Luxembourg
Life Assurance
for International
Investors
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The financial climate has prompted a shift in the needs of private investors who, in today’s volatile market conditions, are increasingly looking for protection of their assets rather than a maximum return on profit with the inherent risks this brings. In the quest for less risky investment products which are better suited to their needs, many investors have (re)discovered life assurance, a form of investment which combines both financial and wealth planning objectives.

Luxembourg life assurance products offer a unique level of protection to investors; great flexibility in the design of the contracts and the management of the assets; complete fiscal neutrality; and confidentiality enshrined in law. These features make life assurance one of the best asset management and estate planning tools designed for sophisticated European – and international – clients.

A TRULY INTERNATIONAL FOCUS

Situated in the heart of Europe, Luxembourg is an internationally recognised financial centre. It is Europe’s primary centre for the domiciliation, administration and distribution of investment funds. As the capital of the Euro zone for private asset management, and a major player in the insurance and reinsurance sectors, Luxembourg offers a full range of investment products and services to a demanding international clientele.
Tailor-made solutions can resolve the problems related to the mobility of European citizens.

Luxembourg’s life companies have developed essential and specific knowledge which enables them to advise policyholders within the European Union highly efficiently when changing their country of residence.

Its exemplary political, economic and social stability, together with a modern legal and regulatory framework based on European Directives, has prompted many financial services groups to choose Luxembourg as the hub from which to distribute their products throughout the European Union. Luxembourg’s life assurance professionals possess know-how and experience unique in Europe: 90% of the premiums generated annually are derived from contracts written under the “Freedom of Services” regime.

Furthermore, from a fiscal point of view, a Luxembourg life assurance contract is entirely neutral for non-resident individuals.

Luxembourg taxes neither insurance premiums, nor capital gains realised on the surrender or maturity of the contract, nor death proceeds paid to beneficiaries. In the context of units of account linked to Luxembourg life assurance policies, interest, dividends and gains are reinvested gross of any tax.

The taxation applicable to both the policyholders and the beneficiaries of a Luxembourg life assurance contract is that of their country of residence. Life assurance generally benefits from favourable tax treatment in most European countries. Luxembourg contracts are therefore designed to comply with the legal and fiscal requirements of the policyholder’s country of residence.
MAXIMUM PROTECTION

Luxembourg’s laws and regulations aim to ensure maximum protection of policyholders on several different levels.

In the first place, all companies within the insurance sector, as well as their activities, are supervised by the Commissariat aux Assurances (CAA), a public institution under Ministerial authority.

With regard to access to the insurance profession, any physical or legal person who wants to carry out insurance operations in the Grand Duchy of Luxembourg must be authorised by the Minister responsible for the insurance sector.

The very strict conditions of authorisation are designed to ensure the financial solidity of all insurance companies. All Luxembourg life companies must maintain, at all times, a minimum level of own funds (solvency margin and guarantee fund) sufficient to cover the entirety of the liabilities contracted on behalf of insured parties.

In order to guarantee maximum security for Luxembourg life assurance policyholders, the law states that the assets underlying the technical provisions must be deposited with a credit institution approved in advance by the Commissariat aux Assurances. All life assurance companies are obliged to sign a Deposit Agreement with the custodian bank, which must also be approved by the Commissariat aux Assurances.

This mechanism, known as the “Triangle of Security”, ensures that the deposits in respect of policyholder liabilities are clearly segregated from the company’s other assets and are held on separate bank accounts. It also provides for the legal separation of the clients’ assets from
those of the life company’s shareholders and creditors. Moreover, the custodian bank is itself also required to segregate the assets and protect the interests of life assurance policyholders.

The segregation of assets is monitored each quarter by the supervisory authority. In the unlikely event of bankruptcy of the insurer, the Commissariat aux Assurances may block the accounts in order to protect the policyholders’ rights.

Furthermore, the insurance law of 6th December 1991, as amended, introduced the notion of the “super privilege”, which bestows upon Luxembourg life assurance policyholders the capacity of preferential first line creditors of the insurance company on the assets underlying the technical provisions. This policyholder privilege, which ranks ahead of all other creditors, whoever they may be, gives insured parties priority when recovering the liabilities related to the insurance contracts in the event of bankruptcy of the insurance company.

Lastly, conscious of preserving policyholder privacy, the Luxembourg legislator guarantees the protection of life assurance policyholders’ personal data. Since 1991, all companies within the Luxembourg life sector have been subject to professional secrecy. The law imposes on life companies and related parties the requirement to “keep secret confidential information confided to them in the course of their professional activity”.

Notwithstanding the requirement to maintain confidentiality of personal data of insured parties, Luxembourg applies particularly strict legislation with regard to the fight against money laundering and the financing of terrorism.

A life assurance contract is a contract according to which the insurer commits to pay a lump sum or a pension to a defined person (the beneficiary), against the payment of premiums (single or regular), in the event of death or on survival at a defined date.

The duration of a life assurance contract may be without limit (whole of life) or fixed in time. In general, the term is defined in accordance with the specific requirements of the policyholder’s country of residence.

Luxembourg life assurance is subject to a specific legal framework and benefits from a neutral fiscal regime for non-Luxembourg residents.
FREEDOM OF SERVICES (FoS) FOR EUROPEAN RESIDENTS

Introduced by the third European life assurance Directive, the Freedom of Services (FoS) regime is fundamental to the creation of a single market for insurance.

Since July 1994, any insurance company established in a Member State of the European Union is authorised to sell its products in all other European Union Member States and, with certain limitations, in Member States of the European Economic Area, without having to open a local subsidiary.

SOLUTIONS DESIGNED FOR SOPHISTICATED INVESTORS

Luxembourg’s legal and regulatory framework provides insurance companies with great investment flexibility and allows them to offer a wide range of sophisticated products to their clients.

Although the policyholder is free to choose the currency in which the contract is denominated (for example, Euro, US Dollar, Swiss Franc and Sterling), the choice of underlying assets is, in general, related to the size of the premium invested and the volume of assets held by the policyholder.

Alongside the traditional products offering a guaranteed return, whereby the client’s premiums are managed within the insurer’s General Fund (or one managed by its parent company), Luxembourg insurers offer an extensive range of so-called unit-linked products, which are linked to:

- external investment funds managed by approved asset managers;
- internal collective funds, which themselves operate as Undertakings for Collective Investments in Transferable Securities (UCITS) and which are collectively managed by way of a delegated mandate according to the different risk profiles;
- internal dedicated funds, which provide for discretionary management by way of a specific mandate taking into account the policyholder’s objectives. Several dedicated funds may be held within the same contract.

The potential for greater asset diversification within a life assurance contract increases in line with the amount invested and the type of funds selected.

The choice of admissible assets is also wider: from equities, monetary funds or national and international bonds, to alternative funds and structured products, to the integration of portfolios of quoted or non-quoted shares.

Depending on the policyholder’s country of residence, the investment management strategy may be changed at any time throughout the life of the contract.
A FLEXIBLE FINANCIAL TOOL

The expertise and know-how of Luxembourg’s life assurance professionals, as regards the details of the legal framework, ensures that Luxembourg solutions are both flexible and tailor-made, combining fiscal efficiency, financial and estate planning and wealth transfer.

Fiscal efficiency

The tax benefits of the policyholder’s country of residence apply to all life assurance policies subscribed with a Luxembourg company under the European Freedom of Services regime.

Financial & estate planning

With its specific regulatory framework, its general acceptance both throughout Europe and on an international level, as well as its great flexibility in terms of the appointment of beneficiaries, life assurance is the ideal instrument for estate planning and the transfer of wealth across generations. The policyholder may determine the timing of the transfer of wealth and the level of control he wants to keep over the assets being transferred.

Wealth transfer

The specific requirement to include a risk in a life assurance contract, allows the policyholder to freely choose his beneficiaries from the outset.

Once the beneficiary clause has been drafted, the policyholder may also:

• give direct preferential treatment to an heir or a third party (duly respecting the legislation in the country of residence of the policyholder);
• appoint multiple or successive beneficiaries;
• appoint children yet to be born;
• appoint living or represented beneficiaries;
• define the amounts to be granted to different beneficiaries.

A European resident is free to choose to conclude a life assurance contract, entirely legitimately, with the insurer of his choice, whether that company is established in his country of residence or in another Member State. The client therefore benefits from a much wider range of products, both in terms of cost and quality, thus allowing him to choose the product most appropriate to his personal circumstances.

In parallel to Community regulation, insurance companies must also respect the different national legislative provisions, both regulatory and fiscal, which are applicable in the policyholder’s country of residence, in particular with regard to the principles of consumer protection (i.e. the "general good" provisions in the policyholder’s country of residence).
### CROSS-BORDER LIFE ASSURANCE IN FIGURES

#### PREMIUM INCOME

<table>
<thead>
<tr>
<th>Year</th>
<th>Premium Income in billion euro</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>11.69</td>
</tr>
<tr>
<td>2007</td>
<td>10.46</td>
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<tr>
<td>2008</td>
<td>9.62</td>
</tr>
<tr>
<td>2009</td>
<td>16.79</td>
</tr>
<tr>
<td>2010</td>
<td>21.02</td>
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</table>

+ 90% compared to 2006

#### ASSETS UNDER MANAGEMENT

<table>
<thead>
<tr>
<th>Year</th>
<th>Assets under Management in billion euro</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>47.09</td>
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<tr>
<td>2007</td>
<td>53.89</td>
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<tr>
<td>2008</td>
<td>45.95</td>
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<td>2009</td>
<td>61.99</td>
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<tr>
<td>2010</td>
<td>82.42</td>
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</tbody>
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+ 74% compared to 2006
Luxembourg for Finance
Agency for the development of the Financial Centre

Luxembourg for Finance is a public-private partnership between the Luxembourg Government and the Luxembourg Financial Industry Federation (PROFIL). It consolidates the efforts made by the public authorities and principal actors of the financial sector to ensure the development of an innovative and professional financial centre through a coherent and structured communications policy.

Thus Luxembourg for Finance works to enhance the external presentation of the financial centre, communicating the advantages of its products and services to a wider public and highlighting the numerous opportunities available to investors and clients, whether institutional or private, from around the world.

Luxembourg for Finance organises seminars in international financial centres and takes part in selected world class trade fairs and congresses.

The agency also develops its contacts with opinion leaders from international media and is the first port of call for foreign journalists.