

// Two pillars, two moods

The contrasting states of mind of the two main pillars of Luxembourg's financial sector were made clear at the British Chamber Evening Business Forum at the Hilton on 11th November. Representatives of the wealth management industry were slightly wary and defensive; uncertain what the continued attacks on banking secrecy will mean for their businesses. This nervousness contrasted with the ebullience of the investment fund panel. Luxembourg's fund business has emerged from the crisis with an enhanced reputation and new EU regulation is likely to add a further boost.



Wealth management panel: Jean-Jacques Rommes, Director, ABBL; Roger Hartmann, Partner, Ernst & Young; Keith O'Donnell, Partner, Atoz; Prof Christian Wolff, Director, Luxembourg School of Finance; David Steinegger, CEO, Lombard International Assurance S.A.

Steve Eastwood

"Luxembourg needs a new beginning," was the stark assessment of David Steinegger, CEO of Lombard International Assurance. This view was supported by Roger Hartmann, a partner with Ernst & Young: "there has been a big change in the paradigm since the G20" but he added that the writing has been on the wall since the first EU Savings Directive was proposed in 2001. In his recent communication with industry players and in media interviews, Finance Minister Luc Frieden has suggested that Luxembourg cannot sustain its policy of obstinate resistance within the EU over questions of banking secrecy and savings tax. Concessions will have to be made if the country's name is not to be dragged through the mud on a regular basis, as a good reputation will ease the opening of new markets in Asia and South America.

// International specialisation

That said, the government is not about to give up the fight completely. "The private banking sector could live with the OECD rules and other changes but what would be a killer would be automatic information exchange," noted Hartmann. "The Belgian dentist has passed away – we need to find clients who want to pay tax but have this optimised," he added. So, for example, he spoke of appealing to a person living in Brussels with businesses in Germany and Italy, children in Switzerland and a second

home in Spain. "The world needs places like Luxembourg, Switzerland and Singapore," he insisted as "domestic private banking covers domestic needs but not international needs." He said Luxembourg has the necessary cross cultural knowledge on tap.

Luxembourg Bankers Association (ABBL) Director Jean-Jacques Rommes agreed that reputation was an important factor. "The idea of us acting as a hub across the EU is a good one that works. For this reason it is very important to establish our image abroad to counteract foreign attacks." He characterised this as a "huge media wave" and agreed that much of the opprobrium was unfair: "yes we need to change, but now we have implemented OECD guidelines we meet all international standards, so what do they want?" On the other hand, he said the publicity did have an upside. "Our clients wouldn't all like to hear that we are completely transparent," he commented, although this is more about a protection of private life than as a tax dodge.

// What new ideas?

So who will drive the strategy rethink? The government's willingness to listen to business has long been one of the country's strong points, but Rommes suggested that this symbiosis may currently be somewhat hampered by the influence of foreign corporate headquarters over their Luxembourgish

subsidiaries. He said they were rethinking the structure of the government/industry discussion body Codiplafi to better produce strategy papers to face the challenges. That said, dialogue is still strong. For example, Hartmann said the ABBL had been in weekly contact with the government about discussions at EU level. Steinegger added that the Association of Insurance Companies (ACA) has found the government open to change recently, with recent progress being made in fresh direction. "The way Luc Frieden talks to industry has been fantastic," he noted. So given this environment, he is optimistic of Luxembourg's global appeal as a centre for wealth management in general and Lombard's private bank assurance model in particular.

Hartman said the country should pursue niche, but "we must not expect miracles" of big returns. Islamic finance could be interesting, through an intersection of funds and private banking, microfinance "doesn't have huge potential", philanthropy has a business case and will "help us with our image" and intellectual property could contribute. Rommes added that Target2 Securities could also open up opportunities. Panel moderator Keith O'Donnell of Atoz summed up the challenge: "We must do things excellently. Luxembourg is expensive so the country must be known for good standards." This means upgrading knowledge, being entrepreneurial and focusing on quality.

// Stronger post-crisis

There was little of this existential soul searching in the investment fund panel, with moderator Michael Hornsby of Ernst & Young summing up the mood: "the last 18 months has been a roller coaster but Luxembourg asset management has come out of the crisis stronger." Association of the Luxembourg Fund Industry (ALFI) Director Claude Kremer agreed, pointing out that although over 2008 assets were down 25%, only 15% of this was due to client redemptions. "Since then we have resisted well," he commented, with markets recovering since March and positive net sales since May.

In the early part of the year, the industry had worried that investors would be turned off funds by falling asset values and be spooked over Luxembourg's minor but highly publicised involvement with the Madoff fraud. However, this storm passed as funds did their job, in the vast majority of cases allowing investors to redeem their savings even during the height of the liquidity crisis. Then, with interest rates near zero and equity markets recovering this year, funds have again been in demand with net assets in Luxembourg funds up by around 15% this year. "Funds are the best savings product for the retail investor," said Kremer.

// Directive for Luxembourg

"It's as if this directive was written by Luxembourg," commented Aviva Investors' Jeremy Soutter after the conference, talking about the proposed Alternative Investment Fund Managers Directive (AIFM). During the roundtable he called it "great news for Luxembourg" as it is leading to

alternative investment funds such as hedge funds moving onshore and creating UCITS. "Luxembourg is the centre best able to take advantage of this," he commented, adding that the main competitor jurisdiction, Dublin "can't sell their funds around the world like a SICAV which is known in sixty countries." He cited Luxembourg's long-held ability to work with multiple countries and currencies plus good regulation as key factors "and Ireland won't catch up."

Kremer admitted "we have a tail wind as Luxembourg UCITS are a good international brand." However, he warned not to underestimate the competition and insisted on maintaining quality and openness to others' requirements. "We must continue to ask other countries what they want from EU regulations and we must change to fit theirs," he said. He spoke of Luxembourg's success in Hong Kong, being the access point to China, and the prospect of places like Brazil opening too.

// Not expensive, for now

Another warning was sounded by Steven Libby of PwC, who said he hoped AIFM would not increase costs, which would drive people away from Europe altogether. That said, the panel agreed that Luxembourg was not an expensive jurisdiction when all factors are taken into account, such as multi-country operations and tax issues. Soutter feels the UCITS IV directive's passporting provisions should bring scale and should help cut expenses, even if there is currently a state of limbo as final details of the new law are not yet known. Kremer added that UCITS IV will cut the time for fund registration to around 10 days from the months required now.

Daniel G. Kramer of JP Morgan agreed that some had a misconception that Luxembourg was expensive, but that the "quality work" gets done here, even if the off-shoring of the more mundane tasks has to be considered. This would have to be limited as Luxembourg will need to be in full control. "People will say: 'who do I call when I have a problem with the NAV (Net Asset Valuation)' and this results in Luxembourg," he said. Claude Kremer agreed on the need for only "intelligent delegation" but insisted this will be limited by the complex nature of many structures. "If you have a fund with 80 sub-funds each with different asset classes and currencies, not many can do this," he noted. "We have been solution driven for 20 years and we are unique."

// Easy complexity

Complex financial products gained a poor reputation during the crisis and Kremer recommended a back-to-basics approach of offering services clients (and manufacturers) understand. That said, he does not believe this amounts to restricting funds to "long only" positions "as the returns aren't there." However, he did want funds to take on the simplicity of, say, an iPod. He quoted the sculptor Constantin Brancusi who said "simplicity is complexity resolved", meaning solutions should be tangible for the client. "We need non-conflicted advice," he commented "that's the biggest challenge. Clients need to trust us." Daniel G. Kramer of JP Morgan concurred: "the NAV is the key: how to get liquidity, that's resolution."

 By Stephen Evans



Claude Kremer, Chairman, ALFI Daniel G. Kramer, Global Product Head, JP Morgan, Michael Hornsby, Partner, Ernst & Young, Jeremy Soutter, Head of Product Development, Aviva Investor, Steven Libby, Partner, PwC

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