WEALTH MANAGEMENT

Luxembourg holds all the cards

to become a benchmark in Wealth Management

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Wealth professionals and Luxembourg's bankers have understood it well: nothing will be as before now that the financial crisis has passed this way. The recent statements by the Minister of Finance, Luc Frieden, regarding banking secrecy and the future of the financial centre are there to confirm it. The economic model of the private bank and of services to a top-end clientele must be rethought, and innovative ideas developed. For many players, the Family Office represents one of these new opportunities, but it requires complete independence and, above all, the resources that the Grand Duchy will sooner or later have to put on the table if it wishes one day to become a major player in this field.

To practise his profession to the full, the Family Officer must have a global view of the wealth entrusted to him, in order to give his clients the right advice at the right moment. Yet this overall view is not always easy to achieve, so limited do the solutions proposed to help the Family Officer consolidate his clients' assets appear to be. Indeed, consolidation involves gathering a variety of information, such as detailed analysis by asset class and by geographical allocation, the assessment of risks and returns, the analysis of historical performance against a model defined for the client's wealth, and the measurement of the performance of each asset, or of each manager's contribution, relative to the total performance of the wealth. At present no one can receive or centralise all this information coming from the various players (custodian banks, managers, experts, and so on) concerning the portfolio assets, works of art or businesses belonging to the family fortune.

To address this shortcoming, it would be advisable to set up a single platform bringing together the various players involved, along the lines of what was done with Cedel, the securities delivery centre created in 1970 and the ancestor of today's Clearstream clearing house. Like the latter, this support PFS (professional of the financial sector) would be a neutral, independent structure in which each player, from IT to infrastructure specialists, by way of the custodian banks, would deal essentially with its own business, and which would guarantee to each absolute confidentiality, not only vis-à-vis its clients but also vis-à-vis its competitors. Since its creation, Cedel has operated on this model and has enjoyed enormous success. Why could the Grand Duchy not reproduce this "success story" for the professionals of wealth and Wealth Management? By bringing together all the parties equipped with an adequate infrastructure within a single body that would use high-end software and work in close collaboration with the custodian banks in Luxembourg and Switzerland at first, and then throughout Europe thereafter, the Luxembourg financial centre would be a pioneer in this field. It would indeed be the only one to offer a structured solution allowing a perfect consolidation of wealth without any geographical limit!

A series of legislative and tax measures

Legislative changes are also necessary, and there is no time to lose. Beginning with the creation of private foundations. These would create a genuine niche for the financial centre, given that the philanthropy sector has in recent years seen ever more pronounced growth and competition. Even though the Luxembourg government fully intends to develop this segment in the years ahead, private foundations do not yet exist in the Grand Duchy, unlike in the United States, where they have long since made a name for themselves. Let us mention only the most famous of them, the Rockefeller Foundation, often presented as the first Family Office in the world! And in Europe, Switzerland is in the process of stealing a march on Luxembourg: draft legislation is already under discussion in the Federal Parliament. Another legislative avenue would be to provide for a tax deduction for anyone wishing to invest in Wealth Management training.

Finally, Luxembourg should attract the firms that have specialised in tax-optimisation strategies. Soon, all wealth, whatever it is and wherever it is, will become official. Banking secrecy is living out its final moments in Luxembourg and Switzerland, and tax havens such as Singapore or Hong Kong will soon be forced to disappear. All the more reason, then, to take the lead!

To sum up, Luxembourg can position itself in the near future as an international centre of competence in Wealth Management; but to do so, two conditions are indispensable: to create a single, high-performing platform for all the professionals of the sector, and to encourage, through a whole series of legislative and tax measures, the presence and development on the financial centre of significant know-how in this field.