

The Financial Center Luxembourg “2020, a year to remember”

26 November 2020

Thomas Feld



Agenda

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Insights into the financial sector
Banks
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What is coming next?
BREXIT, finally out?
Outlook

NOTE: The views expressed in this presentation are those of the presenter and not the opinion of KPMG



Introduction

Key Topics & Developments in 2020



Global & Political

- COVID-19
- US elections
- BREXIT
- Trade conflicts
- China's positioning
- Geopolitical risks
- Sustainability



Luxembourg

- Government strategy
 - managing the crisis
 - view on finance industry
 - attract new business
- Luxembourg tax situation
- Real Estate markets



Financial Markets

- 0% Interest rate for long
- BREXIT implications
- Non-performing loans (NPL)
- Consolidation in the market
- Digitalisation
- Markets
- Regulations



Uncertainty

Uncertainty as seen by Olli Rehn 2019

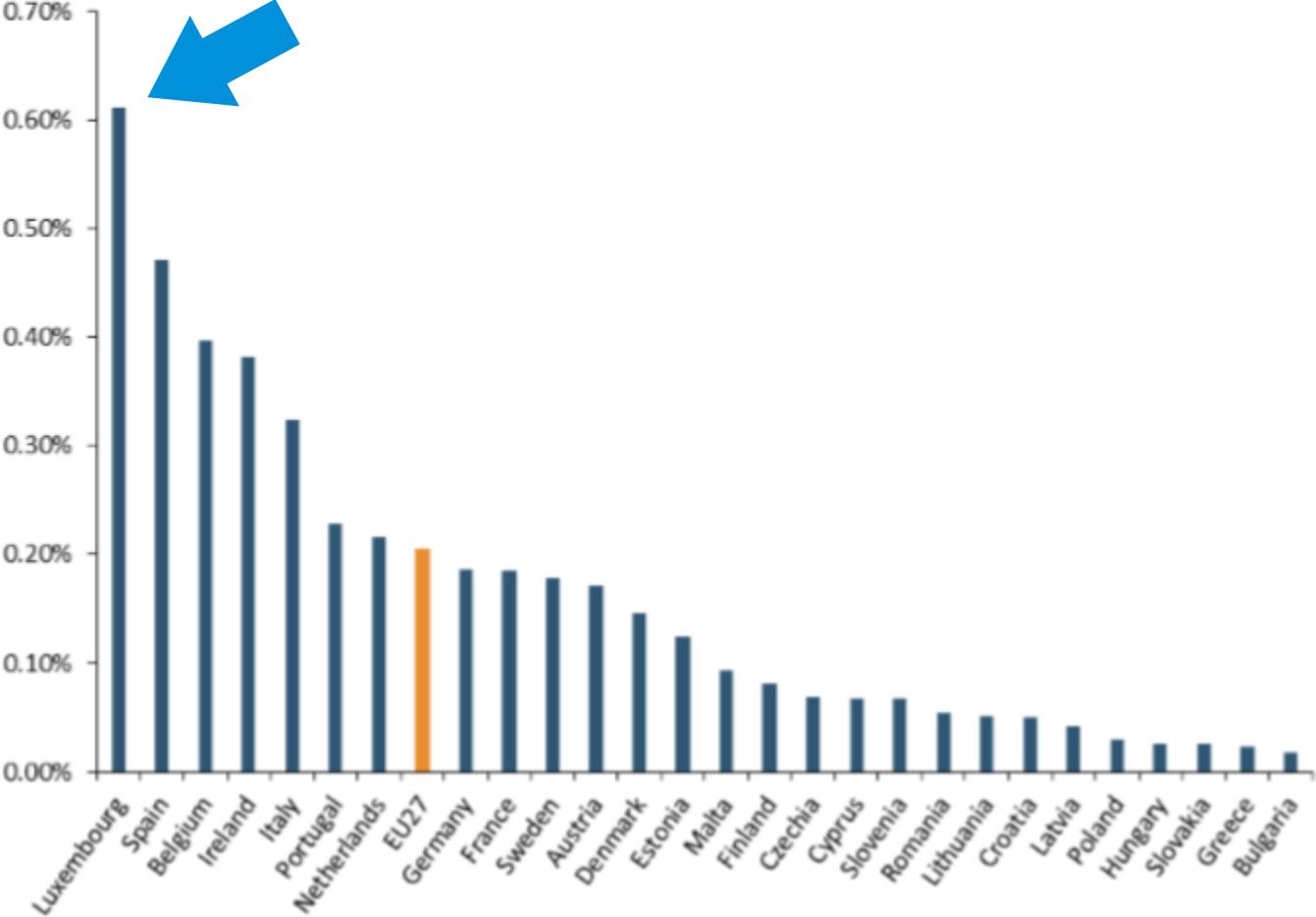
Governor of the Bank of Finland and Member of the Governing Council of ECB

- “The big problem is that **uncertainty** in the global economy has persisted for a rather long time already – mainly **triggered by the global trade conflicts**. This is also reflected in Europe and the euro area. **Growth** in the euro area has slowed significantly recently. At the same time we are not forecasting a recession. However, we should not see the recent slowdown in growth as a brief temporary dip in the economy ... We are experiencing a longer phase of weaker growth. This calls for an **ample degree of monetary policy stimulus**.”
 - “... this **uncertainty** dampens investment and growth. Politicians should now finally tackle these problems in a good and peaceful way.”
- COVID changes everything: “Health first” overrules any other financial market issue, such as technical security, liquidity, cyber crime, etc. in order to keep a certain operational level of organisations
- Recovery after COVID: Will it be shaped like a **V** or a Nike Swoosh or the Amazon Prime



Source: *Börsenzeitung*, 4 July 2019 Interview with Olli Rehn

COVID in Luxembourg at April 2020



Source: European Centre for Disease Prevention and Control (ECDC) and EBA



Current STATEC figures

Population by sex and nationality on 1st January
(x 1 000) of years table by STATEC / CTIE

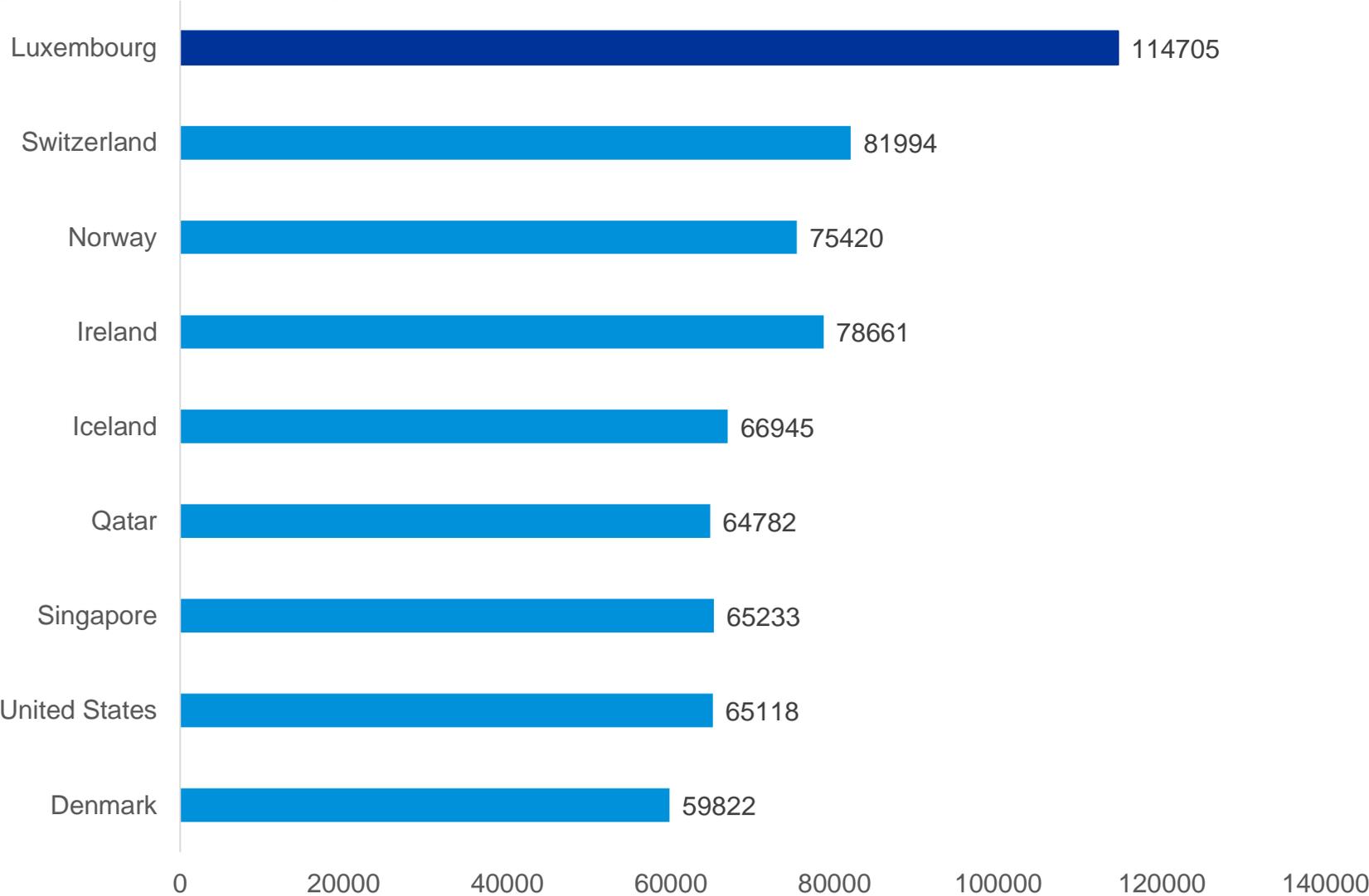
Year	1981	1991	2001	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Population														
Total population (x1000)	364	384	439	502	512	524	537	549	563	576	590	602	614	626
of which: Women	186	196	223	252	257	263	268	274	281	287	294	299	305	311
Luxembourgers	268	271	277	285	291	295	298	300	304	307	309	313	322	330
Foreigners	95	113	162	216	220	229	238	248	258	269	281	288	292	297
of which: Portugal	29	39	58	79	82	85	88	90	92	93	96	96	96	95
France	11	13	20	29	31	33	35	37	39	41	44	45	47	48
Italy	22	19	19	18	18	18	18	18	19	20	21	21	23	23
Belgium	7	10	14	16	16	17	17	18	18	19	20	20	20	20
Germany	8	8	10	12	12	12	12	12	12	12	13	13	13	13
Britain	2	3	4	5	5	5	5	5	6	6	6	5	6	5
Netherlands	2	3	3	3	3	3	3	4	4	4	4	5	4	4
Other EU	10	6	9	20	21	23	24	27	29	32	34	36	38	40
Other	...	9	22	30	28	31	32	34	36	39	41	43	45	49
Foreigners in %	26	29	36	43	43	48	44	45	45	46	47	47	48	47

Source: STATEC



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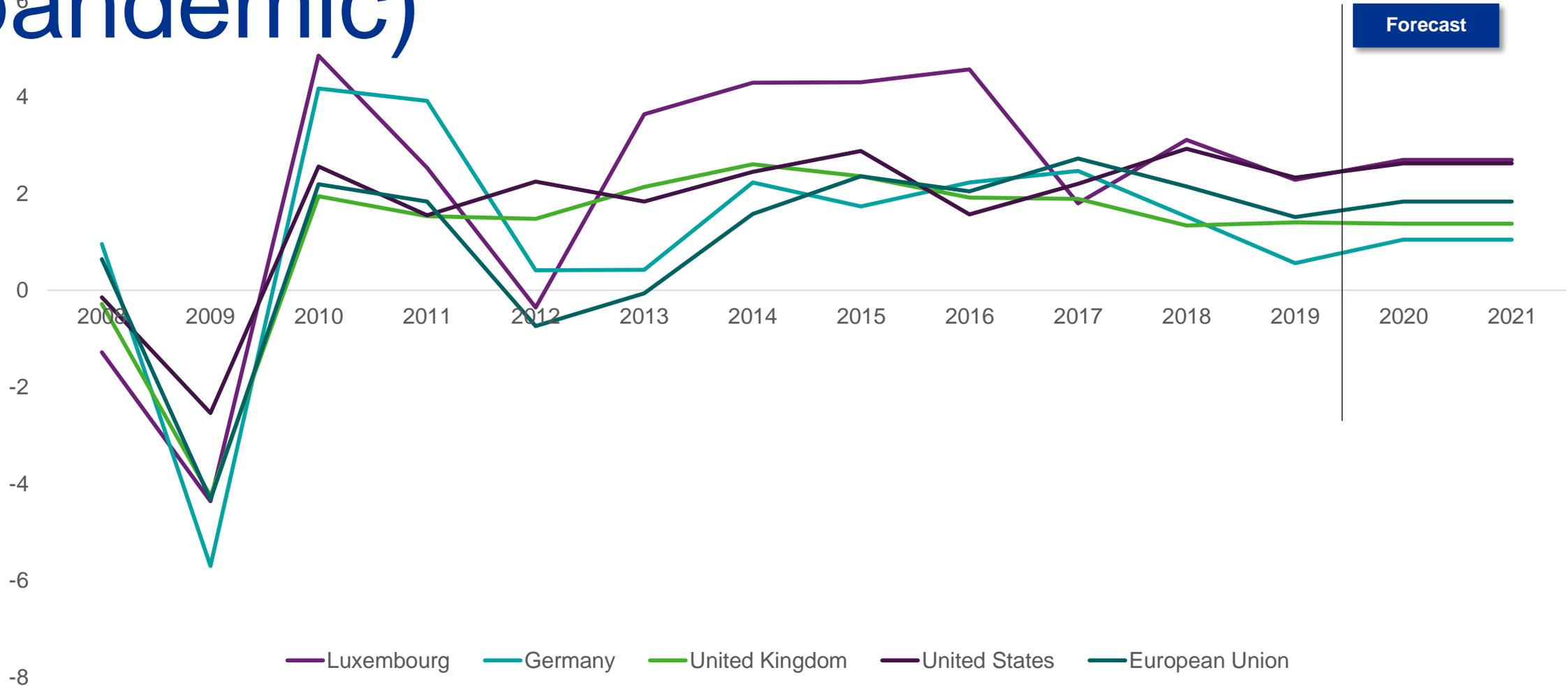
GDP per capita



Source: databank.worldbank.org



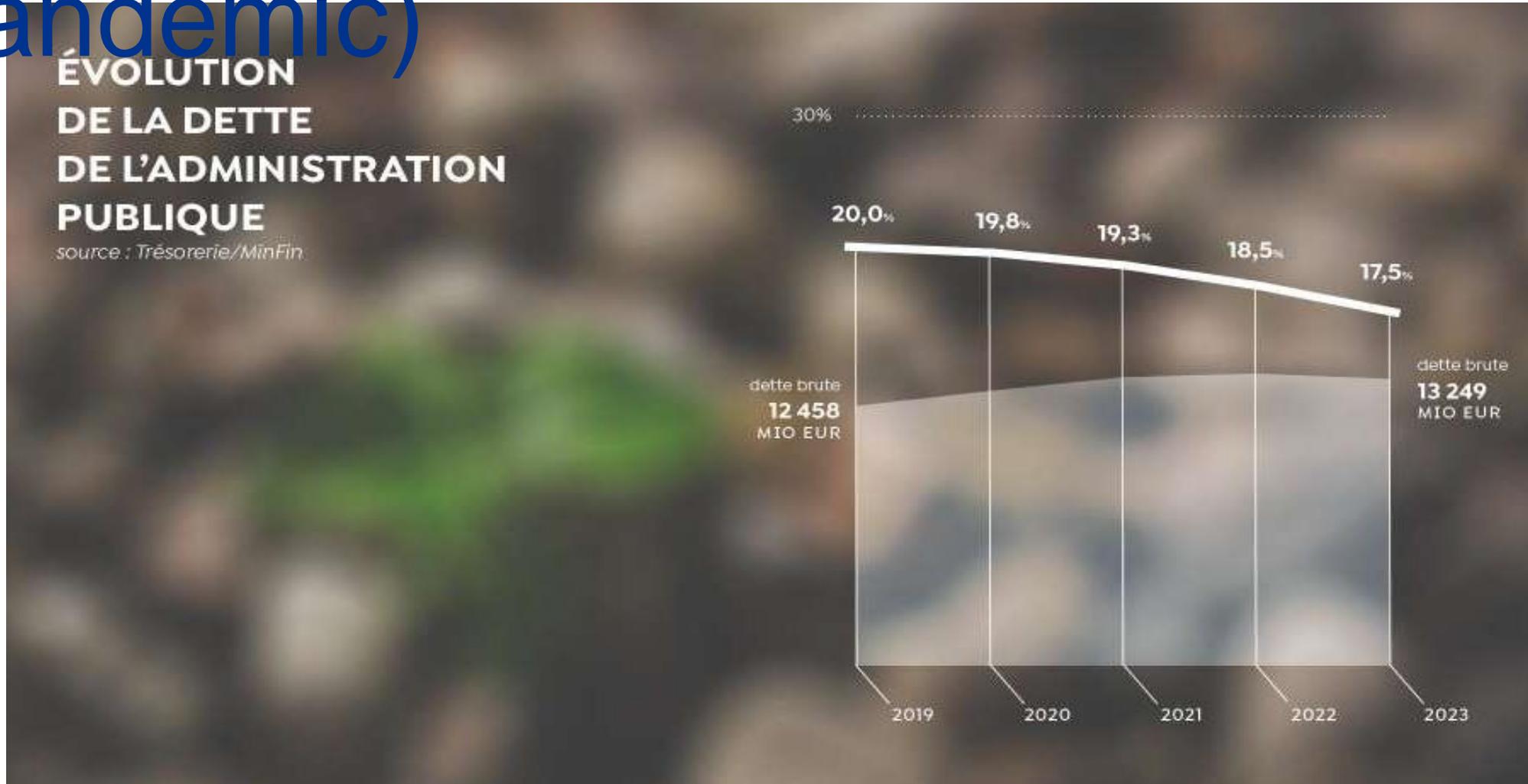
GDP growth rates (Oct 2019 pre pandemic)



Source historical data: Worldbank.org
Source Forecast: Forecast.imf.org



Public debts (October 2019 pre pandemic)

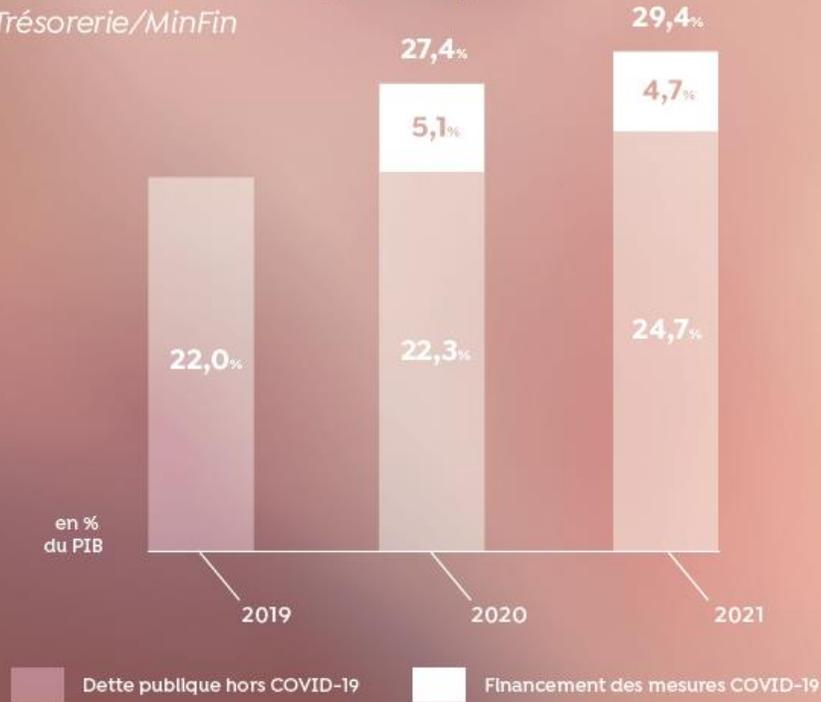


Source: budget.public.lu

Public debts (October 2020)

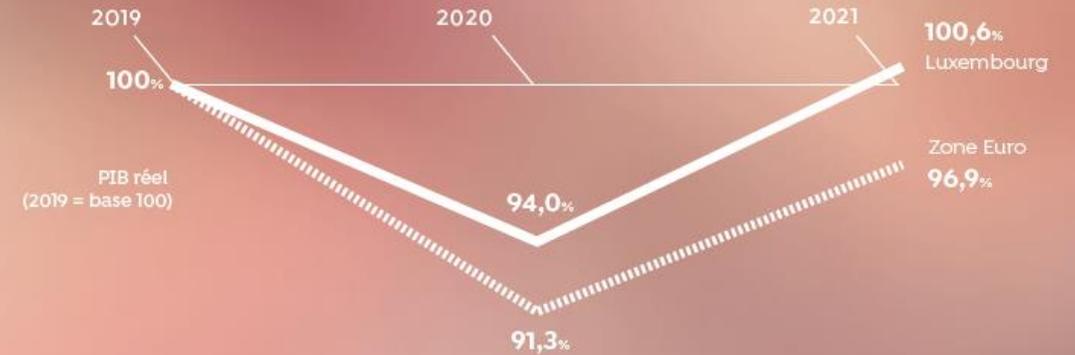
Évolution de la dette de l'Administration publique

source : Trésorerie/MinFin



Évolution du PIB réel

source : STATEC

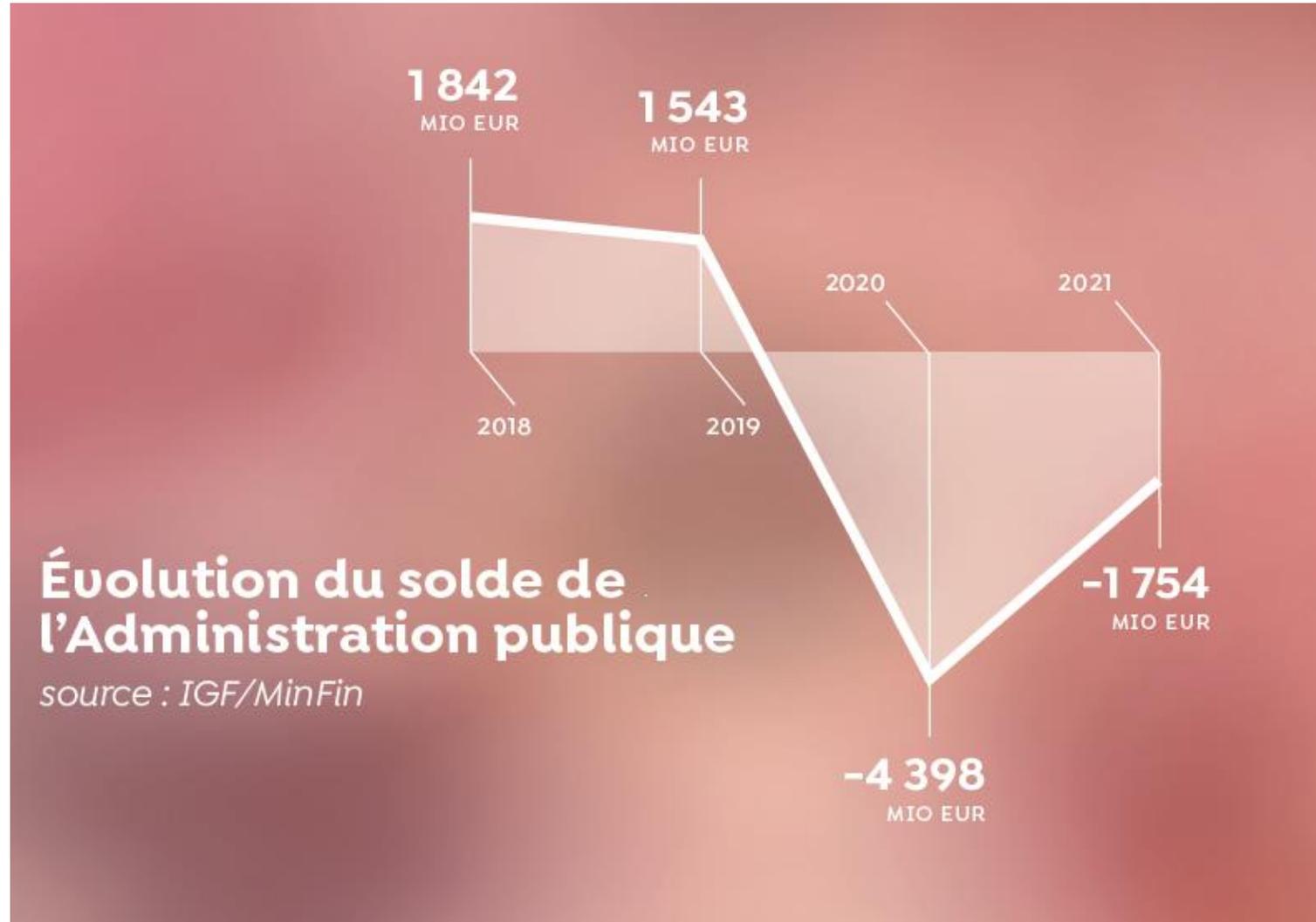


Source: IGF/MinFin
Source: STATEC



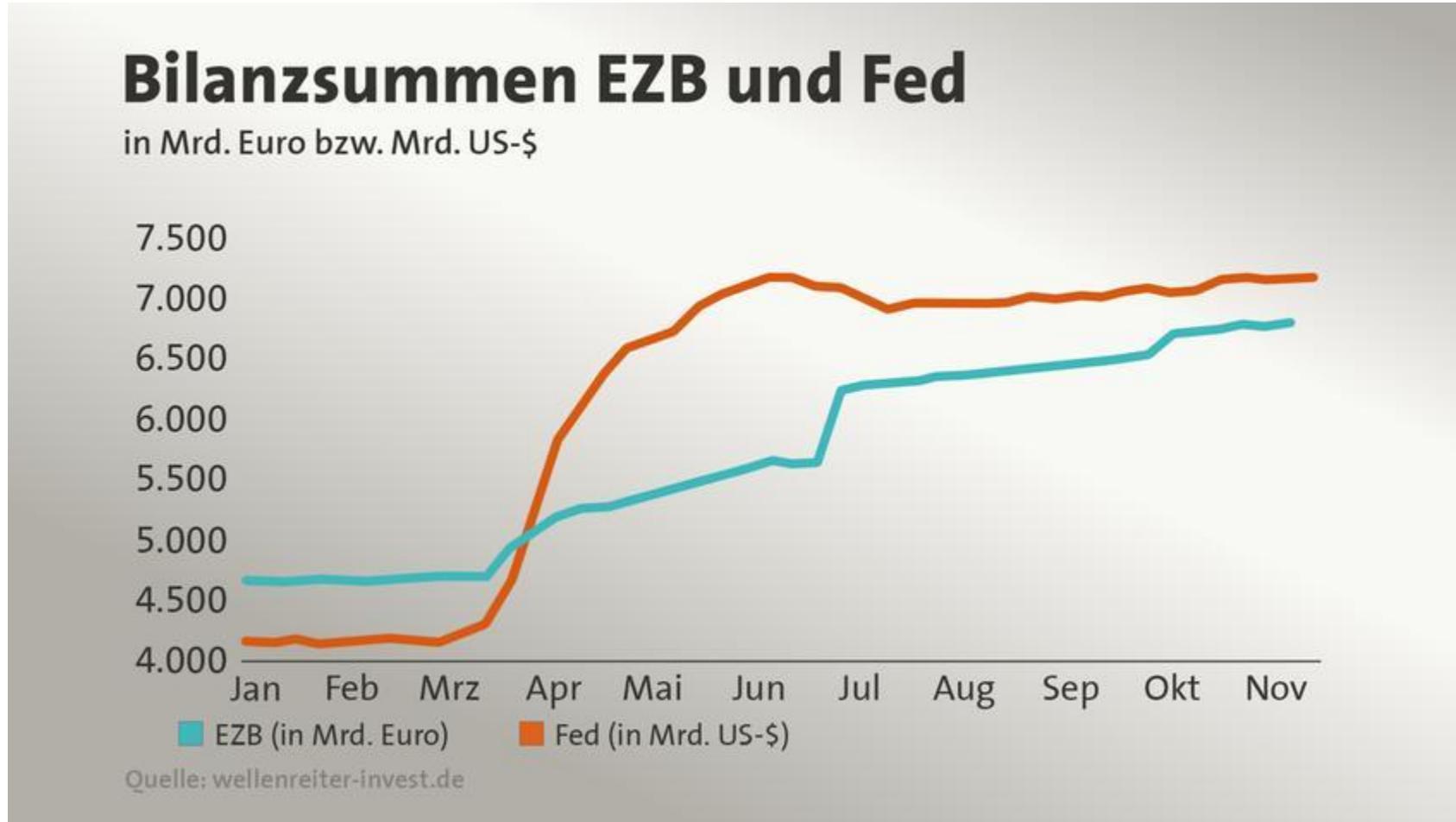
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Public debts



Source: IGF/MinFin

Central banks „Bazooka“



Source: wellenreiter-invest.de

Interest rate





Insights into the financial sector

Top 15 Western Europe Centers

GFCI: Global Financial Centres Index

Center	GFCI 28		GFCI 27		Change		Change	
	Rank	Rating	Rank	Rating	in Rank		in Rating	
London	2	766	2	742	0	-	1	▲
Zurich	10	724	14	719	4	▲	5	▲
Luxembourg	12	719	18	715	6	▲	4	▲
Edinburgh	13	718	17	716	4	▲	2	▲
Geneva	14	717	9	720	5	▼	12	▼
Frankfurt	16	715	13	720	3	▼	5	▼
Paris	18	713	15	718	3	▼	5	▼
Amsterdam	22	701	27	703	5	▲	2	▼
Madrid	28	692	43	678	15	▲	14	▲
Dublin	34	679	30	698	4	▼	19	▼
Milan	38	670	42	679	4	▲	9	▼
Munich	48	653	37	687	11	▼	34	▼
Vienna	54	640	38	685	16	▼	45	▼
Jersey	55	637	49	666	6	▼	29	▼

Source: longfinance.net



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Banks

**ECB Financial Stability Review 25 Nov
2020:**

„Bank profitability prospects are very weak, and losses could materialise with a lag relative to the economic recovery“

Luxembourg Banking Insights 2020

Where does your bank stand vis-à-vis competitors?



In collaboration with
Luxemburger Wort
www.wort.lu

<https://home.kpmg/lu/en/home/insights/2020/07/luxembourg-banking-insights-2020.html>

Origin of Luxembourg banks

2019



2020



Source: CSSF, KPMG Banking Insights 2019/2020



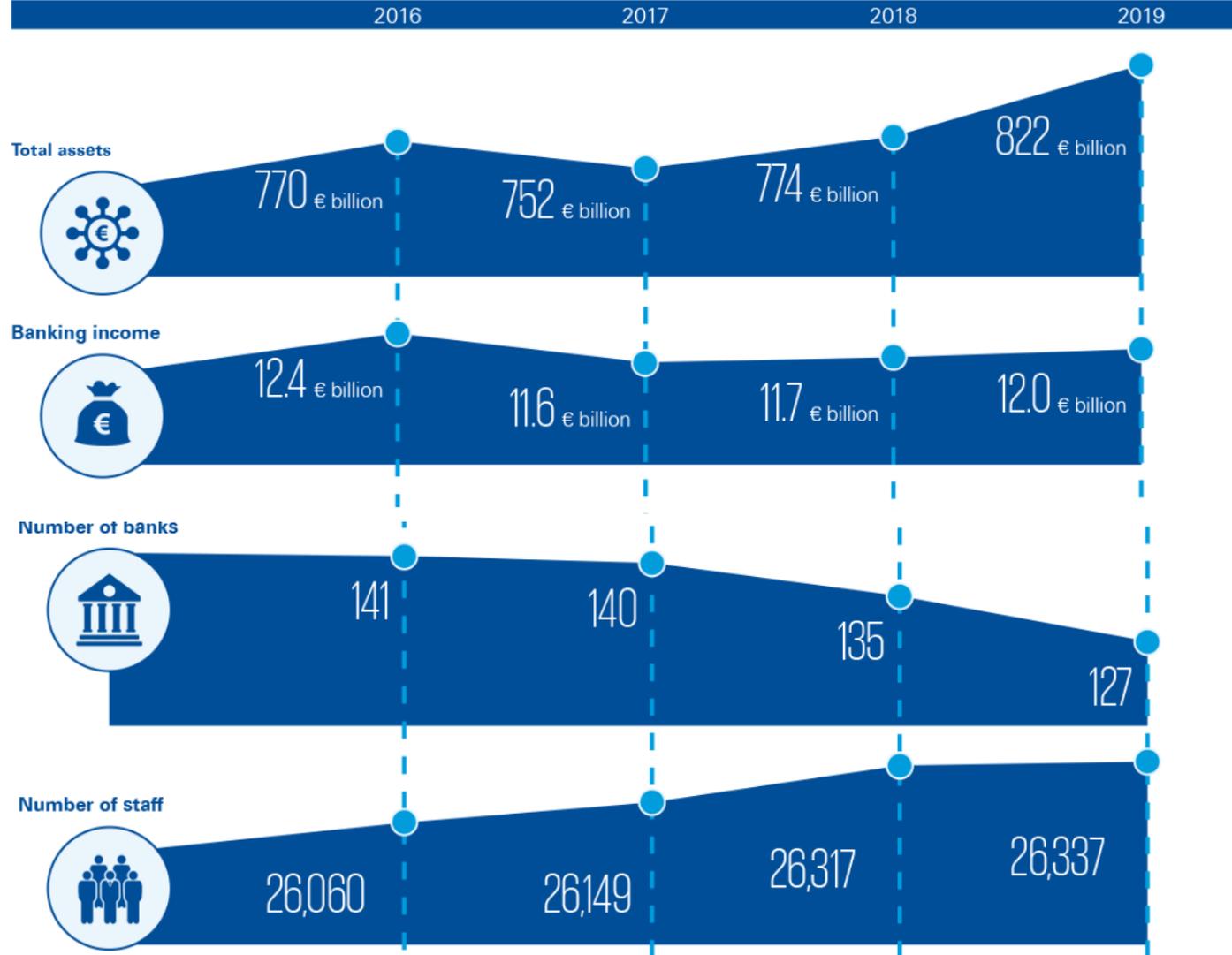
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Origin of Luxembourg banks



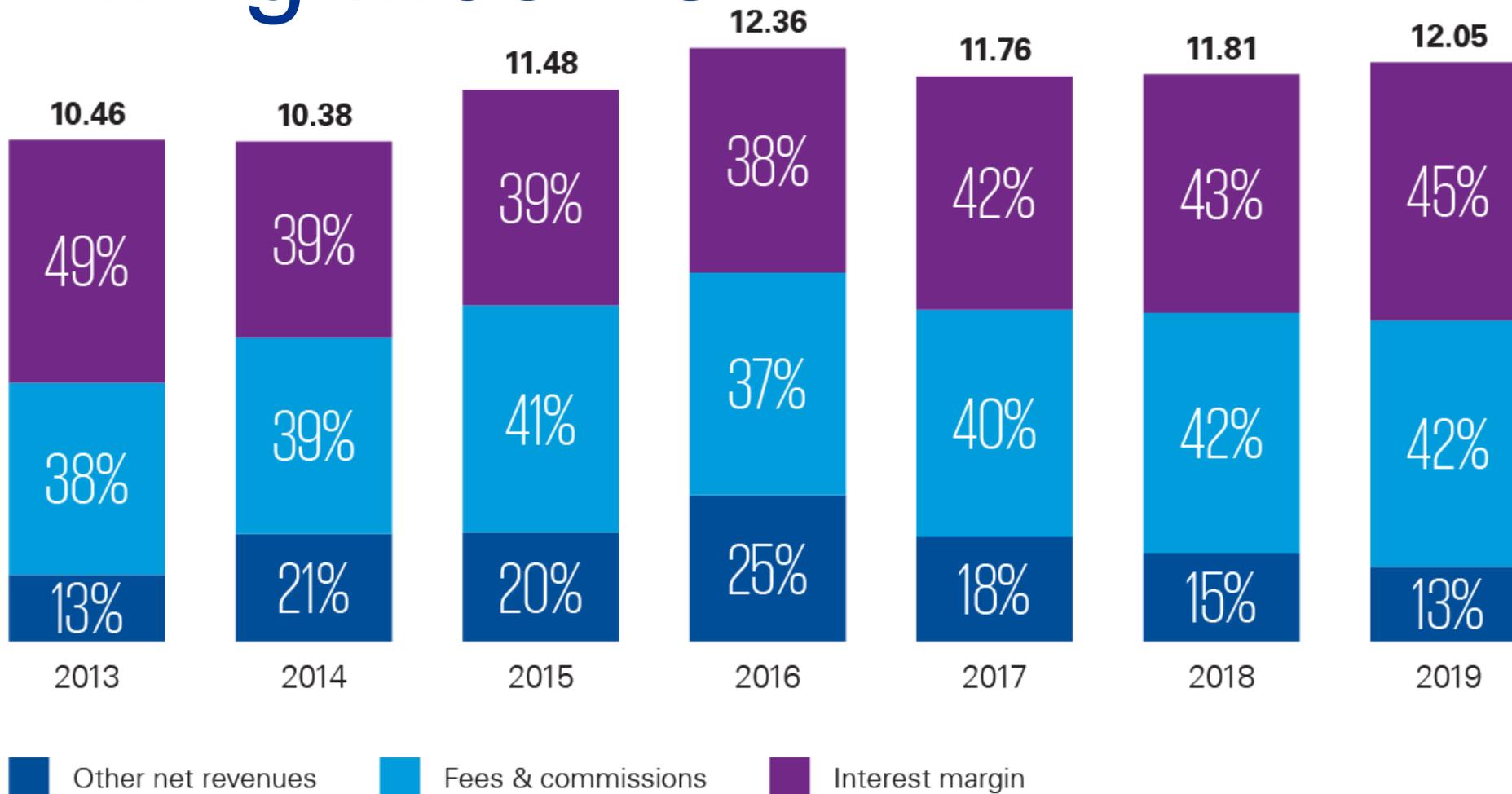
Source: CSSF, KPMG Banking Insights 2019/2020

Size of the Lux Banking Industry



Source: CSSF, KPMG Banking Insights 2020

Banking Income



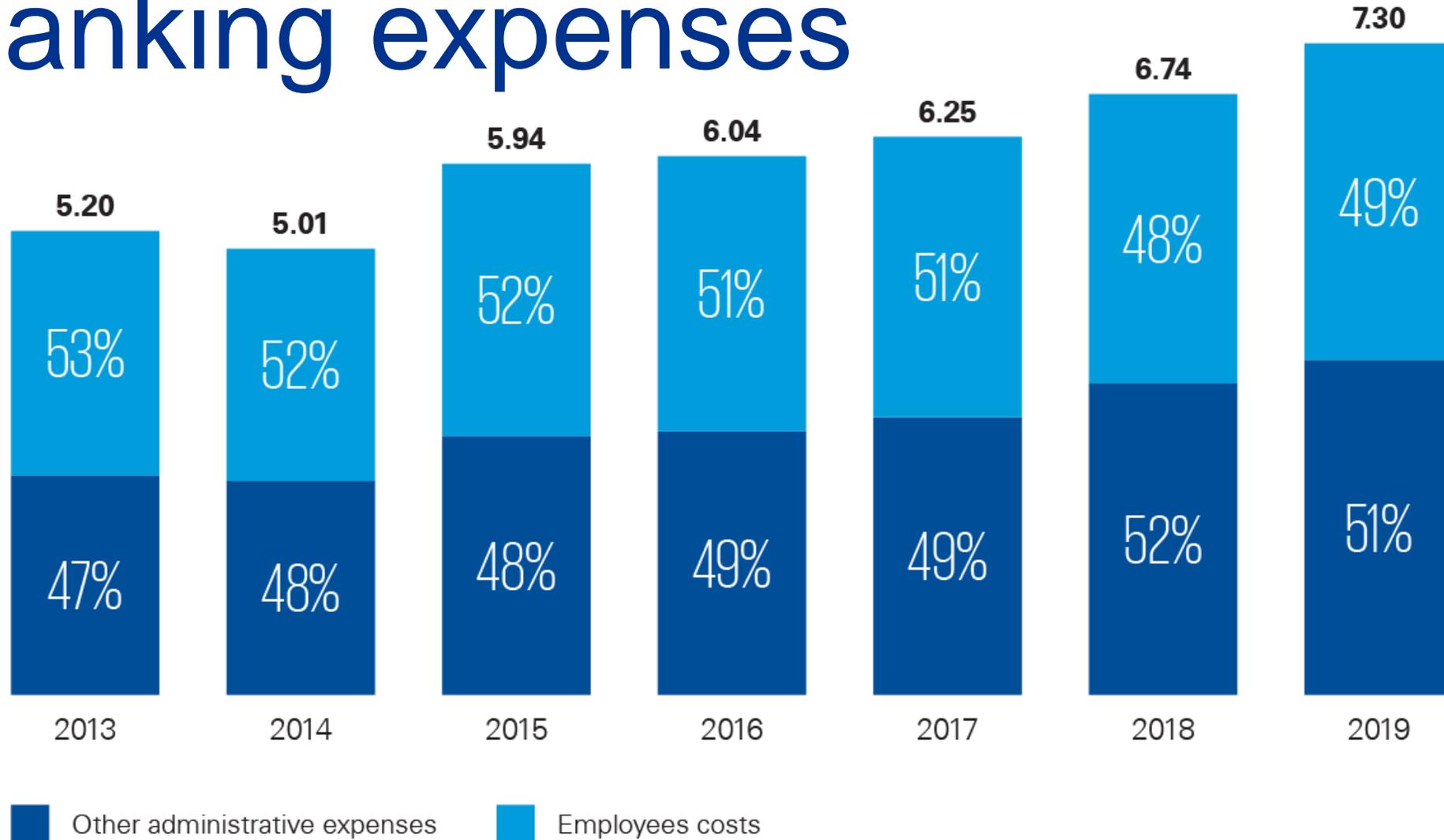
Source: CSSF

Source: CSSF, KPMG Banking Insights 2020



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Banking expenses



Source: CSSF

Source: CSSF, KPMG Banking Insights 2020



Top 10 banks by number of staff

Staff (Total number)

Bank	2019	2018	% change
BGL BNP Paribas S.A.	2375	2474	-4.00%
Banque et Caisse d'Epargne de l'Etat, Luxembourg	1862	1857	0.27%
Banque Internationale à Luxembourg S.A.	1847	1843	0.22%
J.P. Morgan Bank Luxembourg S.A.	1524	360	+100%
RBC Investor Services Bank S.A.	1316	1295	1.62%
Société Générale Luxembourg	1275	1252	1.84%
Banque de Luxembourg S.A.	962	907	6.06%
DZ PRIVATBANK S.A.	921	939	-1.92%
ING LUXEMBOURG S.A.	875	832	5.17%
Banque Raiffeisen Société Coopérative	666	638	4.39%

Source: Banking Insights 2020



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Banks in times of COVID

quotes from Finance Minister P Gramegna

“Banks agreed to payment holidays worth over EUR 3.5 billion and the acceptance rate is over 95%.”

“... a bill was approved by Parliament establishing a EUR 2.5 billion guarantee for State-backed loans. ... the State takes on 85% of the risk while banks cover the remaining 15%.”

“Having an international financial centre is a considerable advantage in this crisis.”

Banking Regulation “... thanks to this extensive new regulatory framework, Europe is arguably the region of the world with the most sophisticated legal framework to prevent crises.”

“Banks based in Luxembourg have very high liquidity and solvency ratios ... If the economic crisis extends over a long period, the number of bankruptcies will increase in many European countries and that will naturally have an impact on credit defaults and banks’ revenues.”

“We have seen many mergers over the past two decades. I believe this trend will continue, and that the crisis will probably speed up the process.”

Source: CSSF, KPMG Banking Insights 2020



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Banks in times of COVID

quotes from **CSSF DG** Claude Marx

“Banks had solid business continuity plans in place but, above all, discipline was good.

“I can confirm that there were no major operational incidents during the lockdown.””

“That is one positive takeaway from this crisis: the banks were fully functional, and the CSSF was fully functional.”

“... we will face a growing number of bankruptcies and many non-performing loans.. a loan that is not serviced for a certain period must be classified as non-performing. This would be a global problem, not just a Luxembourg problem. That’s why the IMF is warning of the risk of sliding into financial crisis”

“Bank profitability in Luxembourg will certainly take a hit, but less so than financial institutions in countries that have a greater focus on retail and commercial banking.”

“... regulations cost money, oversight of the regulations costs money, plus salaries in finance are high, as are the rents. The fact is that expenses are not getting any smaller. ... a bank must have a natural critical mass ... Above all, unless it reaches a critical mass, it cannot be profitable..”

Source: CSSF, KPMG Banking Insights 2020



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Focus areas for the regulators



EUROPEAN CENTRAL BANK



Commission de Surveillance
du Secteur Financier

SSM agenda 2020

- Non-Performing Loans
- Internal ratings-based models
- Risks in the financial markets
- Business Model
- IT and cyber risk
- Stress testing
- Brexit

SSM agenda 2019

- Cyber criminality & IT disruptions
- Non-Performing Loans
- Low interest environment
- Risks in the financial markets
- Geopolitical uncertainties
- €uro-zone economic development

Source: ECB, CSSF



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EU Banking industry November 2020

- Economic situation has an immediate cost and income effect for banks which had already suffered a low profitability situation before COVID
- COVID consequences: non-performing loans impact capital ratios, lending capacity, funding constraints
- Strong competition including non-banks taking over banking functions, eg. payment transactions, investment advice etc
- Reputation issues on-going (AML, Governance, cum-ex)
- EU vs US: regulation vs deregulation under current US Government; Different interest levels € vs \$ since 2013; negative interest by ECB



→ **It was a challenging environment for success in operational banking before COVID, now it is definitely even more, potentially dangerous!**



Funds

Financial Stability Board, November 2020:

„The investment funds sector has **more than doubled over the past decade** and now stands at well **over USD 50 trillion**”

Luxembourg Home of the Global Fund Industry



Leader

in global fund distribution

98/100



Out of the top 100 asset managers worldwide, 98 have funds domiciled in Luxembourg

62%

global market share in cross-border investment funds

€4,6 trillion

AuM in investment funds



2nd

largest investment fund centre worldwide

Luxembourg funds are distributed in

70

countries



35%

Luxembourg has the leading European market share of responsible investment funds

Prime
location

for alternative investments

1st

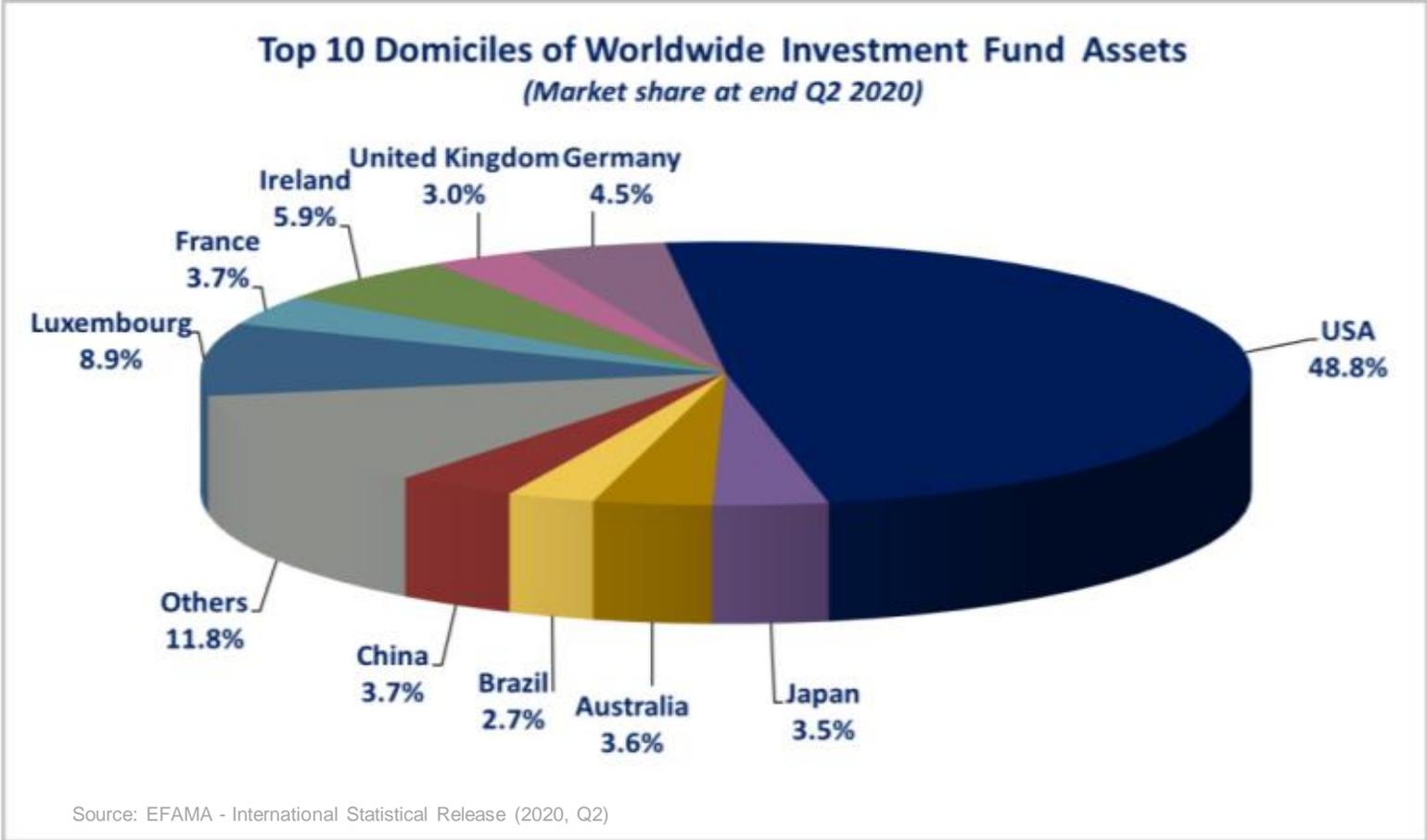
largest market share of listed Green bonds in the world

Source: KPMG



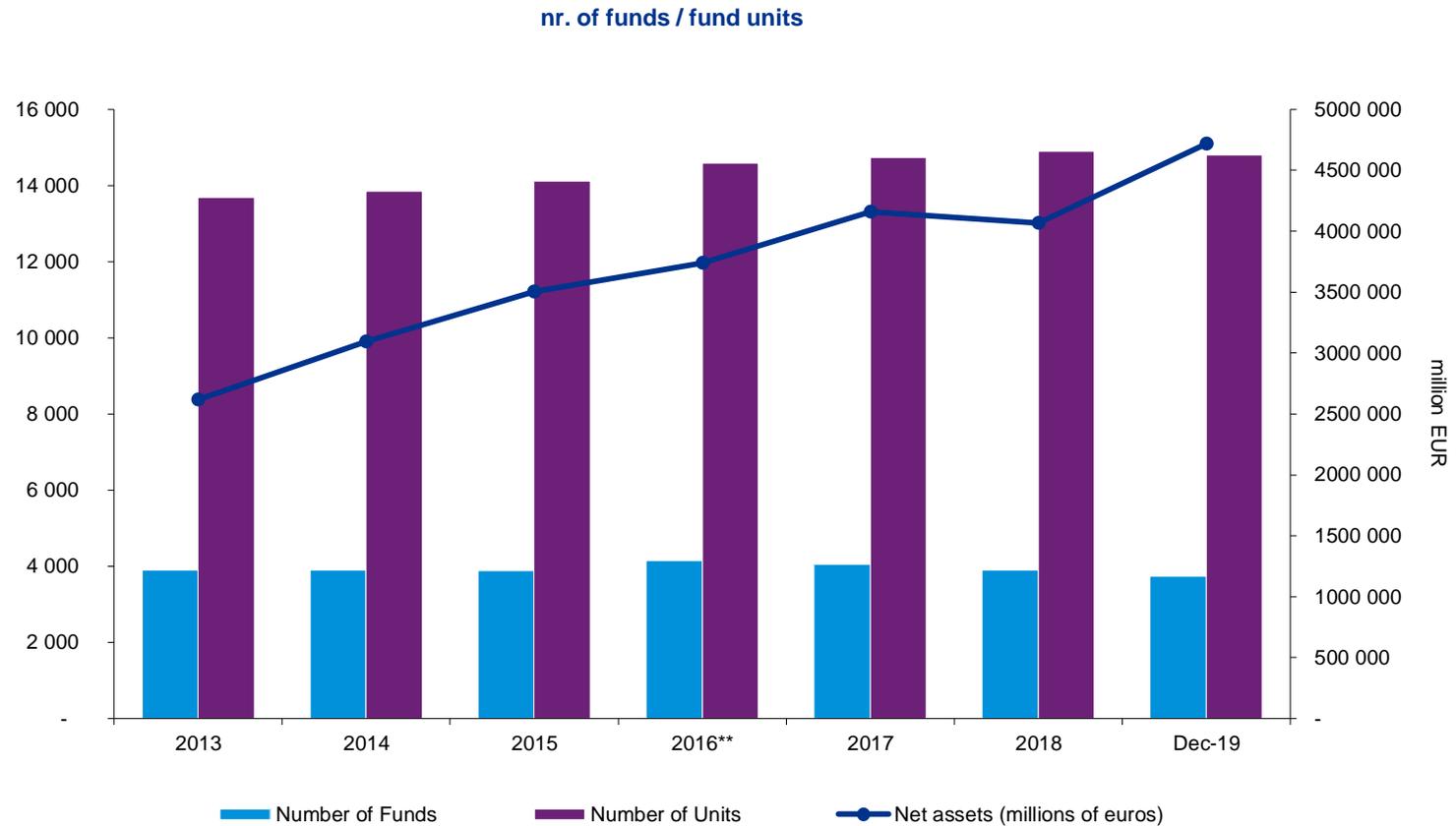
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Luxembourg is leading in Europe



€ 4,585 billion
net assets under management

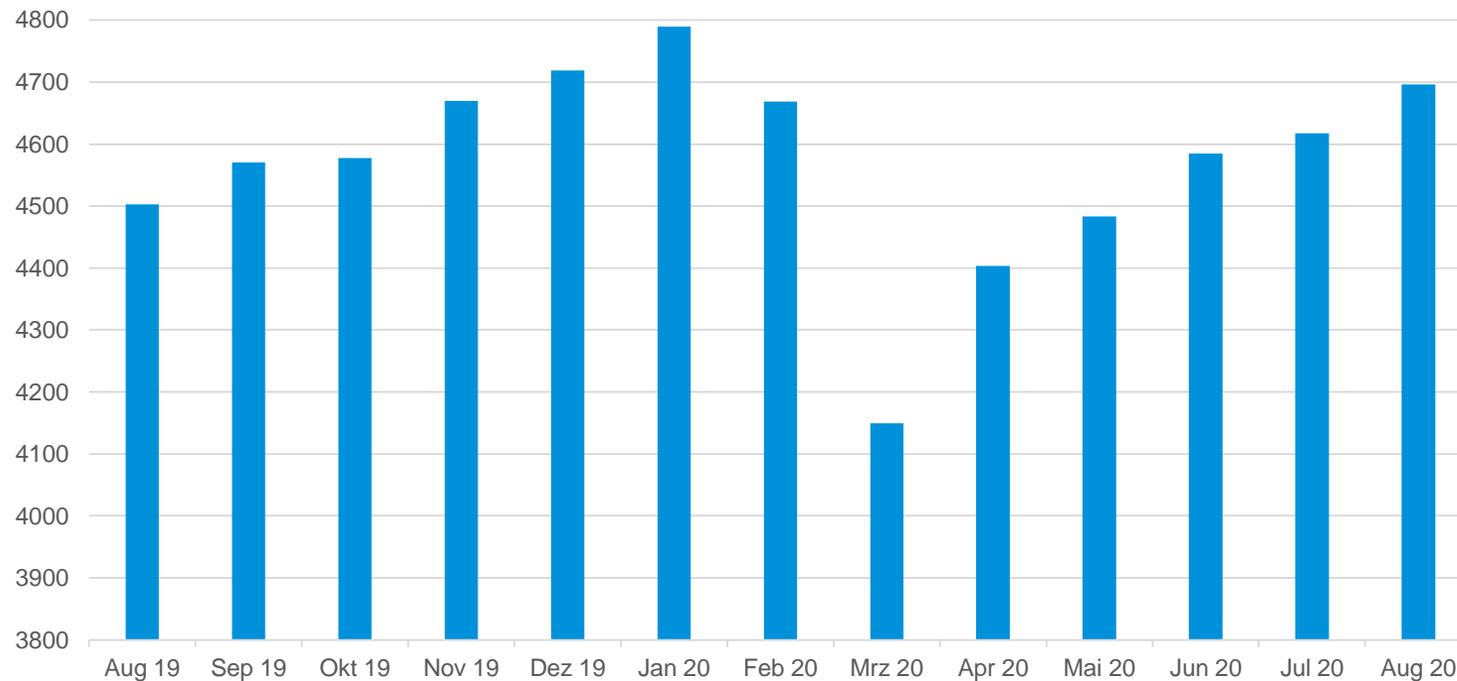
Luxembourg funds and net assets



Source: ALFI, CSSF

Net assets under management in Luxembourg funds (bn €)

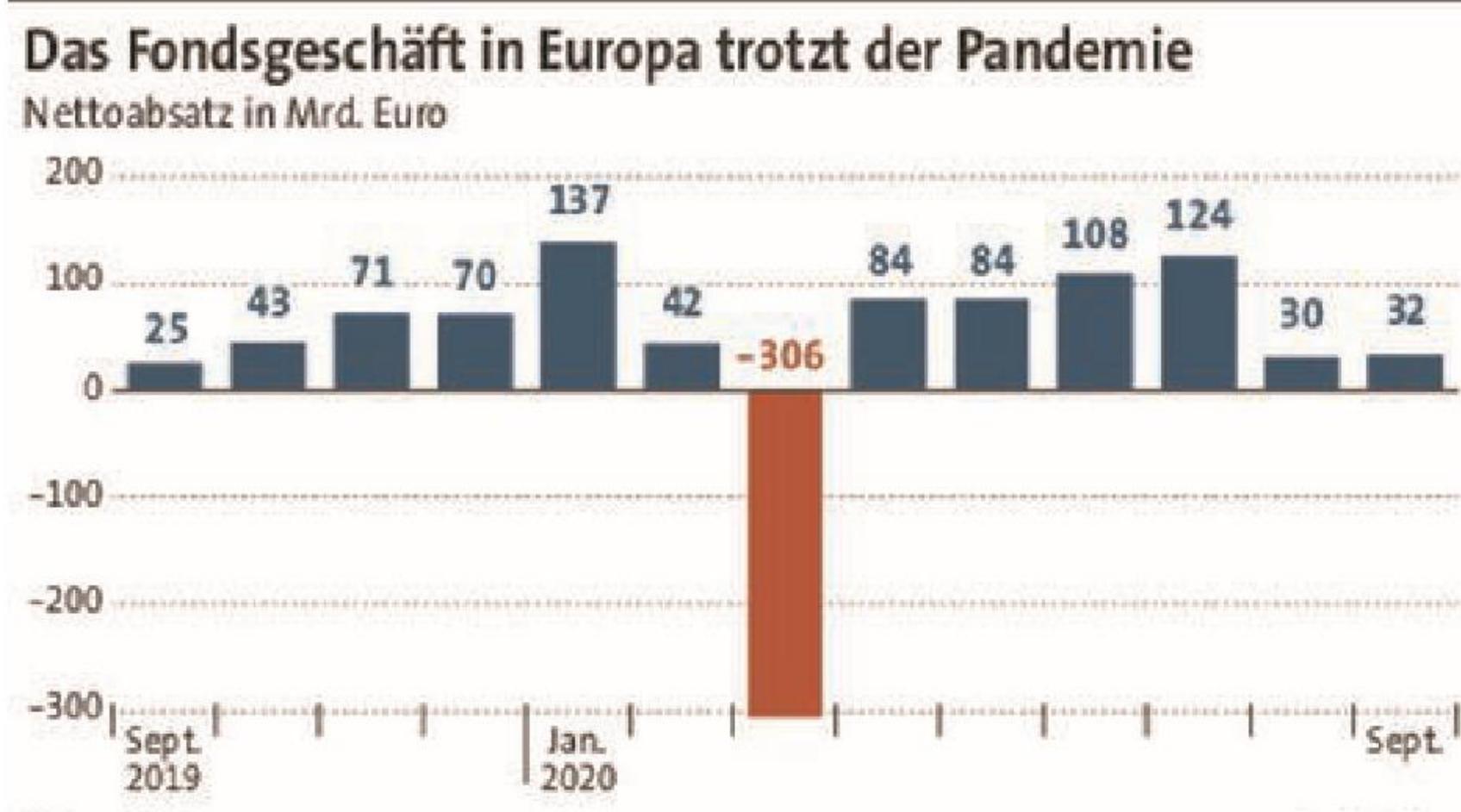
Growth rate over last 12 months: 4.31%



August 2020:
€ 4696.76 bn

Source: CSSF/ALFI, Note: Data includes SICARs

Funds in Europe growing during COVID



Inflows	2020	2019
9 months	in billion €	
UCITS	240	242
AIFs	93	104
Total	333	346

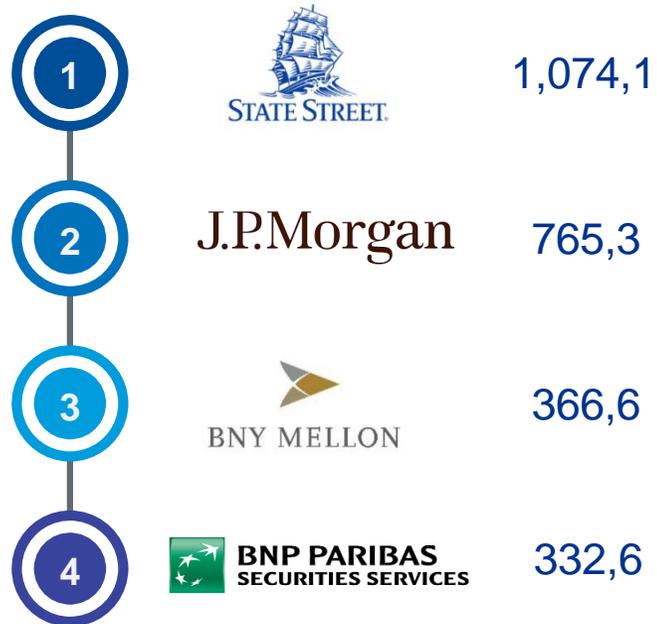
Source: Börsenzeitung, EFAMA



Top players: Fund Administrators & Promoters

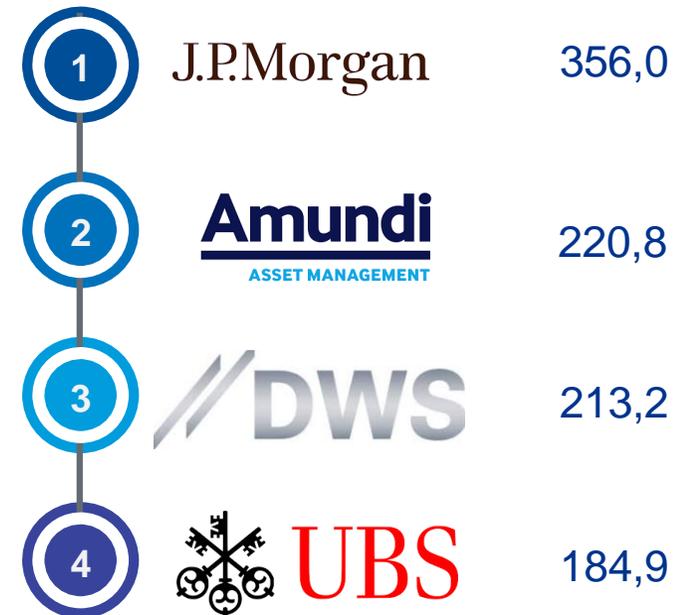
Top Fund Administrators

Net Assets in billion USD, YE 2019



Top Fund Promoters

Net Assets in billion USD, YE 2019



Source: Monterey Insight – Luxembourg Fund Report 2020



Insurances

Insurance sector key data 2019

thereof: 4263 working
in Luxembourg



Somme des bilans	302	milliards €	(+25,4%)
Assurance-vie	215	milliards €	(+17,3%)
Assurance non vie	39	milliards €	(+166,3%)
Réassurance	48	milliards €	(+11,6%)

Encaissement de primes	51	milliards €	(+31,2%)
Assurance-vie	27	milliards €	(+12,4%)
Assurance non vie	13	milliards €	(+177,7%)
Réassurance	11	milliards €	(+9,9%)

Résultats après impôts	1.295	millions €	(+99,5%)
Assurance-vie	365	millions €	(+69,6%)
Assurance non vie	74	millions €	(-53,7%)
Réassurance	855	millions €	(+213,4%)

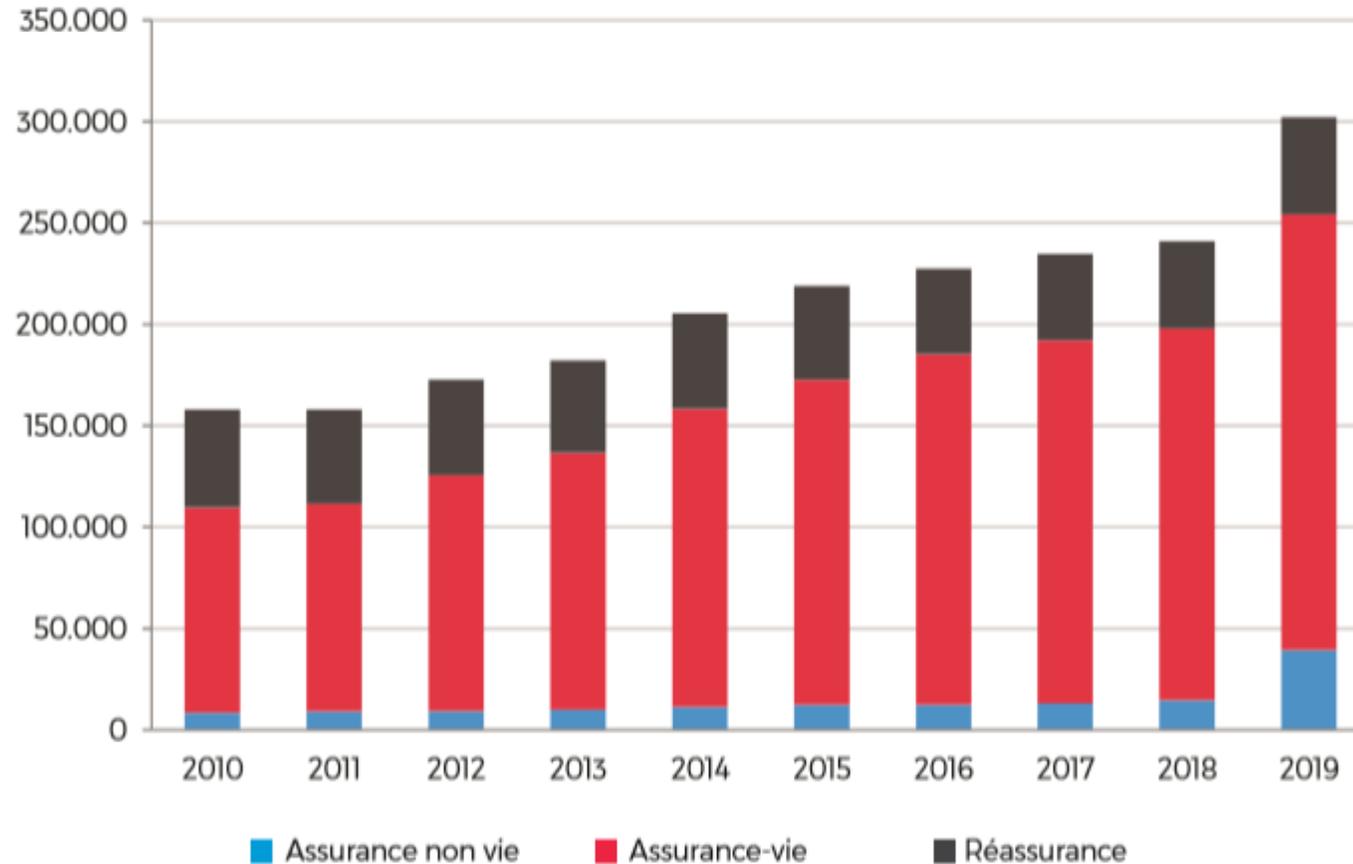
Impôts luxembourgeois	345	millions €	(+69,4%)
Impôt sur le revenu	290	millions €	(+91,2%)
Impôt sur les primes	45	millions €	(+6,3%)
Impôt "service d'incendie"	7	millions €	(+2,5%)
Impôt "service secours"	3	millions €	(+5,3%)



Emploi	13.271	ETP	(+56,0%)
Entreprises d'assurance-vie	2.787	ETP	(+3,7%)
Entreprises d'assurance non vie	8.284	ETP	(+120,2%)
Entreprises de réassurance	1.622	ETP	(+7,4%)
Sociétés de courtage et courtiers	578	ETP	(+5,5%)

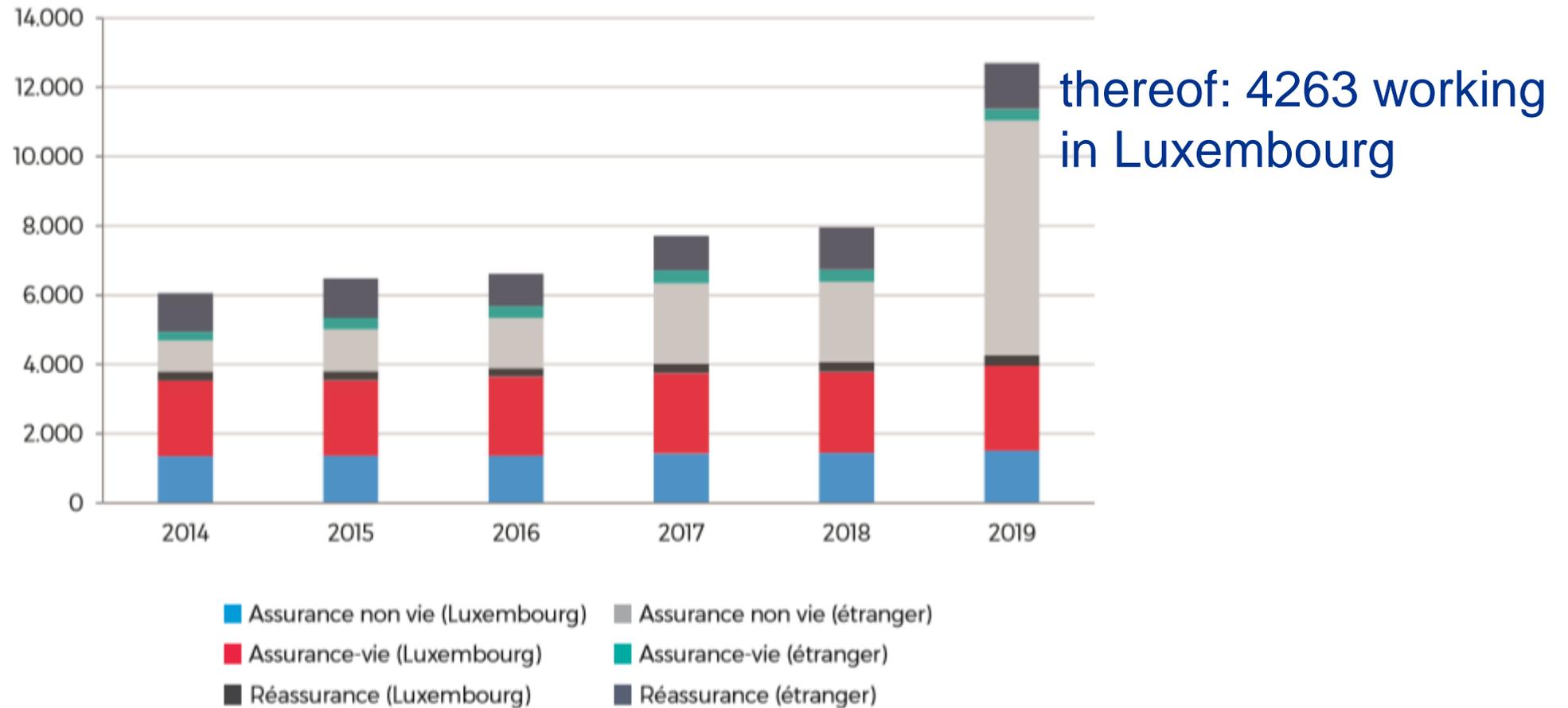
Source: CAA Annual Report 2019/2020

Development of the insurance sector – Balance sheet in bn EUR



Source: CAA Annual Report 2019/2020

Employment in the insurance sector



Source: CAA Annual Report 2019/2020



BREXIT “hurry up”



Picture: Banksy

BREXIT impact in financial services

UK clearing houses have been allowed to work with EU customers until June 2022

Contracts dependent on EU membership are redrafted or moved by the firms under a newly licensed subsidiary in the single market

“Passporting” for the banking sector will end, with an impact for EU residents who use British banks

Personal data transfers, essential for the conduct of finance operations, will become illegal without mutual adequacy assessments

“Equivalence” rulings, while they generally don’t grant market access on their own, allow a lighter regulatory regime for areas ranging from auditing to insurance to financial conglomerates.

Source: ABBL, Politico



Outlook

Political risks & market influences

The **COVID-19 pandemic** is impacting all areas of financial services. In addition to broader economic impacts, there are significant challenges to the financial and operational resilience of firms and market infrastructure, including market volatility, asset valuations, liquidity concerns, disruptions to distribution and client on-boarding, increased communications with clients, staffing issues and remote working risks.



Climate change & sustainability

- increasingly important priorities for the global financial industry
- Enhanced regulatory oversight in this issue
- Call for broader corporate and social responsibility



Digitalisation & use of data

- Increasing digitalised environments
- Data protection/use across jurisdictions
- expectation to manage and maintain Big Data ethically



Resilience

- Increasing cyber sophistication and cyber attacks pose systemic threats
- Oversight and controls of outsourcing, remote working risks and reliance on third-party data management



Geo-political environment



- Rise of populism and nationalism runs counter to global markets
- Low level of trust in established institutions
- Dominant technology capabilities become a national security factor

Macro-economic risk



- Continuing global trade tensions and trends towards economic protectionism
- Growth forecasts remain weak across most jurisdictions

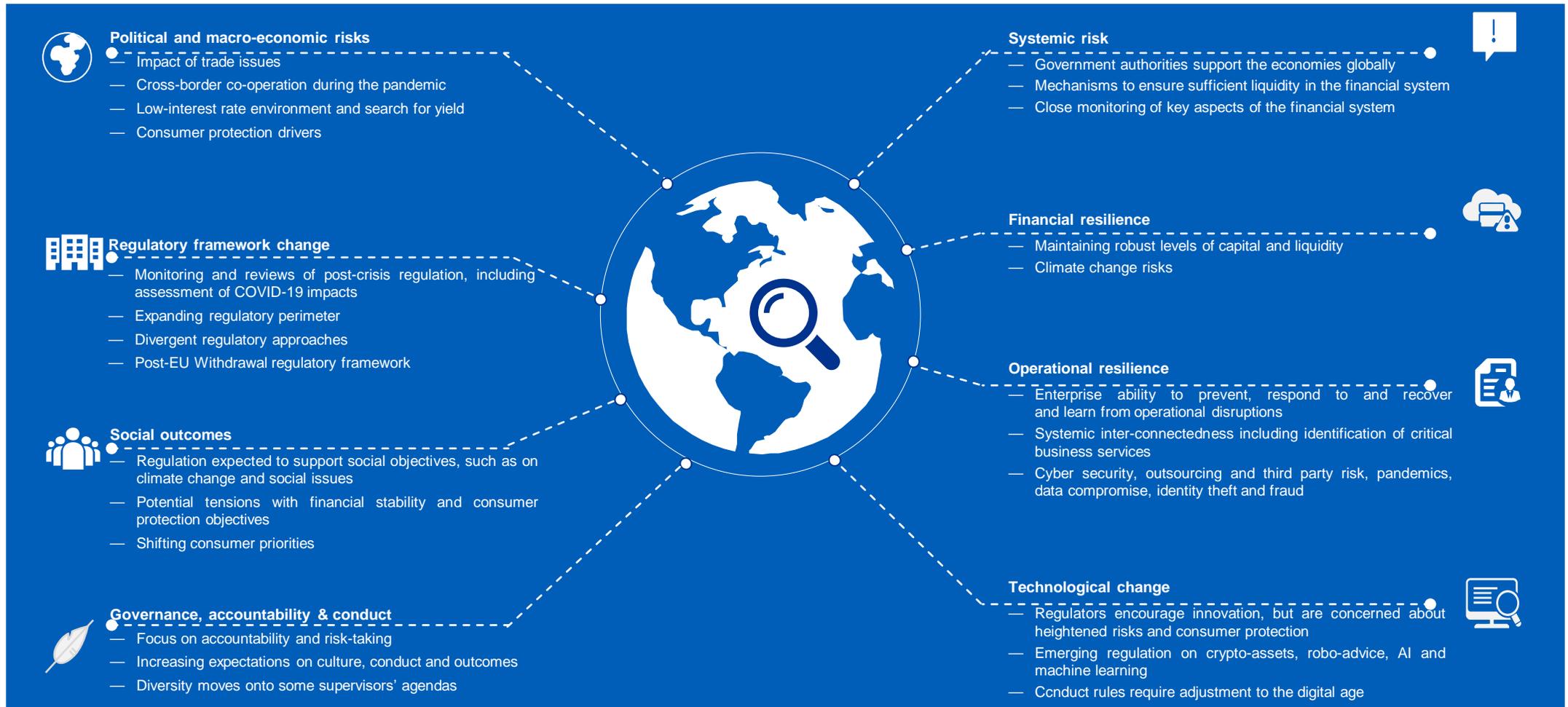
Technological transformation & disruption



- Technology changes consumer expectations and behaviours
- Financial innovation encourages new entrants and business models
- AI challenges existing decision-making structures
- Concentration risks in global technology providers

Regulatory challenges

In response to the COVID-19 pandemic, **regulators gave concessions** to existing requirements (such as capital, liquidity and reporting) and delayed implementation of some new measures. Supervisors have also **reminded firms of their obligations to customers and expect them to offer specific assistance** (such as moratoria on debt repayments, fair pricing, fair treatment of vulnerable customers and an overarching focus on good customer outcomes). The regulators continue to focus on a number of forward-looking themes.



Outlook



Banks

- Consolidation ongoing
- Digitalisation speeds up
- Regulation & Compliance
- High cost of banking and low income
- Non-performing loans due to economic situation



Luxembourg

- Staying competitive as financial centre
- Stressed budgets
- Balancing the Public debt & Pension system
- Improving education & infrastructure
- Support national economy



Funds

- Fund industry growing worldwide
- Lux Fund ecosystem
- Technological progress
- Regulatory scrutiny will increase due to its increasing role

Help needed?





Thank you for your attention !

Stay in good health, be safe!



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Thomas Feld
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