Interview with Mr. Herman Krul

Done by Mrs. Annemarie de Wit
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In this interview, Mr. Herman Krul answers a range of questions about the future of the fiduciary industry and about Reliance Trust.

We did our last interview about 2 years ago. Do you feel that much has changed in our professional world since then?

Yes a lot more than one would have expected! We have seen changes in the banks, the law firms, and the fiduciary business.

Let us start with the changes in the banks, what changes do you see?

The transformation process of the banks is only half way. The combination of the internet use, block chain technology and transparency related pressure on fees, will force the banks to further automate their systems. The outsourcing of services will go on.

The new generation wants to work with the bank in a different way.

Larger clients will in general continue to appreciate the personal contacts.

Banks will further continue to focus on their core competencies and thus continue to reduce their involvement in fiduciary services.

What changes do you see in the law firms?

The consolidation in this area also continues. There is a clear tendency to centralize all activities in one place. Litigation business will continue as usual. Regularization procedures will soon end with the coming CRS reporting. The corporate structuring requires more and more an in-sight in the future taxation guidelines. What is acceptable today may no longer be acceptable tomorrow. New transfer pricing and substance needs have to be set in practice.

A number of law firms still provide fiduciary services. This is mostly due to historical practice. For risk management reasons, I expect that they will gradually exit this activity.

With all these changes, the fiduciary world will not stay behind. For starters, what do you see changing in the <u>corporate</u> fiduciary world?

BEPS (Base Erosion Profit Shifting) is changing the corporate world. The structures will need a growing degree of real substance. Passive holding structures may only have access to specific treaties when they have a minimum of substance. The light way use of structures will disappear. This will have a serious impact on various jurisdictions. One estimates that the number of Luxembourg "Sociétés de Participations Financières" (Soparfi companies) may be reduced by up to 50 percent by 2021.

At the same time, we are seeing a general move from countries to reduce their corporate tax rates. Several countries have indicated that they like to reduce their corporate tax rate to 15-20 percent. This is also the case for Switzerland. The planned new all-in corporate tax rates in Switzerland, will for several cantons, range between 12- 15 percent. It will put Switzerland in a very competitive position.

The large fiduciary companies are the main providers of the corporate services. Most of them are P/E owned and/or are quoted on the stock market. Since P/E usually has a relatively short-term focus, they do have an ongoing challenge in motivating the work force and thus to avoid the regular high turnover of employees.

Is the picture much different for the typical <u>private client</u> trust companies?

Yes, it is different. This market segment has historically seen a huge activity in servicing simple and/or complicated structures with as sole objective to hide money. Legal and tax compliant work did for many companies not exist. Low quality paper shuffling was often sufficient. Financial statements were not needed. The historical slow follow up on service requests is no longer be acceptable.

With the ongoing transparency and the application of FATCA and CRS, this is changing rapidly. It will also accelerate a more general application of CFC rules. Trust companies will need to assure a correct legal and tax compliance, they need to be experts in the field of estate planning and asset protection. This way, trust companies are well placed to assist the large families.

One collectively will also need to work on the preservation of the reputation of the families and the related service providers. In this environment of change, the trust companies have an obligation to preserve the client confidentiality / privacy to the maximum extent. Clients are on all sides requested to provide confidential information. A number of countries are introducing UBO registers, which will list names, but also information on the related wealth. This information will be more or less publicly available. It creates a potential security risk for wealthy families. It is our job to also protect the clients in this area.

Only qualified professional trust companies will remain.

Are there any particular areas that are attracting more attention?

There are various ones but let me single out one of them and that is the area of philanthropy. We are see a growing demand for charitable trusts and foundations. They often want to use their money for sustainable investments.

In the past, many charitable structures have been poorly managed. The donors often wanted to guarantee that the maximum amount would be available for the good purpose. Understandably so, but this has also created a number of cases of mismanagement and money laundering.

This represents many changes. What does this all mean for the trust companies?

Many structures will be liquidated this and the following few years. The hiding structures will be history. It implies that many trust companies will be forced to exit the business. A big consolidation will take place.

At the same time, the larger P/E owned companies have a general dislike for the private client services. This attitude combined with their short-term focus makes them not suitable for the needed private client services.

Clients will have a growing preference to be served by qualified, independent service providers, who have a management structure and outlook that allows the maintenance of a long-term relationship with one or more generations.

Herman, I thank you for your comments. As Reliance Trust we agree with this outlook. To implement it correctly we are doing our utmost in order to keep a healthy company culture. This is combined with an ongoing education of the employees.

As Reliance Trust, we have always worked in a legal and tax compliant way. It will not change much for us, but we do enjoy a growing demand for our type of services. We are well placed and optimistic about the future. We fully share the importance of philanthropy as a company, but also as individuals. This activity is close to our hearts. The fact that we are FINMA supervised provides clients additional comfort.