PERSPECTIVES · REPUTATION

# Is Luxembourg still the best place for UHNW families?

*The private banking sector, the Lux Leaks and what wealthy families actually need*

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AGEFI LUXEMBOURG · MARCH 2015

> *Recent revelations in the media have put Luxembourg in the spotlight for all the wrong reasons. Given the scrutiny the country is under, is it still a suitable place for wealthy families to consider as part of their wealth management planning and strategy?*

The "Lux Leaks" and the high-profile investigations into the practices of a number of well-known private banks have cast a shadow over the financial sector that the country prides itself on. This has led some to question whether Luxembourg can continue to be a serious player in the financial sector.

From my perspective I believe that Luxembourg remains in a strong position. Luxembourg has spent the last fifty years developing a financial centre that is globally recognised for its high level of expertise. Furthermore, the recent revelations in the media are nothing new.

The tide started to turn a while ago, in 2007, when a whistle-blower at UBS sent information to the US authorities, and since that time it has been apparent that some of the practices around tax planning and wealth management needed to change. Governments around the world, including Luxembourg, have been proactively working to put measures in place to improve the situation, such as the automatic exchange of information agreements that many have signed up to.

## Why the scrutiny may be welcome

Perhaps, in fact, it is a good thing that these issues come to light, as it forces those entities that might continue to damage the reputation of the country to clean up or get out. It allows the government and regulatory authorities to reinforce the new rules and to move forward and away from rumours that were slowly, gradually tainting Luxembourg. Luxembourg is free to focus on what it does best, and if we look in more detail at the needs of UHNW families today, it looks like a pretty good fit.

## Complexity is the common denominator

Wealthy families, regardless of where they originate from, share very similar challenges and characteristics, which can be defined by a single word: complex. Take my own family, for example. There are numerous children at different stages of life who live and work in multiple countries, and who also work in the family business, which is in itself becoming more complex. The nature of our family's personal and professional activities brings a complexity that needs to be managed professionally.

Similar cases can be seen across wealthy families from all parts of the globe: the USA, the CIS countries, China and Latin America. A recent trip to Brazil highlighted this to me: wealthy families whose children are studying in the US or Europe, parents with homes in Brazil, Miami, Portugal and Paris, operational businesses in Brazil, but who for political, legal and fiscal reasons wish to structure their wealth on a global basis. There is no one-size-fits-all approach for serving this type of client.

Put simply, these families are looking for people they trust, to help in managing this complexity in a way that is completely tailored to them. Research shows that around 80% of billionaires made the majority of their wealth themselves and are typically entrepreneurs who remain heavily involved in running their businesses. This group will need a different level of assistance from those who have inherited wealth, for example. Both groups, however, need access to a pool of experts who can be called upon to advise on their diverse needs, from managing an investment portfolio through to acquiring real estate, and assistance in co-ordinating this work.

## Mobility as a planning instrument

Around the world, countries compete for investment and business on the basis of tax systems, and as the world moves to greater tax transparency the role of mobility in tax and privacy planning becomes increasingly important. The world is getting smaller, with wealth-owning families becoming more and more international, with investments in various countries, or with family members living in various countries and holding various citizenships.

Mobility therefore becomes an important element of planning: carefully choosing where to be resident and how to manage time spent between different countries. Citizenship can also be an issue here, and one that in the years to come may become more and more important. These families are truly global citizens and their lives are transnational, so the support they need has to reflect this.

## Tax matters, but it must not drive the plan

Whilst tax is important in succession and asset-protection planning, and will always remain a key issue to be managed and minimised, it is critical to keep a balance and not allow it to drive succession planning. In the past, many families have been left with complex, labyrinthine, secret structures which do not create any efficiencies but actually lead to theft, abuse and a legacy of mistrust and unresolved tax liabilities for future generations to sort out.

The tax landscape for wealthy families is fast-changing and the road to transparency may not be a smooth one. As we have seen, the implementation of automatic exchange of information will not be without problems. Families will need to be supported and guided by advisers as to how to navigate the new landscape. Of course more information will need to be provided, but the basic human right to privacy and confidentiality still needs to be respected, and perhaps this is where advisers need to shift their focus, developing services that protect the privacy of their clients on a global basis.

The only certainty we have in the tax world is that tax laws change and always will. The wealthy family does not need to become an expert in the tax laws of every country that affects them and their investments. Rather, they need to understand the advice they receive from experts, and need to be able to challenge that advice and ask the right questions, allowing them to stay in control. This applies to all aspects of a wealthy family's complexity: as they cannot be expected to be knowledgeable on every topic, they will certainly need access to professional advisers.

## A mature cross-border ecosystem

In my view Luxembourg is well positioned to support these families, with its comprehensive and mature financial ecosystem and, most importantly, its well-developed expertise on cross-border issues offering an international platform. Luxembourg's domestic market, after all, is Europe; it has therefore had to build capability in understanding complex structures that take into account international approaches from commercial, tax and legal perspectives.

These abilities have led Luxembourg to be well respected for its responsiveness to the needs of international investors, making it one of the leading distribution platforms in the world for international investment funds. Coupled with a government that is continually adapting and modernising the legal framework to meet the needs of a changing world and new business models, Luxembourg is entrepreneurial enough to provide credible services to wealthy entrepreneurs.

Luxembourg has moved on from the old world of banking secrecy and tax planning, and is focusing on the other reasons to host a strong financial centre, with its highly skilled and well-connected population. The government can be seen promoting the country as a centre for the wealthy, with initiatives such as the Family Office regulation and the ongoing development of the wealth management toolkit, with interesting structures for both business and inheritance planning.

There is an opportunity for Luxembourg to take a proactive approach to tax transparency, to focus on the new issues arising as a result, such as the challenges to rights of privacy and personal security, and to build competences and services in this area. Luxembourg is one of the few countries in the world that can truly understand and service these UHNW clients.

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