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# Strategic Positioning of Estonian International Private Banking

## Executive Summary

Oct. 15, 2012



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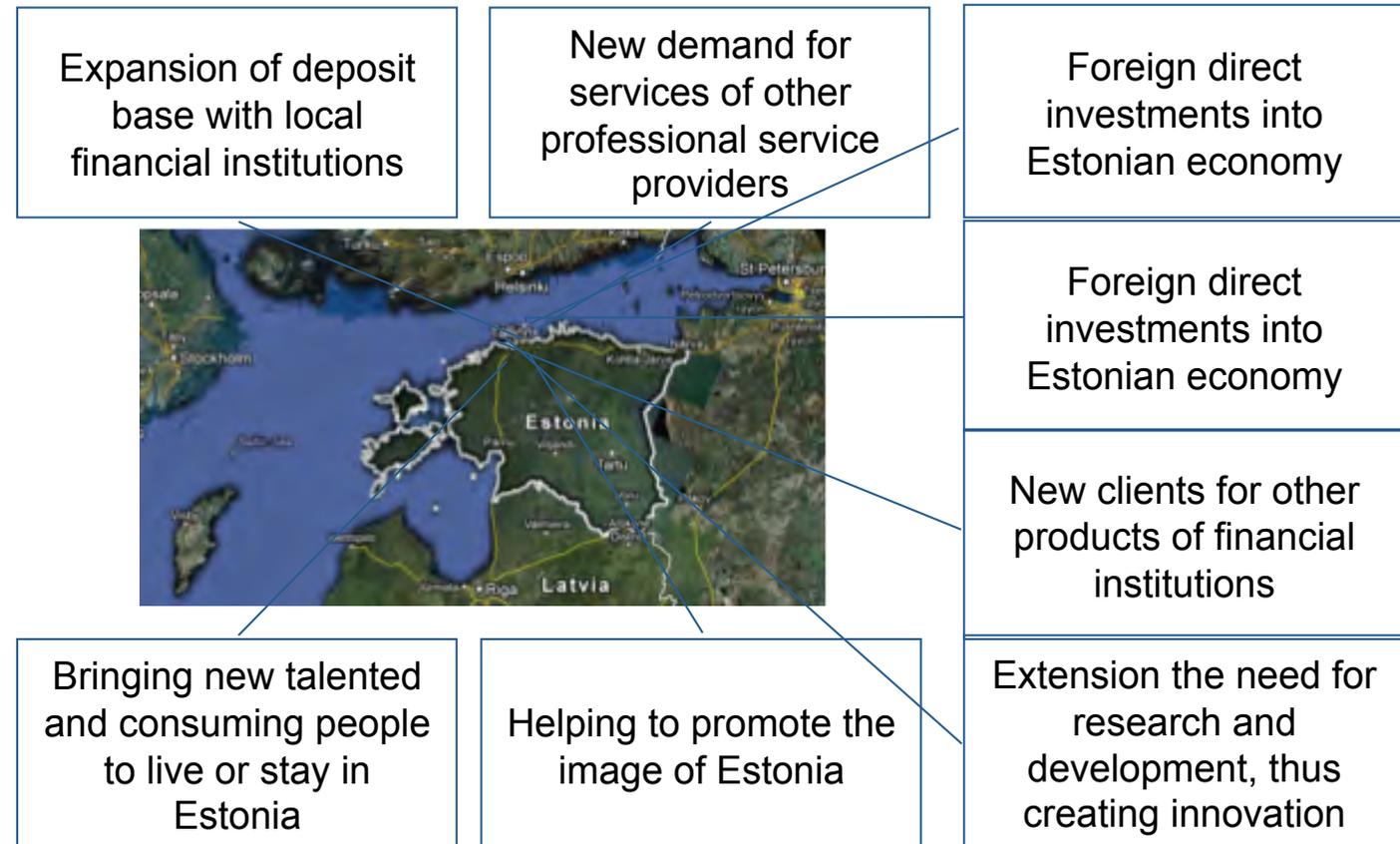
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## Why IPB for Estonia?

# Why International Private Banking is Important for Estonian Economy?



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**The outcome of globalization is enhanced strive for capital. The higher the volume of capital per person, the higher is the living standard in the country. Estonia, like other countries has two options to increase the amount of capital. Either to find possibilities to attract foreign capital or find possibilities to grow existing domestic capital. Both routes should be pursued.**

## Key Influencing Factors for Selection of Service Providers and Country

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- **Economic and political stability**
- **Business relations or previous knowledge of the country**
- **Image of the country and prestige**
- **References**
- **Tax advantages and special products and services, for example advantageous trust structures, investment advantages, residency and EU access**

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## Segments and Customer Needs

Six Distinctive Customer Segments and their needs were Identified as a Combination of Geographical and Behavioral Dimensions. For each segment, the communication message and product suggestions were worked out

**CIS** – security, stability, geographic proximity incl. possibility for personal meetings, language, internet banking options for to travel decrease, international credit cards.

**Nordics** - business opportunities; taxation.

**Southern Europe** - stability, economic security. Estonia is not yet known enough as an IPB center and customers bring their assets here only in case of previous connection to Estonia.

### **Wealthy Risk-Avoiders:**

seek political and economical stability

#### **Decision criteria**

- previous knowledge of the country
- geographic proximity
- language capability
- relationship managers who understand their culture
- service quality
- attractive entertainment offering
- prestige

#### **Disadvantages** of Estonia for attracting:

- CIS customers is the lack of prestige à la Swiss banking.
- Southern European customers lack knowledge of and connections to Estonia.

### **Entrepreneurs:**

**2-step process** – 1<sup>st</sup> seek business opportunities 2<sup>nd</sup> reallocate assets based on certain conditions

#### 1. Business opportunity country selection criteria:

- production facility in EU country
- cheap and accessible labor
- production cost
- taxes
- favorable legal environment

#### 2. After local business establishment, reallocation of assets is based on:

- service quality
- discovery of the attractive tax system
- relationship with the relationship manager
- private and business affaires as one-stop-shop possibility

**Disadvantage** of Estonia is its small market and labor pool size.

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## Products are Commodities

- Based on interviews it has become clear that Estonia has not demonstrated the presence of unique products for HNWIs. Products have become commodities and availability of regular products is regarded to be just a qualifier to be regarded a financial center at all.
- The established financial centers have managed to position themselves with a clear focus and expertise on specific products or services (asset management in Switzerland, Financial Engineering in Luxembourg, wide availability of auxiliary services in Hong Kong) additionally to selected few tax-privileged constructs (Funds and investment vehicles in Luxembourg and Malta, Holdings in Switzerland, residency in Malta, Cyprus and Latvia).
- In order to compete with the established financial centers, Estonia has to focus its promotion efforts on its economic, geographical, cultural and living environment perceived advantages per target customer group.
- Estonian service providers should select certain products that are most valuable to the target customer segment and promote them together with the environment related communication messages. The current analysis has identified the most relevant products per each target segment. E.g., to CIS wealthy risk avoiders the suggested products of interest are modern daily banking and liquidity management facilities, access to global investment products and portfolio management and wealth and residency planning services.
- Additionally, Estonian Service providers should develop a tailored financial engineering know-how and tax-comparison off-the shelf packages for the few selected target customer segments.

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## Actions

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- **The ultimate best business and financial center does not exist.**
- **Each location can provide its relative advantages for specific customer groups.**
- **Estonia has the chance to tailor its offering specially to select target groups.**
- **However**
  - The product and service offering needs to be detailed and tailored.
  - Massive image building and communication campaigns are necessary in order to sensitize our target customers to Estonia.
  - The Estonian environment needs to be improved in order to make Estonia more foreigner friendly.

# Products and Offering Related Actions

- **Holistic offering:** Integration of all Estonian service providers products into holistic. Clear and targeting offering for the segments. Need of special or customized products exists.
- **Harmonization of standards** for account opening requirements and start-up limits (including payments, card limits).
- **New Products:** Discussion groups for possibilities – e.g. investment diamonds, escrow services, financial engineering, wealth planning.
- **Taxes and legal environment standard information packages** for customers.
- **Mapping financing services** available to foreigners, such as trade finance services. Promotion of capital markets working group end results (such as EIF fund, KredEx instruments).
- **Improve insurance coverage:** Small insurance coverages are a complaint of HNWIs. Local insurance is only with retail orientation. Unit link does not enable to include non-liquid financial and other assets - can brokers make international offerings available?
- **Trustee and trust function** is not recognized in Estonia. Possible alternative in Estonia – *sihtasutus*, promote the understanding of trustee or representative.
- **ID card for international business people** that enable all needed transactions.
- **Start targeted promotion efforts for Estonia to become an incubator** for larger states or corporations for applied research (combine IT & financial ind. as a test base for new products).
- **Education:** Wealth management school or series of seminars should be established under FinanceEstonia framework targeting local service providers.
- **Review residency practice.** Aliens living permits practice needs to be properly established. Clear distinction in criteria of foreign capital Estonia wants to attract - sectors of interest have to be agreed and promoted, requirements for foreigners and the practice of decision making by the state have to be clear. Unreasonable requirement for businessmen to stay in Estonia for 183 days needs to be abolished to remain in competition for capital. Possibility of obtaining business visas and residence permits for businessmen in an expeditious manner for an additional fee.
- **Targeted development of competencies and image of Estonia:** Estonia has to select preferred sectors of development. Create an offering for such clusters (e.g. fund administration: tax exemptions, regulatory compliance rules etc.). Attract a few world leaders with their strategic functions and holding company to relocate to Estonia. Such industries could be specific sectors in financial industry, ICT, medicine, transit

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## Communication and Promotion Related Actions

- **Develop a promotion strategy and communication plan:**
  - Estonia as a business and financial center for HNWI; as a quality center for business and well-being; as an emerging Nordic star and IPB as a new Swiss PB center.
  - Promote the larger economic area combining Tallinn & Helsinki –Talsinki.
- **Bundling of an IPB offering and preparation of coherent materials.**
- **Identification of professional international distributors and international seminars where either industry providers or end clients participate.**
- **Promotion through:**
  - Private companies & market participants.
  - FinanceEstonia (should cooperate with financial and legal advisors in export regions to help promote and establish contacts).
  - State entities (EAS, foreign ambassadors).
  - Seminars (in Estonia and at customer home country and professional venues).
  - Media: writing articles, providing interviews, making presentations to the target audience about Estonian private banking sector and its offering.
- **For image improvement, FinanceEstonia should approach a few selected global industry players and convince them to move to Estonia. Maybe a Swiss bank can be convinced to open a branch in Estonia.**

# Environment Related Actions

## Location and Infrastructure

- Need to take a **proactive approach on state level towards Eastern business** in order to be able to proceed with financial services export to CIS countries. Abolish double taxation between Russia and Estonia. Encourage visa free travelling that is EU level decision. Use product related export examples to CIS countries as good examples for service export, foremost financial IT, IT solutions at state level, business and state integration IT solutions.
- Estonian knowledge of Russian language is decreasing. **Renewed focus on Russian language** and culture in education system is needed.
- Improvement in **air transportation** connections with Western (international financial centers) cities is extremely needed.
- **Telecommunication link** is weak with CIS countries, not easy to build communication extensive business based in Estonia. What is the response from operators (Elion)?
- **Estonian IT story** should not stop with leading financial services companies that own their own solutions.

## Economic Environment

- **Taxation related suggestions:**
  - Estonian company's daughter company sale is subject to income tax to be targeted as the most important tax improvement needed to be passed.
  - Increase the number of double taxation avoidance agreements - India, Russia and Hong Kong.
  - Set ceiling for social tax.
  - Abolish VAT on asset management services.
  - In implementing EU regulations and directives, we need to learn more from Malta, Italy and France on how to make local adaptations and implementations based on business needs.
  - Review the fringe benefit taxation of stock options in case the options are realized before the fulfillment of 3 years after the acquisition of them.
- **Many state portals or communications are only in Estonian. A campaign to review and improve the state communication is suggested.**
- **Enable foreign new market participants and clients to use foreign languages (English and Russian) in official communication. E.g., living permits related communication should not be in Estonian; patent filing in English should be enabled.**
- **In order to increase the availability of professional labor, promotion and/or teaming up with Finland - e.g. As a greater Nordic area or Helsinki**

## Living Environment

- Develop a **wellness and free time reference list** targeting IPB potential clients. List can include events such as New Year's Eve, Ice Sailing Competitions, Ice-Driving, Golf, Hunting, Aviation Days, etc. The aim is to invite target clients to Estonia, provide them first-hand experience of Estonia and through that integrate the pleasure with business.
- Improve **the quality of International school** in Estonia. Possibility to integrate foreign pupils with our present high level of education system with dedicated focus on helping with the language. Additionally, school program of international schools needs to be integrated.
- **Local business clubs** (Rotary, Lions, Chamber of Commerce) should start with one **open day** per month, where guests of other languages would also be welcome.

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## Role of Finance Estonia in the Implementation of the Action Plan

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- **Engage a professional marketing communication agent for developing a communication plan, communication materials, identifying distributors and other marketing channels and negotiating placements.**
- **Lead the implementation of the communication plan. Leadership by FinanceEstonia provides focus, promotion of the whole value chain of the private banking offering and neutrality from service providers.**
- **Prioritize and lead the other offering and environment related activities within the FinanceEstonia framework, especially focusing on the legal and regulatory changes, lobbying activities and improvement of living environment.**
- **Tackle the product and service related actions in the private banking taskforce by sub-project teams such as: creation of relevant tax-mapping for target customers by legal and tax experts; agreements and fulfillment of service and product gaps by the managers of local private banking service providers.**

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# Conclusions

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- **Estonia is not regarded as a priority place for IPB services. The customers, who have come and stayed have done that based on references and recommendations. However, once here, they are happy and recommend Estonia further.**
- **Therefore, potential customers in target regions need to be sensitized first about Estonia - focused image building and communication campaigns are necessary.**
- **Estonia has not demonstrated the presence of unique products for IPB customers; We suggest to select certain products that are most valuable to the target customer segment and promote them together with the environment related communication message additionally to creating specialty niche services that can differentiate Estonia from its peers.**
- **Estonia should position itself as an emerging Nordic Star and focus the promotion efforts on differentiating factors such as quality and reliability like in Switzerland, very high pay and productivity ratio, access to Nordic innovation capability and human power, interlink between EU and CIS countries, communication infrastructure, Talsinki economic area and last but not least great value for money.**
- **Estonian environment needs to be made more foreigner friendly.**

## Contact Details for Further Inquiries

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# Back up Slides: Segment Based Communication Messages of Estonian IPB

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# Communication Message

## To Attract Wealthy risk-avoiders from CIS



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### Safety next-door:

- Closeness: 1h flight; counterparties who understand you - can speak language and relate to you (ease of introducing yourself, doing compliance, not viewed as a business object only)
- remote and secure access to your finances
- stability of state finances
- discretion with information and ultimate data security
- availability of world class financial products
- savings through taxes (Estonian holdings enable to postpone paying income tax as corporate income tax on reinvested income is 0%)
- better value for money compared to established private banking centers
- reliable service quality
- image of new Swiss quality, emerging Nordics
- excellent vocations: white Christmas, hunting, yachting, excellent restaurants and hotels, wellness and medicine tourism, beach and golf
- children friendly environment

### Product offering:

- modern daily banking and liquidity management facilities (internet banking for private and business persons, telephone banking, international credit cards with concierge services, deposits with state guarantee of 100 000 EUR on deposits per person in one bank, payments, foreign exchange, hedging)
- access to global investment products and portfolio management accompanied with global custody services
- wealth and residency planning services, including inheritance issues, usage of Estonian holding companies' taxation and administration advantages

## Communication Message

# To Attract Wealthy risk-avoiders from the Nordics



### Private banking with better value for money:

- geographical proximity
- cultural proximity (small brother of Finland, emerging Nordics)
- remote access to finances
- savings through taxes (0% on corporate income as a good location for holding, trading and production companies)
- reasonable cost base for transactions
- availability of world class financial products with possibility to tailor to personal need
- same service quality as from historic private banking centers with lower thresholds
- entertainment programs: concerts, wellbeing, golf, hunting

### Product offering:

- modern daily banking and liquidity management facilities enabled by highest level of internet banking for private and business persons
- access to global investment products and portfolio management accompanied with global custody services
- wealth and residency planning services, including pension and inheritance issues, usage of Estonian holding companies

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## Communication Message To Attract Wealthy risk-avoiders Southern Europe



### Safe and better value for money:

- private banking made accessible by same service quality as from historic private banking centers with lower thresholds
- savings through taxes (0% on corporate income as a good location for holding, trading and production companies, no withholding tax on coupons payable to foreigners)
- remote access to finances
- stability of state finances
- relaxed weekends - golf, wellness, food and culture

### Product offering:

- modern daily banking and liquidity management facilities (internet banking for private and business persons, telephone banking, deposits with state guarantee of 100 000 EUR on deposits per person in one bank, payments, foreign exchange, hedging)
- access to global investment products and portfolio management accompanied with global custody services
- wealth and residency planning services, including inheritance issues, usage of Estonian holding companies' taxation and administration advantages

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# Communication Message To Attract Entrepreneurs from CIS



## Gateway to Europe:

- business as at home with EU markets access and standards
- good knowledge of Russian and English languages
- understanding of Eastern and Western business culture, geographical proximity and good infrastructure (fly-in, do business, fly-out in one day)
- stable, efficient and reliable state and economy
- business friendly tax environment (0% corporate income tax on reinvestments makes holding and trading structures attractive)
- reasonable cost of doing business
- the leading ICT sector enables remote business management (digital signatures, electronic accounting and tax reporting)
- living-friendly, small, green and entertaining environment
- image of emerging Nordics
- availability of world class financial products and professional services and -providers
- access to investment options (including venture capital, start-ups),
- access to EU grants and financing
- family office services
- combination of private and business banking services

## Product offering:

- integration of financial needs of private individual, family members and businesses through different financial channels and platforms (modern internet banking facilities, telephone banking, concierge integrated with international credit cards)
- liquidity management (deposits with state guarantee of 100 000 EUR, payments, foreign exchange, hedging) and access to local and global investment options and instruments (including venture capital, start-ups)
- financial engineering - taxation and corporate structuring advice, usage of Estonian holding/trading companies

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## Communication Message to Attract Entrepreneurs from the Nordics



### **Business hub for innovation and expertise:**

- high quality niches in Estonia for demanding operations, development functions and new growth - possibility to relocate or start new operations fast and efficiently
- proximity in location and mentality
- favorable tax system (0% corporate income tax on reinvestments makes holding and trading structures attractive)
- good pay / productivity ratio, low cost of doing business, lower thresholds
- high IT infrastructure development enables business to be conducted remotely
- fast business and state processes due to small society
- Nordic quality consciousness - speed, flexibility, creativity
- interesting investment opportunities through Estonia and possibility to use Estonia as gateway to CIS
- availability of world class financial products (including financing) and service providers
- image of greater Nordics
- living-friendly, entertaining environment

### **Product offering:**

- integration of financial needs of private individual and businesses through different financial channels and platforms (modern internet banking facilities, possibility to integrate business needs with IT solutions)
- liquidity management, treasury services and access to local and global investment options, instruments and portfolio management (including venture capital, start-ups, pension funds for corporations)
- financial engineering - taxation and corporate structuring advice, usage of Estonian holding/trading companies

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# Communication Message to Attract Entrepreneurs from Southern Europe



## **Nordics business hub:**

- high quality niches in Estonia for demanding operations, development functions and new growth - possibility to relocate or start new operations
- favorable tax system (0% corporate income tax on reinvestments makes holding and trading structures attractive)
- stable, efficient and reliable state
- good pay / productivity ratio, low cost of doing business
- high IT infrastructure development enables business to be conducted remotely
- interesting investment opportunities through Estonia and possibility to use Estonia as gateway to CIS
- Nordic quality consciousness - speed, flexibility, creativity
- availability of world class financial products and service providers
- image of emerging Nordics
- living-friendly, small, green and entertaining environment

## **Product offering:**

- integration of financial needs of private individual and businesses through different financial channels and platforms (modern internet banking facilities, possibility to integrate business needs with IT solutions)
- liquidity management and access to local and global investment options and instruments (including venture capital, start-ups, pension funds for corporations)
- financial engineering - taxation and corporate structuring advice, usage of Estonian holding/trading companies

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