Martin McGuigan
Partner, McLagan
Aon Hewitt | Talent, Rewards & Performance
+9 714 389 6355
martin.mcguigan@aonhewitt.com

Muffaddal Hakim
Senior Analyst, McLagan
Aon Hewitt | Talent, Rewards & Performance
+9 714 389 6445
muffaddal.hakim@mclagan.com

About McLagan

McLagan provides tailored talent, rewards, and performance expertise to financial services firms across the globe. Since 1966, we have partnered with the largest and smallest financial services firms to help them make data-driven decisions to hire, retain, and engage the top talent for keeping the global economy running. Our compensation surveys are the most comprehensive, in-depth source of rewards data covering over 150 countries from more than 2,500 clients. Our consultants work with hundreds of firms annually to design total rewards programs and benchmark financial performance for boards of directors, executives, employees, and sales professionals. McLagan is a part of Aon plc (NYSE: AON). For more information, please visit mclagan.aon.com.

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

For further information on our capabilities and to learn how we empower results for clients, please visit http://aon.mediaroom.com.