

Interview with Thorsten STEFFEN, Director, Grant Thornton ABAX Investment Services

# New Private Banking in Luxembourg: SICAV-SIF as a key to success

**Could you introduce yourself and summarize your activities?**

Grant Thornton ABAX Investment Services assists Private Banks in developing innovative and regulated solutions for their new Private Banking clients. Our service offering includes the entire lifecycle of structured products, starting from structuring, on-going central administration, governance-related services to liquidations. Through our global network we can support our clients with growing expectations of service quality in over 120 countries.

**Luxembourg is ready to change the rules governing banking secrecy and to cooperate more closely with foreign tax authorities, the government announced in April. What is your view on this decision?**

A wind of change is blowing through the Luxembourg Private Banking world. Having provided excellent returns to the industry and having been one of the fundamental pillars of wealth generation in Luxembourg, the Private Banking model used during the past decades is coming to an end. The signs had been there for a long time yet many players refused to prepare for this in the past and consequently they did not sufficiently prepare themselves for the future.

Inadequacy of the service offerings and skills matrix is one of the first implications which affects the Private Banking sector's resilience to the crises at the moment. Private Banking nowadays is indeed not just about money and the way it is managed, it goes far beyond that and requires excellence in services, such as Asset Management, Corporate Structuring, Tax Advising and awareness and Regulatory proficiency. This is particularly true when monies are moved from offshore to onshore, as the challenge is now to retain high net worth clients.

Since the announcement in April 2013 that Luxembourg will participate in the automatic exchange of information on EU residents' savings income as of 1 January 2015, everyone has grasped the significance of what is happening. Whereas the way the communication was handled could be debated, no one may say that clear indications of the news had not been conveyed sufficiently in advance. Moreover, Luxembourg will continue to impose strict confidentiality rules, particularly in these countries that do not use the information exchange mechanism.

As a consequence of this announcement Private Banks that are not willing to change their business model are reducing their business activities or even leaving Luxembourg.

**What is your view on the evolution of the Private Banking sector?**

Scenarios with non-resident individuals bringing undeclared monies to Luxembourg in a number of untraceable manners are over. As a result, the typical predefined products with low return for investors and high margin for the bank have ceased to exist. The prerequisite for being a successful player in the Private Banking world in Luxembourg has significantly changed because Investors coming to Luxembourg have different aspirations nowadays.

They are looking forward to onshore their capital in a tax-efficient way combined with an active wealth / asset management. At the same time, they are looking for a safe haven for their assets and tailor-made solutions to transfer their wealth in a tax-optimised manner to the next generation and/or create wealth for the old days in view of the crumbling pension systems. Thinking about Private Banking in the future, it will result in offering clients a platform that will integrate and manage their entire assets (securities, real estate, private equity, art, etc.), thus closing the gap between traditional Private Banking and family offices through diversification and flexibility in product and service offering. Amounts invested per client will increase while the client base will become more global.

*The new Private Banking environment*

Wealth planning over generations requires a stable and flexible legal system combined with a strong reliable tax regime, as is the case in Luxembourg. New international standards will continue to be adapted at the very early stage as part of a strategy consisting of taking into account industry interests of the Financial Sector (such as AIFMD). The financial sector is highly professional and embedded in a multinational and multilingual environment. Although it appears to be simple in theory, we believe that it will take a complete change of mindset within many banks.

Looking ahead, the Private Banker of tomorrow will act less as a pure salesperson but more as an advisor of the entire wealth planning of a family or estate. The job profile of Private Banker will become consi-

derately more complicated as products are becoming increasingly complex. Private Bankers will be supported by expert teams comprised of tax advisors, asset managers and legal/corporate experts.

They will coordinate all involved parties so as to ensure the best-fitting solution for their individual clients. Private Banking products will resemble the structures we are already conversant with from institutional investors and large family offices. The ability to manage the new complexity of client specific structures while mitigating the increased liability of advice coming directly from the Private Bank will require a large number of expert skills that only a limited number of banks will be able to maintain in-house.

Therefore, banks are facing the challenge to find competent, renowned and reliable partners for a reasonable

price for their most price-sensitive Private Banking clients.

**What are the latest innovations in the Fund Industry and to what extent will they support evolution in the Private Banking?**

The Private Banking sector will increasingly be utilising sophisticated instruments which were previously restricted to institutional investors. The main challenge consists of developing tailor-made family fund solutions which combine pre-defined structured packages with individuals' needs in order to fit Private Banking cost structures. Instruments such as SICAV-SIFs as a family office, white label sub-funds, multifamily office funds and securitisation vehicles will be attractive as they are tax-efficient and allow for various types of underlying assets (including tangible assets). Likewise, sub-funds may be created following the interfamily relationships and / or estates requirements. There are numerous ways to restrict the access and the influence on assets to individual family members, or how to alternatively run private or joint sub-funds within the structure.

SIF structures have few limitations on investment strategies and kind of asset classes, and therefore they are highly flexible in terms of investment strategy and asset diversification. Moreover, sub-funds are ring-fenced, thus giving no possibility to see investments of other sub-funds. This provides perfect conditions for establishing a joint venture with

family business partners. AIFM directive represents another well-managed chance for the Private Banking industry in Luxembourg. It will indeed significantly increase the SICAV-SIF brand similarly to UCITS funds, thus helping attract new Private Banking clients from all over the world.

Although amounts of most of private family funds will be below the AIFMD threshold, they will benefit from the possibility to invest into higher-return underlying assets as well as from the general quality increase in the governance and increased professionalism of the fund industry which covers management companies, custodian banks and central administrations. This will in turn lead to decreased risks for investors, which represents a key aspect when considering long-term wealth planning and assets transmission.

**What is your conclusion?**

The wind of change will shift and consolidate the entire Private Banking sector. The new Private Banking client has undoubtedly higher expectations in terms of product sophistication, level and quality of services they receive from their bank. Most of these experts will no longer be on the banks' payroll and many external well-respected central administrations with a global network, tax advisory firms and highly specialized advisors will co-source Private Banks to help them mitigate increased risks resulting from using family SICAV-SIF products.



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luxembourg fund industry

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**centre de conférences kirchberg, luxembourg**  
**september 12th & 13th, 2013**

**www.alfi.lu**