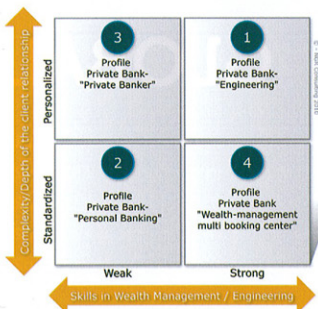


# Financial engineering, a key success factor in Luxembourg

Developing "Asset structuring" capabilities for private clients is becoming a key success factor for private banking actors. Such capabilities are essential in a new strategy aiming at providing more value to more demanding clients. The Luxembourg financial centre offers interesting products to achieve such objectives. In comparison with Switzerland's financial center, this country has real complementarities.



## Opexia PFS

To assist independent financial advisors and medium private bankers in implementing such transformation strategies while still reducing costs, Opexia PFS allows them to provide a high-quality service for financial engineering and business process outsourcing (multi tax reporting, back office processes outsourcing). Opexia PFS's offerings can help smaller players in implementing such services and an efficient operational model which allow them to focus on the client relationship. With this new operational model, Luxembourg players remain competitive with other financial centres.

This article will not be providing a comprehensive analysis of all products, but rather a brief overview of the key aspects. Over and above, it aims at highlighting the Luxembourg financial centre's advantages, its private banking products and the possibility to build a new corporate strategy for independent financial advisors. This can offer new added value by combining reduced operational costs with multi-country tax reporting, thus improving service quality with tax and financial engineering.

## Under pressure

The private banking industry is experiencing a period of significant change. Many regulatory factors and underlying trends related to customers' behaviour are changing the market structure. These changes require organisations to review their service model and their strategic positioning on the private banking market. They require urgent transformation of their organisation on the basis of three dimensions: market / business model / operating model.

## Change now is imperative

The implications of these changes on the business architecture of organisations are diverse and involve different components of the business architecture. The first implication is the need for private banking actors to achieve a significant reduction in cost structure over the long term. The underlying challenge is thus to manage the "scissor effect" induced by the new paradigm - changing the cost structure while investing in a business model adapted to the new market structure and client expectations. There has to be a transformation that takes into account the three components of the private banking business architecture: a new strategic position, a new service model, and a new operating model.

## More value added

Changes in market structure push for a re-evaluation of the elements in the value chain on which private banking actors are

positioned. The major changes in the European fiscal framework have accelerated the transformation of the offshoring-based business model. Providing value-added services is a priority for banking groups.

A survey made by our research centre<sup>(1)</sup> to evaluate private banking managers' preparedness for business model transformation shows an interesting typology, which is summarised in the matrix (previous page). It requires mastering different key success factors for the organisations. The service model and service coverage depend on the strategic choice of the market position. One strategic choice would be to position financial engineering capabilities as a key success factor for Private banking.

### Tax optimisation strategy

The Luxembourg financial centre is offering interesting products for the set-up of a tax optimisation strategy. Compared to other financial centres, more specifically Switzerland, Luxembourg's legal framework has evolved within the context of the European integration in order to provide interesting vehicles to structure assets that allow an efficient optimisation and transmission strategy. Contrarily to Switzerland, Luxembourg does not provide the context for people to adopt a fiscal delocalisation strategy. This is the reason why Luxembourg can benefit from providing a diversity of financial vehicles. It is also fully eligible to the benefits offered by double Tax treaties and EC directives. Such vehicles for structuring private wealth include SOPARFI, Life Insurance, SIF, UCIs, SICAR, Securitisation vehicles, and SPF. They can structure different types of securities including Hedge funds, real estate, private equity, and debt portfolios. Each vehicle has its specific advantages which can provide solutions tailored to customers' needs.

Surveys<sup>(1)(2)</sup> clearly show that customers expect more in terms of tax advisory, tax reporting, and tax optimisation. Luxembourg is ahead of Switzerland regarding private clients residing in European countries. Complementarity exists between the two centres. For example, in the case of the structuration of expatriates' assets having made the choice of delocalisation to Switzerland, our distant neighbour still continue to benefit from attracting non-European clients. Luxembourg actors need to continue to invest in order to provide best-class services in financial engineering. Big players wisely started some years ago to invest in human resources and processes that can support this transformation.

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#### References

<sup>(1)</sup> NGR Consulting Survey: «New Business Model for Private Banks»

<sup>(2)</sup> NGR Consulting Survey: «New Services creating value for Private Banking clients»

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