



WEALTH MANAGEMENT

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01

LUXEMBOURG, THE EU HUB FOR WEALTH MANAGEMENT

“Luxembourg is a safe onshore base offering private banking clients and the industry unparalleled stability as well as access to best-in-class expertise in cross-border wealth management.”

Flemming Lauridsen,
Head of Nordea International Private Banking

Luxembourg's wealth management industry is uniquely specialised in cross-border services. Over the decades, its expertise has grown as an onshore EU hub for private banks, wealth managers and their clients. It offers a full range of supporting services, including investment advice, asset management, family offices, wealth planning, real estate management, succession planning and philanthropy. The country's history is grounded in political stability and strong economic performance. Consistently rated AAA by all three major credit-rating agencies, growth is above the EU average and public debt is low (at 21.4% of GDP). Combined with its track record for innovation, Luxembourg is well positioned to respond to client expectations that are being reshaped by globalisation, new technology and increased regulation.

CROSS-BORDER EXPERTISE

Many people have interests in more than one country, so managing their needs can be complex. It takes particular skill to understand the legal, fiscal and financial implications of living international lives and managing investments across borders. Each country has its own rules and ways of doing things.

Luxembourg is unique in its ability to cope with all these requirements, enabling assets and interests to be managed seamlessly and in full compliance with applicable rules. The financial centre features experienced professionals who view the world as their home market. They work together to offer European and global clients a one-stop-shop to meet even the most specialised needs. Furthermore, the experience gained in Luxembourg's investment fund industry enables private banks to develop cross-border transaction hubs in Luxembourg that serve group entities located elsewhere.

As a result, Luxembourg private banking entities are often the centre of excellence for wealth management within their own groups, serving clients out of the Grand Duchy. For instance, Scandinavian, French and German banks have adopted this model, and banks from Switzerland, the US and Canada use Luxembourg as a gateway to access the European Union for wealth management, capital markets, treasury and other financial functions.

A VARIED TOOLBOX

Wealth management professionals rely on a comprehensive "toolbox" of instruments provided through a well-designed legal environment. Precise solutions are crafted for each family's unique cross-border financial and estate management needs. As required, options include flexible, non-regulated solutions, specialised investment funds or risk capital investment companies. There is also a range of contractual tools, such as fiduciary agreements and insurance products.

A MODERN LEGAL AND REGULATORY FRAMEWORK

Individuals and families pay increasing attention to the political, legal and financial environment of their country of residence, or the country where their estate is structured and managed. The global financial crisis has led to increased importance being placed on regulatory compliance and risk management. Luxembourg has embraced this move, and is unequivocally committed to transparency.

The growth of the Luxembourg financial centre is based on a modern legal and regulatory framework. As a founding member of the European Union, Luxembourg implements EU rules on financial services. Moreover, the Grand Duchy is an active member of all international standard-setting bodies including FATF, the OECD, IOSCO and the Basel Committee. Thus it abides by all global regulations and standards. This is the framework within which the country has developed a palette of onshore, tax compliant services, tailor-made for an international clientele.

A PROFOUND UNDERSTANDING OF CHANGING CLIENTS' NEEDS

There is a strong culture of investor protection. The two supervisory authorities, the Financial Sector Supervisory Commission (CSSF) and the Insurance Commission (CAA), enforce a prudent supervisory policy, while protecting financial sector stability and monitoring the quality and internal control systems of financial institutions.

Many clients have businesses and homes in several countries, children studying abroad, as well as diverse leisure, cultural, and philanthropic interests. Clients are better informed than ever, and perceive risk and reward in different ways. Some decide to manage their wealth from several jurisdictions in order to diversify risk.

There is a meeting of minds when such individuals choose to manage their wealth from Luxembourg. Living and working across borders is second nature here, not least because four-fifths of financial sector employees are foreign nationals. The multinational diversity of the workforce means wealth managers understand the languages and cultures of their clients and partners around the world.

Wealth management is a people business based on personal trust. Nevertheless, technology, used wisely, can deepen these relationships and improve customer experience. Luxembourg is committed to leading the drive towards digital financial services. To explore new possibilities, the industry is working closely with public authorities, the research community and new FinTech players.

02

EVOLUTION IN WEALTH MANAGEMENT

“Luxembourg’s highly specialised professionals are able to deal with the wealth planning and structuring requests from international clients.”

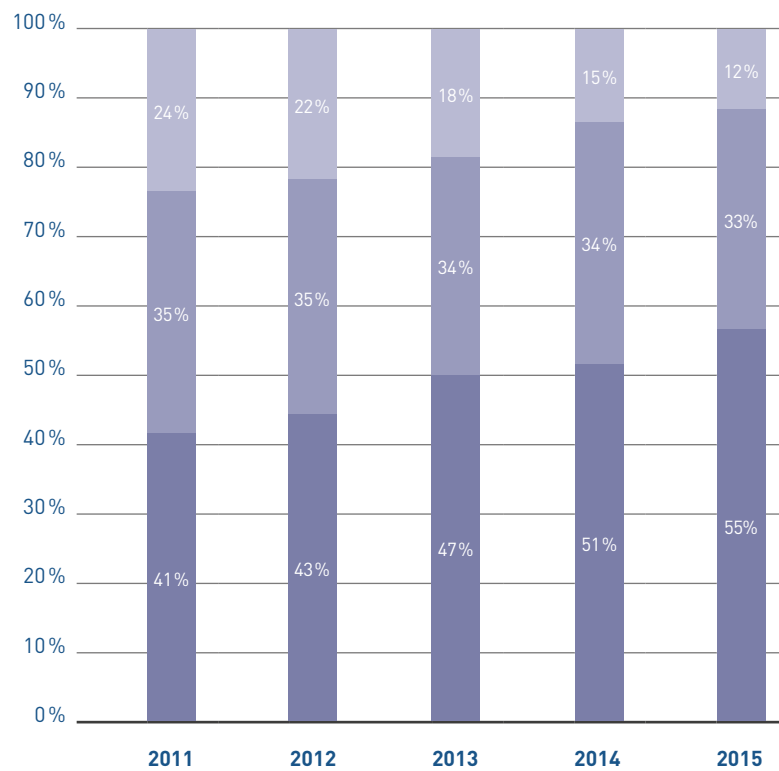
Olivier de Jamblinne,
Member of the KBL European Private Bankers Group
Executive Committee

EVOLUTION OF WEALTH BANDS

Client profile

- Affluent:
100,000 - 1,000,000 €
- Wealthy:
1,000,001 - 20,000,000 €
- Very wealthy:
> 20,000,000 €

Share of total assets under management by client profile

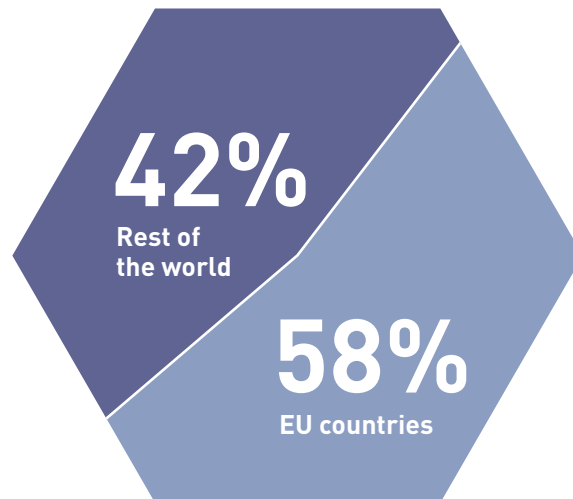


Source: ABBL Private Banking Group, Luxembourg (PBGL), June 2016

SERVING VERY WEALTHY CLIENTS

A shift in assets from the affluent client segment to very wealthy clients has been on-going for several years. People with wealth in excess of €20m accounted for more than half of all assets managed by Luxembourg wealth managers in 2015. This is a 14 percentage point increase on 2011.

GEOGRAPHIC ORIGIN OF CLIENTS' ASSETS



Source: ABBL Private Banking Group,
Luxembourg (PBGL), June 2016

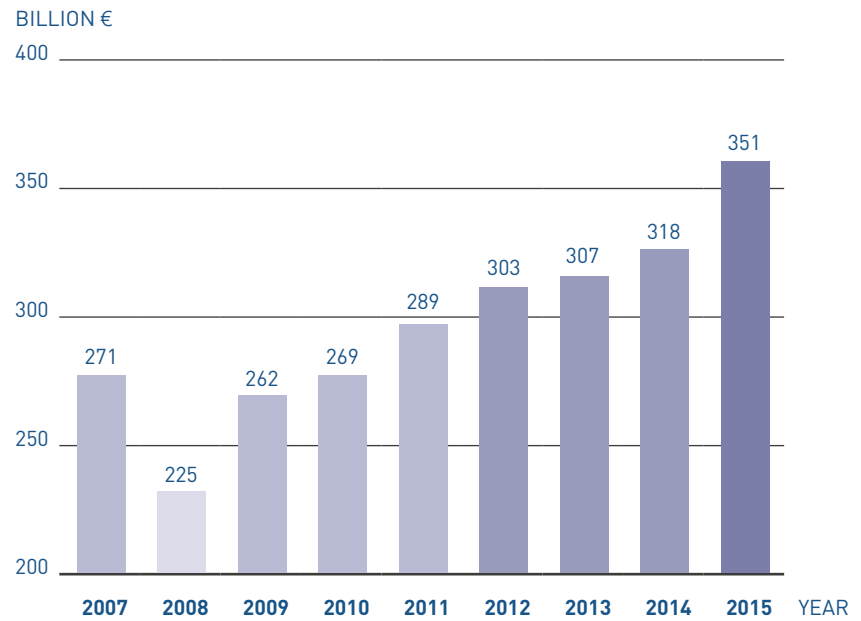
SUCCESSFULLY TARGETING A GLOBAL MARKET

While clients from Luxembourg, Germany, France and Belgium have always represented an important share of business, the industry is expanding its geographical scope within Europe and beyond.

The strongest growth is coming from Asia, the Americas and the Middle East. Indeed, non-EU clients account for more than more than 40% of all assets in Luxembourg.

These trends have many causes. Wealth managers, for their part, recognise the benefits of Luxembourg as an onshore EU banking hub that combines a high degree of stability with international diversification.

PRIVATE BANKING ASSETS UNDER MANAGEMENT



Source: ABBL Private Banking Group, Luxembourg (PBGL), June 2016

RISING ASSETS UNDER MANAGEMENT

Private banking assets in Luxembourg rose 34% over the five years to 2015 and are today 30% higher than before the financial crisis in 2008.

03

A FULL RANGE OF WEALTH MANAGEMENT SERVICES

“Luxembourg has a unique range of know-how and advantages for wealth management professionals and their global clients.”

Pierre Etienne,
Managing Director, Pictet (Luxembourg)



A WEALTH MANAGEMENT ONE-STOP-SHOP

Luxembourg's world-class wealth management industry has developed and matured alongside a supportive ecosystem of financial sector experts and service providers.

Wealth managers blend their know-how to design personalised strategies to fit each client's needs. They work with specialists in the banking sector, asset management and fund administration, life insurance and capital markets, providing an international service to institutional and private clients.

For example, Luxembourg's private banks, wealth managers and life insurers, who are important distribution channels for Luxembourg funds products, can leverage on the expertise of the fund industry to offer tailor-made wealth management and succession planning solutions. Examples of this are dedicated fund vehicles or personalised unit-linked life insurance products.

Further support comes from a wide array of professional advisors, lawyers, accountants, and corporate service providers. Information and communication technology providers also have unrivalled expertise in building and maintaining specialised, secure, flexible systems. This is complemented by next generation FinTech capability.

"Our status as an international financial centre is based on more than 150 years' experience."

Serge De Cillia,
CEO, Luxembourg Bankers Association

LUXEMBOURG SERVICE OFFER



WEALTH MANAGEMENT FOR ENTREPRENEURS

Entrepreneurs are demanding. In their double role as corporate clients and high net worth individuals, they can be very particular in what they expect from their bankers and advisors.

Whether entrepreneurs have their personal wealth management and business banking handled under one roof or whether they take the conscious decision to keep personal and business banking apart, Luxembourg's ecosystem offers a large body of professionals that have the skills to provide a holistic and multidisciplinary solution to the client.

SUCCESSION PLANNING BEYOND A NATIONAL HORIZON

Luxembourg wealth managers serve clients across the wealth spectrum. For all but the wealthiest of these clients, a primary concern is whether they will outlive their assets. Planning succession can therefore be an emotional and complex matter. In most cases, personal wealth is accumulated in different countries and has been shaped by a large number of individual decisions taken at various stages of life. Clients want flexibility in retirement and reassurance that their succession will be managed efficiently. In addition, the donor's wishes and the interests of family members and beneficiaries must be considered. A well-structured and professionally managed international succession process adds value to family wealth and aids its preservation.

MANAGEMENT AND FINANCING OF REAL ESTATE PROJECTS

Real estate and property investments in multiple European countries (residences, holiday homes, or buy-to-let investments) are often an important component of a client's portfolio. Experts in Luxembourg are not only familiar with regulations and tax considerations in multiple jurisdictions, they also offer tailor-made financing solutions, cross-border loans in different countries, as well as assistance and management of specific insurance policies.



Latifa Echakhch, Derive 32, 2013,
acrylic on canvas, 200 x 150 cm,
© Collection Pictet



04

A NEW ADVISORY MODEL

“The new advisory model is an opportunity for the industry to bring more value to clients with better and dedicated advice, in full cost transparency.”

David Schmidt,
Head of Private Banking Investments, Banque de Luxembourg

A CLEAR VALUE PROPOSITION

Worldwide, many wealth managers and private banks are optimising their operating models, aligning their operations and cost basis with the new market and regulatory realities. Luxembourg is particularly well positioned to follow these changes and offer a solid and clear value proposition.

Wealth managers are trusted advisors to clients and their families. A thorough assessment of the professional and personal situation is made, taking into account each family's aspirations and preferences. A strategy is then designed to match. Trust is strengthened when the fee structure is clearly related to the service quality, rather than commission from the sale of products.

THE BEST SERVICE AT A REASONABLE COST

This trend is being bolstered by the second Markets in Financial Instruments Directive (MiFID II), which aims at improving investor protection. Consequently, MiFID II extends transparency requirements and focuses on disclosure. All upfront fees and management fees will need to be disclosed. Going further, the EU Directive will to some extent, and when not disclosed, forbid advisors from accepting monetary or non-monetary compensation for the sale of products. This directive is expected to come into force in 2018.

The overarching objective of MiFID will force the interests of client and advisor to align even further, as it focuses on providing the best service at a reasonable cost. Paying a fee puts clients in control, with the wealth manager having to demonstrate clearly how they add value.

Wealth management advice may have appeared free of charge in the past, as fees were included in product costs. This model is set to disappear. The industry is required to explain the change in the remuneration structure and show how it provides personalised expertise.

New digital platforms are another catalyst for change. They are making it easier for clients to view, understand, and manage asset allocation independently, if they wish. These tools are also helping wealth managers understand client needs and are facilitating communication.

THE VALUE OF GOOD SERVICE

While clients are better able than ever before to understand and manage their own investments, it nonetheless requires a skilled advisor to understand the changing needs of a family and manage its assets and interests accordingly. In a context where greater focus is placed on the quality of advice, Luxembourg's multinational, highly skilled workforce is uniquely placed to meet these new and specialist requirements.

These changes are an opportunity for wealth managers to add fresh vigour and an extra element of trust to long-term relationships. Clients understand the options put before them and welcome this move towards greater transparency.

TRAINING

In 2013, the Luxembourg School of Finance launched a Masters in Wealth Management. The content was developed in collaboration with Luxembourg's Private Banking sector.

The programme is taught in English and combines traditional finance subjects such as accounting, asset pricing and financial analysis, with personal, legal and tax-centric subjects such as interpersonal skills, cross-cultural communications, personal portfolio management, estate planning, ethics, international tax planning and communication courses.

With the House of Training, Luxembourg also features a key institution in the area of vocational training, continuous education and professional certifications. It offers dedicated courses and certification programmes in financial services, including private banking.

OllL, Billy Idol,
mixed media on canvas, 180 x 180 cm,
© KNEIP Art Collection.



05

WHEN REGULATION ADDS VALUE

“The financial crisis has brought new standards to the wealth management industry in terms of how advice and products are being delivered. Financial professionals in Luxembourg continuously renew their expertise to make sure that clients have the peace-of-mind that their wealth is properly managed in line with national and international legal requirements.”

Henri Wagner,
Managing Partner, Allen & Overy Luxembourg

Like any other global banking centre, the Luxembourg financial centre has undergone a structural change driven by supranational regulation. Private banks in Luxembourg have already embarked on their journey to implement these standards.

Luxembourg complies fully with, and actively enforces, all international regulations such as the EU Savings directive, the OECD Common Reporting Standard, of which Luxembourg is an early adopter, and the United States' FATCA regime.

Wealth managers are liable if they fail to comply with anti-money laundering and anti-terrorism standards. Among many important new measures, the 4th anti-money laundering directive will increase transparency, notably through the creation of national central registers of beneficial owners.

Luxembourg is committed to safeguard information about the private lives of law-abiding clients. All professionals within the Luxembourg financial centre are subject to professional confidentiality which preserves client privacy. The law obliges financial professionals "to keep secret all confidential information entrusted to them in the context of their professional activity".

The law provides certain exceptions for which the duty of professional confidentiality does not exist; notably when assisting national and foreign authorities in the fight against money laundering and the financing of terrorism, as well as in the context of automatic exchange of information for tax purposes.

06

SOLUTIONS FROM A COMPLETE TOOLBOX

“Clients use a unique variety of tools to manage their entire estate from Luxembourg, including businesses, cash, homes, high value leisure items and art investments.”

Eric Fort,
Partner, Arendt & Medernach

Luxembourg offers various tools and investment vehicles that may serve to structure the wealth of individuals in a reliable and efficient manner. Many of these have been successfully used for many years, while others such as the Common Limited Partnership (CLP) or Special Limited Partnership (SLP) and the Reserved Alternative Investment Fund (RAIF) are more recent. This activity underlines Luxembourg's desire to adapt continuously to international developments and client needs.

Luxembourg has to date signed double tax treaties with more than 77 countries.

OVERVIEW OF AVAILABLE VEHICLES IN THE PRIVATE WEALTH SECTOR

PRIVATE WEALTH STRUCTURES		
Corporate tools	Investment Funds	Contractual tools
SICAR	UCITS	Fiduciary agreement
SPF	UCI	Contractual product (Life insurance)
SOPARFI	SIF	
	RAIF	

CORPORATE SOLUTIONS

Structuring optimisation

Asset protection

Mitigation of political & economic risks

Examples

FAMILIAL HOLDING COMPANY

- SPF
(Société de Gestion de Patrimoine Familial)
- SOPARFI
(Société de Participation Financière)
- SIF
- RAIF
- UCITS / UCI

PRIVATE SOLUTIONS

Succession planning

Family planning

Efficient transfer of wealth to future generations

Examples

- Will
- Change of matrimonial regime
- Family constitution
- Transfer of family assets
- Donation / gifts
- Re-domiciliation
- Life insurance

SOME OF LUXEMBOURG'S VERSATILE WEALTH MANAGEMENT TOOLS

SOPARFI

A commercial company through which investments and the shares of other firms can be controlled. The Soparfi thus enables the creation of a hub for managing assets and investments for individuals, companies and groups. It is useful for handling exposure to withholding taxes and is liable to income tax and wealth tax. It can be incorporated as a public or private limited company, or as a partnership.

Family estate management company (SPF)

Used to manage private wealth for individuals (and vehicles acting on their behalf), this tool helps with the acquisition, holding and management of financial assets, but cannot carry out any commercial activity. Qualifying assets include: cash on deposit, shares, bonds, depository certificates, trade receivables, money market instruments, options and commodities.

An SPF cannot acquire real estate directly, nor grant interest-free loans to companies in which it holds a stake. It may be set up as a public or private limited company, a partnership, or a cooperative. It is exempt from corporation tax and wealth tax, but is subject to an annual subscription tax.

Specialised Investment Funds (SIF)

As the world's second largest fund centre, Luxembourg has a variety of flexible investment fund vehicles to fit every wealth management strategy. The Specialised Investment Fund (SIF) facilitates the management of many types of assets for sophisticated investors, including private individuals. It can manage all kinds of assets, but is particularly useful for hedge funds, private equity, real estate investments and managing private wealth. SIFs can be used to create separate investment strategies for assets allocated to different family members, in such a way that one portfolio does not affect the others. These funds are exempt from corporation tax, wealth tax and withholding tax, but are subject to an annual subscription tax.

Reserved Alternative Investment Fund (RAIF)

Leveraging the opportunities of the alternative fund managers directive (AIFMD), notably by regulating the fund manager rather than the fund itself, the RAIF offers the best of both worlds: a flexible fund vehicle that can be set up quickly and without regulatory approval and supervision by the Luxembourg regulator, yet providing an added layer of security and legal certainty for international investors thanks to the requirement to be managed by an EU regulated alternative investment fund manager (AIFM). Indeed, the AIFM regulation will be fully applicable with all the related investor protection measures. The RAIF will thus also benefit from the marketing passport granted to the alternative investment manager.

Modeled on the highly successful Luxembourg specialized investment fund regime (SIF), the RAIF can be set up within a matter of a few days and provides all the asset allocation and structuring flexibility global alternative asset managers expect.

Life insurance

Luxembourg life insurance contracts offer a number of distinct advantages including a unique level of investor protection, flexibility in contract design and asset allocation, confidentiality and fiscal neutrality guaranteed by law. These advantages make the Luxembourg life assurance contract one of the most widely used tools for wealth management and inheritance planning for European and international clients. (see next chapter)

Limited partnerships

These flexible vehicles enable interests to be shared between partners, including family members. They enable the parties to specify how profits and losses will be shared, the rules governing the transfer of partnership interests, issues and reimbursements, voting rights, and representation of the partnership interests by securities or capital accounts. They are free of personal and corporation income tax and net wealth tax if they carry on private wealth management activities.

They come in two forms: 1) the common limited partnership (CLP) and the special limited partnership (SLP), and 2) the limited partnership without legal personality. Both the CLP and SLP may be established as regulated or non-regulated vehicles.

They are established using a partnership agreement entered into (for a limited or unlimited term) between one or more general partners with unlimited liability and one or more limited partners (whose liability is limited to the amount of their investment). Partners do not need to be based in Luxembourg.

Fiduciary operations

A fiduciary contract enables a principal to confer ownership rights over fiduciary assets to certain entities, under certain conditions. Thus ownership rights of assets can be conferred to a regulated entity for a limited period. This facilitates investments, gifts and inheritance. The principal will be deemed to be holding the assets for the purposes of income taxes and wealth tax. Neither the assets nor income are reflected in the tax balance sheet of the fiduciary agent.

UCITS

Luxembourg has successfully positioned itself as the global leader for cross-border distribution of investment funds, with the result that today more than 75% of UCITS (Undertakings for Collective Investment in Transferable Securities) funds distributed internationally are based in Luxembourg. The UCITS brand is recognised as the only truly globally distributed investment fund product. A growing number of countries in Asia and Latin America have accepted UCITS as providing a high quality, well-regulated investment product with significant levels of investor protection. As a result, many asset managers have established UCITS funds in order to pursue a global distribution strategy.

UCITS invest in securities (such as shares and bonds) quoted on a recognised stock exchange. Furthermore, UCITS must be open ended, so that the investor can redeem his holdings at any time. The investment policy must also respect a number of rules relating to portfolio diversification, asset liquidity and the use of hedging.

A non-UCITS ("Part II") fund

Funds that do not comply with UCITS criteria and that are not subject to a specific product law (like the SIF or SICAR law) are considered to be Undertakings for Collective Investment (UCIs) established under Part II of the Law of 2010. There is no restriction in terms of eligible assets of a UCI; however, the investment objective and strategy are subject to prior approval by the CSSF. These funds include UCITS of the closed-end type, funds that do not meet the eligible investment criteria for a UCITS status or which are not for sale to the public in the European Union.

Frank Stella, *The Prophet*,
Acrylic on wood and metal, 200 x 150 x 52 cm,
© BGL BNP PARIBAS Art Collection



07

LIFE INSURANCE

“Our insurance firms meet and adapt to international client needs. There is a unique level of protection for investors, plus great flexibility in the design of contracts and the choice of assets.”

Marc Hengen,
CEO, Luxembourg Insurance and Reinsurance Association

COMPLIANT, SOPHISTICATED, INTERNATIONAL LIFE INSURANCE

Luxembourg-based life insurance policies are a key part of many wealth management strategies. They are particularly useful for efficient inheritance planning, preserving wealth and maximising returns. Each family is different, so each life insurance contract can be tailored to individual preferences and different geographic locations. Policies can be purchased through banking groups, from major international insurance companies, or specialised boutique providers.

FOR INHERITANCE OR NOT

Clients choose the length of their life insurance policies, with maturity either for a specified period or at the end of a life. They can define who will benefit and to what extent. It is even possible to designate people who are yet to be born.

GUARANTEED- RETURN POLICIES

With guaranteed-return life insurance, the issuer predefines the annual return on investment. In an environment with low interest rates, this strategy is useful for clients focused on wealth preservation.

UNIT LINKED POLICIES

Unit-linked policies enable wealth managers to integrate highly personalised investment strategies into life insurance. They use investment funds through which clients can pursue strong growth or adopt a sophisticated, defensive strategy. Exposure to any mixture of asset class is possible, including money market instruments, bonds, equities, real estate, private equity, derivatives and so on. Even personal business, property and assets can be incorporated into a fund and linked to a life insurance policy.

Luxembourg has world-class expertise in cross-border funds catering for every strategy, from standard mass market products, to funds reserved for sophisticated clients. Whether the client wants a simple index tracker fund, or private equity investments in emerging markets mixed with hedging instruments, Luxembourg life insurers have the expertise to develop the right solution.

GEOGRAPHIC PORTABILITY

Policies can be sold cross-border throughout the European Union and the European Economic Area. Insurers working from Luxembourg have extensive experience advising clients on cross-border arrangements, both in Europe and beyond. Policies can be established in most currencies.

The geographic portability of the life insurance contract is particularly relevant to international entrepreneurs, executives and retired people who live in several countries.

Life insurance related taxes are to be paid in the country of residence of the client. Luxembourg is fiscally neutral, with no tax on premiums and capital gains. For unit linked policies, interest, dividends and gains are reinvested gross of tax.

A LEVEL OF PROTECTION UNIQUE IN EUROPE

Luxembourg is a safe place in which to base assets thanks to its long-term political, economic and social stability. The insurance profession is strictly regulated, based on EU law, to ensure that investments are safe. Companies must have sufficient own funds to cover full liabilities contracted on behalf of insured parties. Underlying assets must be deposited with a regulator-approved bank, and these must be clearly segregated from other assets and held in separate accounts. This mechanism is known as the 'Triangle of Security'. There is legal separation of client assets from those of shareholders and creditors. The regulator checks on these arrangements every quarter. In the event of problems with the insurer, the regulator can block accounts to protect policy holders' rights. Furthermore, in the event of such a failure, policy holders have preferential creditor status as regards the assets of the insurance company.



Fernand Bertemes,
Les Maîtres du Jeu, 153 x 620 cm,
© Allen & Overy (Luxembourg)



08

FAMILY OFFICES: INDEPENDENT SOLUTIONS FOR CROSS-BORDER WEALTH

"Smart regulation and flexible expert services make Luxembourg's family offices uniquely attractive."

Serge Krancenblum,
president of the Luxembourg Association of Family Offices

Luxembourg-based family offices are unique thanks to their expertise and the comprehensive regulatory regime under which they operate. Luxembourg was one of the first countries in the world to implement a regulatory framework for multi-family office activities.

ONE-STOP-SHOP

Family offices provide a single point of contact to enable very wealthy people to create tailor-made strategies for managing their assets and interests. Financial services can also be complemented by management of lifestyle interests.

AREAS OF ACTIVITY



INDEPENDENT ADVISORS

Independence is the main advantage of the family office, with clients guided to choose the specialists who can best serve their family interests. Performance of each service provider is continually monitored and reported on. Thus relationships are built and maintained with asset managers, tax lawyers, insurance firms, domiciliation agents, auditors, real estate agents, fiduciary companies, private equity firms, high-end real estate agents, custodian banks, and more. Some family offices go beyond an advisory and supervisory role, taking care of services such as risk management and investment advice.

REGULATION, AS REQUESTED BY THE INDUSTRY

Following the financial crisis, Luxembourg sought to underline its trustworthiness and a law was passed in 2012 to regulate multi-family offices. This made the Grand Duchy one of the few countries in the world to have comprehensive rules governing multi-family offices to ensure a high level of service and investor protection.

- Only certain professionals and institutions can become regulated multi-family offices: banks, investment advisers or managers, domiciliation agents, lawyers or notaries, auditors or chartered accountants and other qualified financial sector professionals.
- Remuneration transparency: Family offices must inform clients if they receive commission from service providers. Many offices provide services on a client-fee basis only.
- Transactions must comply with national and international rules against money laundering and terrorism financing.
- Consumer protection is enhanced by the regulator verifying the ability of the family office to provide quality services and to keep client data confidential.

MULTI-FAMILY OFFICES

There are well over 100 regulated multi-family offices in Luxembourg. Individual family offices tend to work with a maximum of four or five families, but it can be fewer depending on the level of services required. Families with wealth in excess of €200m generally opt to establish offices dedicated exclusively to their own interests. However, wealthy families often prefer the independence offered by a multi-family office.

SINGLE FAMILY OFFICES

Luxembourg hosts a large number of single family offices dedicated to serving the wealthiest families. Staff are hired locally, or trusted advisers move to Luxembourg. As these family offices do not market their services to third parties, they do not require extra regulation beyond that required of all financial firms.

09

DIGITALISATION AND THE TRANSFORMATION OF WEALTH MANAGEMENT

“There are many initiatives in Luxembourg around FinTech. Private banking will always be about personal service but this is not sufficient these days. Digital solutions will shape the future of finance and bring wealth managers even closer to their international clients.”

Hans-Peter Borgh,
Head of Wealth and Investment Management
at Banque Internationale à Luxembourg

TECHNOLOGY AT THE SERVICE OF PERSONAL RELATIONSHIPS

While processes are being automated, private banking will always care about understanding clients' long term objectives, passions, fears, and dreams. Personal relationships and trust are at the heart of wealth management and the targeted use of information and communication technology is an increasingly important aid. Digital innovation will take existing possibilities to new levels. Luxembourg wealth managers, researchers and the government are working together to identify promising applications. Technology is constantly improving, with developers testing the potential of big data, algorithms, and blockchain to boost communication, service quality and efficiency.

TAKING THE RIGHT DECISION AT THE RIGHT TIME

The extent to which clients demand digital solutions differs from person to person. Wealth managers use the opportunities presented by technology, but only when they are appropriate, efficient and secure. For example, mobile is now rapidly replacing desk-based internet links as the way for clients to keep track of their portfolios.

Technology enables clients to take decisions and make transactions on the move. Whereas most clients put faith in the long-term investment strategies they have established with their advisers, for some, greater access to information also meets a greater need for advice or reassurance. Specially designed, secure video conferencing technology is becoming central to maintaining relationships, supplementing traditional face-to-face and telephone connections.

MANAGING KNOWLEDGE

Smart IT helps advisers access information from many sources, such as intelligence from within an international wealth management group. It can also simplify administrative steps. For example, “know your customer” and anti-money laundering requirements are an important part of the global regulatory drive. Technology is helping to build trust by making it easier to comply with international legislation such as the Mifid II EU investor protection directive.

HELPING PORTFOLIO MANAGEMENT

Some clients appreciate the use of digital tools that help experienced advisers explore every angle as they seek the right options for their client. For example, they can model portfolios that take various national fiscal and regulatory regimes into account. This allows the clients to explore different possibilities with their advisers and question preconceived ideas.

In Luxembourg and in Europe as a whole, private banks are expected to invest significantly over the coming years in digitalisation. The biggest efforts will be concentrated in digitising end-to-end processes (e.g. client on-boarding or mortgages), building online advice capabilities (e.g. portfolio health checks with recommended actions or simulation tools) and improving front office interaction (e.g. remote advice).

HIGHLY SKILLED WORKFORCE

There is a higher proportion of IT specialists in the Luxembourg workforce than in most other countries. Some 2,000 IT firms operate in the Grand Duchy, of which over a hundred are specifically FinTech firms. These include start-ups, SMEs and branches of international companies.

HIGHLY SUPPORTIVE GOVERNMENT

The government's ambitious "Digital Luxembourg" strategy provides a state-of-the-art ICT infrastructure, generous research investment and support for business incubators. Industry growth has been aided by a concerted effort to accelerate the development of Luxembourg as a FinTech hub. The government's objective is to optimise the uptake of ICT as an enabling technology for a variety of sectors. It is also developing the existing ICT sector by encouraging networking and collaboration between the private and public sectors.

LHOFT: LUXEMBOURG HOUSE OF FINANCIAL TECHNOLOGY

The LHOFT – *the Luxembourg House of Financial Technology* – is Luxembourg's dedicated FinTech platform where finance and technology interact to foster innovation and develop solutions to shape the future of financial services.

Offering start-up incubation, co-working spaces including a soft-landing platform, the LHOFT connects and creates value for the entire Luxembourg FinTech ecosystem: financial industry, FinTech trailblazers, IT industry, research and academia as well as regulatory and public authorities.

10

RESPONSIBLE FINANCE

"Philanthropy goes beyond national boundaries. The complexity of modern problems does not fit neatly within borders. Luxembourg's international expertise and stable economic environment are solid reasons for international philanthropists to establish their foundations in the Grand Duchy."

Tonika Hirdman,
Director General of the Fondation de Luxembourg

Wealth can be an incredible leverage to help others. Luxembourg provides solutions to maximise the impact of giving.

ADDRESSING GOOD CAUSES

As global citizens, the current generation of wealthy individuals is more than ever aware of the international nature of problems facing the world. Luxembourg's know-how and global connections enable philanthropists to make a positive difference. This can include taking a hands-on approach as they apply their business knowledge to a range of problems.

Broadly, philanthropy serves three main purposes:

- Fulfilling needs neglected by market forces and public measures;
- Supporting innovation by developing, demonstrating and sharing new ideas;
- Sharing values and educating the next generation to become more responsible global citizens.

EMBLEMATIC COMPONENT OF WEALTH MANAGEMENT

Philanthropy has become an integral part of wealth management over the last ten years. It may be a modest part of an investment portfolio, but for many clients it is emblematic and highly significant. Luxembourg has been at the forefront of this trend.

Luxembourg experts help at each stage of a philanthropic endeavour in order to:

- define the objective and strategy: understand the donor's aspirations and match these to the legal, fiscal and estate planning requirements;
- suggest projects and a framework: define needs and provide solutions across borders;
- administer & communicate: a foundation is created, the mandate defined, and a management committee appointed;
- implement the solution: coordinate with third parties and oversee the implementation of the project;
- supervise and assess: on-going follow-up to ensure project impact and efficiency.

FONDATION DE LUXEMBOURG: THE CORNERSTONE

The Fondation de Luxembourg is the Grand Duchy's specialist philanthropy service provider. It is an umbrella organisation for the creation, management and supervision of charitable foundations through which long-term engagements are managed. The Fondation acts as an expert advisor, offering a simple, secure and rapid solution to individuals and corporate donors. It is a fully independent, not-for-profit initiative, and benefits from government support.

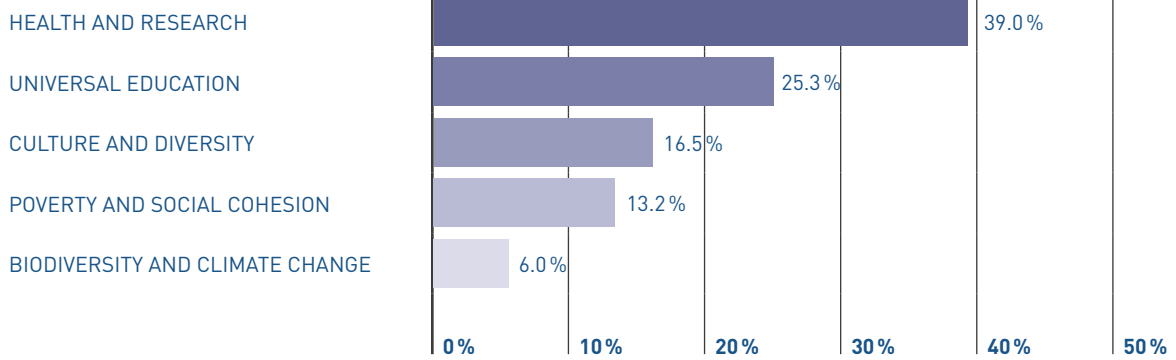
There is a clear focus on five broad global themes:

- Health and research
- Poverty and social cohesion
- Culture and diversity
- Universal education
- Biodiversity and climate change

A wide range of causes are supported by such foundations, for example:

- Humanitarian aid and medical assistance to refugees
- Financing a professional integration project for young immigrants to Luxembourg
- Preserving artistic heritage in France and Luxembourg
- Empowerment of women in Bangladesh and India through health care and entrepreneurship training
- Support for a hospice in Germany for young children suffering from incurable diseases
- Promotion of sustainable agricultural methods in Burkina Faso
- Microfinance support for social entrepreneurs in France
- Educational support to kindergartens in low socio-economic neighbourhoods in Israel

At the end of 2015, over 120 projects in twenty different countries were benefitting from the financial commitment of foundations under the aegis of the Fondation de Luxembourg.



Source: Fondation de Luxembourg, 2016

IMPACT INVESTING

Change can also be driven through impact investing. An impact investment has formal, quantifiable, non-profit social and/or environmental as well as financial objectives. Investors can contribute through an impact investment fund. A yield on the capital is paid only after measurable goals are achieved. The investor maintains control of his or her capital which can be withdrawn if needed.

Luxembourg has a strong track record in socially responsible and impact investments. 67% of AuM in European impact funds are domiciled in the Grand Duchy thanks to the presence of private equity experts, an experienced regulatory authority and 20 years' experience raising private capital for microfinance projects. Luxembourg is also at the forefront of European research into impact assessment.

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QUALITY OF (BUSINESS) LIFE

“A true friendly ecosystem encompassing all the solutions dedicated to all HNWI, Europeans and non-Europeans, seeking stability and predictability to structure and manage their assets whether liquid or illiquid, professional or private, has a name: Luxembourg, one of the few countries enjoying a triple A.”

Olivier Chatain,
CEO Private Banking Europe, CA Indosuez Wealth Europe

A WELCOMING INTERNATIONAL ENVIRONMENT

- **46%** of the population are foreigners and come from 170 countries
- **2nd best city for expats** in Europe and 5th worldwide (Expatriate Insider 2015)
- Ranks 8th worldwide in terms of **level of English proficiency** and is the leading EU country for **multilingual skills**, with 61% of the population able to speak at least 3 languages in addition to their mother tongue. (EF Education First's English Proficiency Index 2015 and Eurobarometer 2014)
- **3rd country worldwide** where expats would choose to work (Expatriate Insider 2015)
- **Best tax-friendly city worldwide** to live for a family (Knight Frank's Global Lifestyle Review 2016)

A GREAT WORK-LIFE BALANCE

- **The safest city** in the world (Mercer's quality of living Survey 2016)
- **Cost of living** in Luxembourg is lower than many other European capitals. (Eca International 2015)
- Located only a few minutes driving distance from Luxembourg City Centre, Findel Airport offers direct flight service to **66 destinations**.
- High-quality **sporting facilities ranking first in the EU** (Eurostat Urban Satisfaction study 2016)
- With **11 Michelin-starred restaurants**, Luxembourg City boasts **the most stars per capita of any city** in the world

A GREAT PLACE TO GROW YOUR BUSINESS

- Ranks **3rd in the world for talent competitiveness** and is a **world leader in high skilled employment** (INSEAD Global Talent Competitiveness; World Economic Forum and International Labour Organisation, 2016)
- Luxembourg city ranks **1st out of 468 cities** and regions for **economic potential** (fDi Magazine: European Cities and Regions of the Future 2015/16)
- **Ranked first for technological readiness worldwide** (Global Competitiveness Report, The World Economic Forum 2015)

BANKING

- Luxembourg is home to more than 140 banks from 27 countries
- Banks in Luxembourg have established several areas of expertise, including: private and institutional wealth management, corporate banking, retail and commercial banking and a full range of investment fund services.
- The EU passport allows banks in Luxembourg to offer their services throughout the European Single Market.
- Solvency ratio: 20.8 % (EU minimum = 8 %)

INVESTMENT FUNDS

- With EUR 3.5 trillion in assets under management, Luxembourg is the number one investment fund centre in Europe and second worldwide. It is the undisputed global leader in the cross-border distribution of funds.
 - Luxembourg has played a crucial role in establishing the UCITS as a truly European financial product and turned UCITS into a globally recognised brand.
 - Luxembourg offers bespoke structures for all the main alternative asset classes and investment strategies, including: hedge funds, funds of hedge funds, private equity and venture capital and real estate.
 - The Luxembourg fund industry has almost 56,000 distribution agreements with points of sale abroad.
 - Out of the top 100 cross-border fund management companies in Europe:
 - 98 have funds domiciled in Luxembourg
 - 71 have one of their biggest 3 funds domiciled in Luxembourg
 - 56 have their main fund domiciled in Luxembourg
- (Source: Lipper, PwC)

INSURANCE

82% of premiums

- Luxembourg is widely recognised as a centre of excellence for the distribution of insurance products in the EU.
- Luxembourg hosts 96 insurance companies and 223 reinsurance companies.
- 82% of insurance premium income is written for cross-border life insurance policies.

CAPITAL MARKETS

over 100 countries

- From listing and trading to clearing and settlement, Luxembourg offers a strong capital markets environment.
- The Luxembourg Stock Exchange (LuxSE) is a global specialist in the listing of international securities.
- LuxSE is the pioneer in listing new products like Green Bonds, Dim Sum Bonds and Sukuk.
- Strong market recognition by international issuers (3,000+ issuers from over 100 countries) and securities listed in 55 different currencies, including supranational financial institutions and 70 sovereigns.
- Home to Clearstream, leading international post-trade service provider, and 4 Central Securities Depositories.

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USEFUL CONTACTS

Ministry of Finance

www.mf.public.lu

Luxembourg for Finance

www.luxembourgforfinance.lu

Luxembourg Financial Sector**Regulator (CSSF)**

www.cssf.lu

**Association of the Luxembourg
Fund Industry (ALFI)**

www.alfi.lu

**The Luxembourg Bankers'
Association (ABBL)**

www.abbl.lu

Insurance Commission

www.commassu.lu

Insurance Companies Association

www.aca.lu

Luxembourg House of Training

www.houseoftraining.lu

Luxembourg Stock Exchange

www.bourse.lu

**Luxembourg Private Equity
and Venture Capital Association**

www.lpea.lu

**Luxembourg Association
of Family Offices**

www.lafo.lu

**Luxembourg Association of
Corporate Service Providers**

www.limsa.lu

Luxembourg Bar Association

www.barreau.lu

Fondation de Luxembourg

www.fdlux.lu

The University of Luxembourg

www.uni.lu

ABOUT LUXEMBOURG FOR FINANCE

Luxembourg for Finance (LFF) is the Agency for the Development of the Financial Centre. It is a public-private partnership between the Luxembourg Government and the Luxembourg Financial Industry Federation (PROFIL). Founded in 2008, its objective is to develop Luxembourg's financial services industry and identify new business opportunities.

LFF connects international investors to the range of financial services provided in Luxembourg, such as investment funds, wealth management, capital market operations or advisory services. In addition to being the first port of call for foreign journalists, LFF cooperates with the various professional associations and monitors global trends in finance, providing the necessary material on products and services available in Luxembourg. Furthermore, LFF manages multiple communication channels, organises seminars in international business locations, and takes part in selected world-class trade fairs and congresses.

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