

The Luxembourg School of Finance: Fostering research with a desire to be relevant



At the helm of the Luxembourg School of Finance (LSF) since 2008, Christian Wolff does not hide his ambitions for the University of Luxembourg's flagship Finance Department. With a number of specialised world-class programmes in the pipeline and the imminent launch of a dedicated PhD programme in finance, the School is on the right track to becoming one of the best finance departments in Europe.

Identifying and developing new niches

Like other financial centres around the world, Luxembourg is facing a number of challenges in the wake of the financial crisis, which has not only changed the regulatory environment but also increased competition. The Luxembourg School of Finance clearly has a role to play, not least in identifying and developing new market niches for Luxembourg. Thus, the School is currently contributing significantly to developing Islamic finance in Luxembourg. In January 2011, the LSF will launch an 8 day intensive course on Islamic finance with a team of teachers from INCEIF (International Centre for Education in Islamic Finance), the school's academic partner in Malaysia who also happens to be a global knowledge leader in the world of Islamic finance. Christian Wolff concedes that in a first phase, this is also about gauging the market: "We can be a catalyst, but we have to follow the business, not make it". Nevertheless, Wolff is convinced that Islamic finance has potential and that Luxembourg can benefit significantly. For Wolff the most natural area for Luxembourg to develop are Islamic investment funds, since it is an opportunity that directly links to the strengths of the financial centre. If the course proves to be successful, the next step could be a masters programme in Islamic finance.

As Christian Wolff points out, Luxembourg has a number of assets that should not be underestimated. Our neutrality, something which we often take for granted, is a huge issue for many clients from the Islamic world. Luxembourg also has flexible legal structures and, as Wolff insists, "not many places are as organised and dedicated as Luxembourg in the area of Islamic finance". Asked whether getting Islamic banks to open up shop in Luxembourg is a prerequisite for developing business, Wolff specifies that we don't necessarily need the banks here since we are not looking at retail but wholesale: "Funds are the way to go, and maybe other banking products around that. Listing and managing of funds, as Luxembourg has shown time and time again, can be pretty much unrelated to where entities are located otherwise, and still be very good business".

Building on existing strengths

Completely different to the Islamic finance course, is the masters programme in wealth and asset management set up by Carnegie Mellon University and the Swiss Finance Institute; a venture which the LSF has joined as a junior partner. Christian Wolff is not coy about the fact that this partnership will be good for the School's image, but the LSF also has something useful and concrete to offer: a module based in Luxembourg on investment funds and fund administration that will be an integral part of the MSc degree. The programme kicks off in 2011 with the Luxembourg module scheduled for May 2012. "Once we get it flying, it will be the leading programme in the world in the field of wealth management and asset management".

The dedicated module offered by the LSF is of course also an opportunity to attract talent to Luxembourg: "We put Luxembourg right under the noses of the participants in the course ... and even if participants themselves don't end up coming to Luxembourg, it will raise awareness and it might give them ideas as to

what they can do with their employees". Wolff is convinced that the course will be important in terms of visibility and awareness for Luxembourg in the world of asset management. The two senior partners are very big players in the field and they have teamed up with the LSF in a programme that no one else offers.

Keeping in touch with the financial community

Luxembourg is known for its short communication lines. This is also an experience Christian Wolff has made shortly after arriving in Luxembourg: "Within weeks after arriving I was on a first name basis with key people from the financial sector here". Wolff insists, however, that the ties between the financial community and the LSF are "very close, without being too close". The mission of the LSF is an academic one, "but with a clear desire to be relevant, to be part of what Luxembourg is as a financial centre". In order to stifle potential misinterpretations, Wolff, in his first year as Director of the Luxembourg School of Finance, often explained what the LSF is not. As Wolff points out, the School is neither in a position to offer consulting services to the financial sector on the basis of public funding, nor can it be a policy unit for the government: its professors need to remain free agents.



Through the Luxembourg School of Finance Foundation, which was bolstered by an initial investment from the ABBL, the LSF stays in continuous touch with the financial community and adjusts what it does on the basis of the signals it gets; this is true for the content of its MSc in Banking and Finance as well as for research. "There are not many universities that are involved so closely with what happens in a country financially", says Wolff. By way of example, he cites the research project on macro-financial risk analysis the School is embarking on together with the Central Bank of Luxembourg, with a view to developing risk management techniques for a sovereign nation.

The importance of research

As Christian Wolff points out, research is a crucial aspect of the long-term strategy of the LSF: "You cannot have teaching without research. If you try to only be on the teaching side, it's going to end up as an empty shell. It is all about cross-fertilisation. Good professors want to teach the things they research about". The LSF is on the verge of launching a new PhD programme in finance, with a first year of dedicated courses followed by 3 years of dissertation work. Such a programme is especially important for the University and, by extension, the country's scientific infrastructure for the future. Research plays an important role in mastering the challenges that the financial centre, and the world of finance more generally, are currently facing.



Together with a couple of colleagues, Christian Wolff is currently designing a security for banks that falls under the definition of contingent capital, the so-called 'coco bonds' that are currently on everybody's lips: a security that can help in the restructuring of the balance sheet if a bank runs into trouble. In the recent financial crisis, governments had no choice but to step in and rescue banks with taxpayers' money. "We are contributing to finding alternative, completely market-based solutions. For instance, when the share price of a bank falls below a certain level, then these 'coco bonds' will kick in by conversion of bonds into equity". Christian Wolff and his fellow researchers hope that in the current Basel III discussions, these instruments will be labelled as tier-1 capital; something that will make them immensely popular. For Wolff it is satisfying to "work on something that is so relevant to what goes on in the world out there".

Staying relevant

Being relevant is also an important selling argument for the School's Banking and Finance Masters degree. It is a world class programme with top professors and a summer module at the prestigious New York Stern School of Business. All of this for a relatively modest tuition fee, as Christian Wolff underlines. Wolff believes that the programme has enormous potential. Importantly, it is quickly gaining in momentum. This year alone, student intake is expected to rise to 29 or 30 from 22 last year. Wolff reckons that in the medium

term, the LSF will be in a position to have an intake of two classes for the full-time programme. This, in turn, will allow for greater specialisation of the full-time MSc with, for instance, one track for investment funds and another for banking. With a dedicated advertising campaign in *The Economist* and the MSc programme listed in the *Financial Times* listing of master of finance programmes, the Luxembourg School of Finance is certainly on the right track.

As far as the part-time version of the programme is concerned, the target audience is slightly different. While the full-time MSc is mostly populated by international self-financed students, participants in the part-time programme mostly come from the region, with employers typically paying the tuition fees. Wolff is currently thinking about adapting the programmes to these realities. One solution would be to develop the part-time version of the MSc into an executive masters programme that would be more managerial and focused on overview, while the full-time MSc would carry the regular masters title and be more technically orientated and quantitative.

Brain gain

The Luxembourg School of Finance's MSc programme is ideally suited to both develop financial know-how already present in Luxembourg and attract global talent to come and work here.

For the part-timers who already work in Luxembourg, the purpose of the MSc is to provide upgrade training for people in the financial sector. The full-time programme, on the other hand, has very few locals. Students come from countries ranging from Brazil to Mongolia, from the U.S. to Singapore. Many of them say that they would like to stay here. Christian Wolff recalls a recent discussion he had with an Italian who is currently working on Wall Street and who is taking a break to study at the LSF and then reposition himself and come to work and live in Luxembourg. Wolff says that "the general tendency is that people like Luxembourg and after studying here they get comfortable here and would like to stay to work and contribute".

After having spent several years in the U.S., the UK, Singapore and the Netherlands, Christian Wolff himself came to Luxembourg "to build things, to make a difference". In the Luxembourg School of Finance he has found the perfect match for this desire to build: "I think the LSF has incredible potential. And although it's not always easy, when I take a long-term view, say 8 to 10 years, I think you will find something really worthwhile here: one of the better departments in Europe with a lot of relevance and a lot of links". ---
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