

Results of the CSSF/ABBL Private Banking Survey 2018

The ABBL Private Banking Group Luxembourg (PBGL) compiled the results of its 11th annual Private Banking Survey for 2018 performed, as in previous years, in close collaboration with the CSSF.

Luxembourg Private Banking Key facts

AuMs	EUR 363.4 bln* (EUR 360.7 billion**)	+0.7% 
Revenues	EUR 1.73 bln* (EUR 1.64 bln**)	+5.5% 
FTEs	Directly employed: 6,659* (6,733**) Client facing staff: 1,421* (1,427**)	-1.1% 
HCs	Banking Employment*** ▸ 2017: 26,149 ▸ 2016: 26,060	+0.3% 

*CSSF / ABBL Private Banking Survey 2018 – figures as of end of 2017

** CSSF / ABBL Private Banking Survey 2017 - figures as of end of 2016

*** CSSF website

*FTE: Full Time Employee equivalent (Private Banking)

**HC: Head count

Evolution of Private Banking assets under management (AuM) in Luxembourg was somewhat flat, rising by 0.7% compared to the previous year, reaching a total sum of €363,4Bln. This evolution reflects the consolidation of the sector at a respectable level, with AuMs now standing at 35% above the level reached before the financial crisis in 2008 (€271Bln) .

Member of



ABBL a.s.b.l.

R.C.S. Luxembourg: F352

EU Transparency register: 3505006282-58

Office address:

12, rue Erasme
L-1468 Luxembourg

Postal address:

P.O. Box 13,
L-2010 Luxembourg

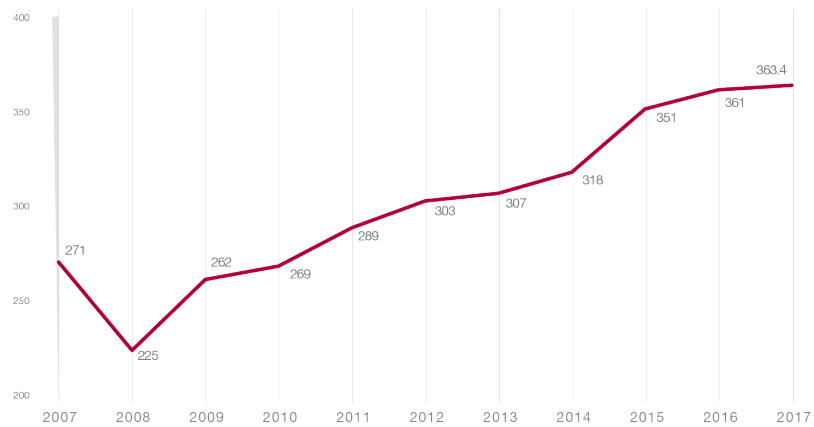
Tel.: (+352) 46 36 60-1

Fax: (+352) 46 09 21

mail@abbl.lu

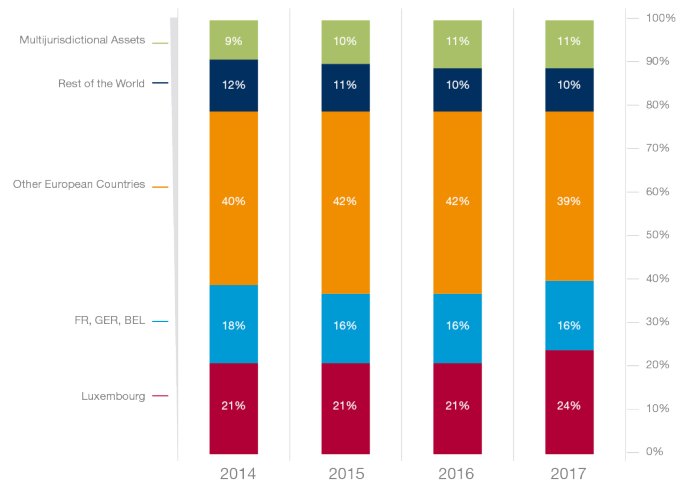
www.abbl.lu

AuM 2007-2017



In terms of geographic origin of assets, the EU undoubtedly remains the core market (66% of total AuMs) whilst banks are further expanding their geographical reach within the rest of Europe (Switzerland and non-EU European countries representing respectively 8% and 5% of AuMs) as well as beyond Europe (including Latin America and the Middle East).

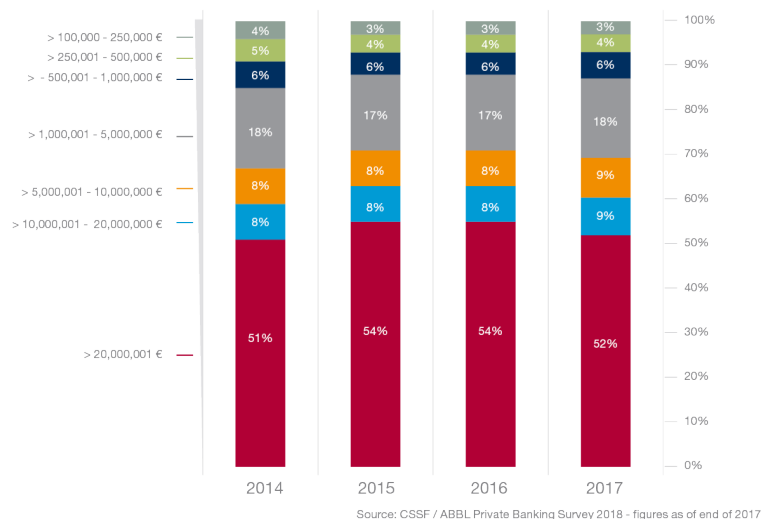
Geographic origins of assets



*Multi-jurisdictional assets: these are accounts of customers from several countries or regions, or customers grouped under life insurance contracts (the accounts are opened in the name of the insurance company).

The 2018 Private Banking Survey also highlights a stabilisation in the market structure towards higher client segments after a significant shift away from affluent client segments since 2015. In this respect, we note that client AuMs above € 5 million have represented around 60-65% of total Private Banking AuMs already since 2012. This is further evidence of the advantages of Luxembourg as an EU Private Banking hub offering a high degree of stability combined with recognised cross-border expertise.

Client Segments according AuM 2014-2017



In terms of **revenues**, 2017 appears to have been a rather positive year as a 5.5% increase was recorded overall by participants. This development led by an increase in commission income (e.g. management fees) may, at least in part, be explained by favorable market orientation as well as a certain degree of anticipation of the practical impact of MIFID II on the banks' business models and their investment services (move towards fee-based advisory services). Given the continuing pressure on costs due to regulatory compliance requirements, investments in operational systems or new products and services, we nonetheless expect profitability of private banks in Luxembourg will remain under pressure in the years to come.

Following a slight decrease in the number of staff employed in the private banking sector in the course of the 2014-2015 period, this figure has now stabilized at 6,659 headcounts, covering all business and support functions.

Evolution of Private Banking Staff 2014-2017

6495 6605 6733 6659

2014 2015 2016 2017

Whilst evolution of the Private Banking industry in Luxembourg is satisfying, a number of specific **challenges** remain to be addressed in order to retain the competitiveness of private banks in Luxembourg. Said challenges may as a matter course also provide opportunities for growth and development.

Luxembourg private banks currently face the following **main challenges**:

- **Strategic repositioning:** In light of increasingly complex and continuously growing regulatory requirements as well as a difficult economic environment, many banks have (and to a certain extent still are) taking far-reaching but necessary strategic decisions impacting their operational (a.o. by increasing process efficiencies, reducing costs) and business models / service offering (a.o. by focusing on core individual markets, client segments and country-specific products/services). As a result, we are witnessing, particularly since the beginning of 2018, a more sustained M&A activity in the Luxembourg private banking market and may expect some consolidation through acquisitions or exits in the years to come as financial institutions continue to adjust their strategies.
- **Digital transformation**, which inevitably goes together in the short and medium term with substantial investments both in (IT) systems as well as staff development, will continue to shape the future of the Luxembourg Private Banking industry in the years to come, in particular with respect to client interactions and servicing, i.e. the “client experience”. We expect to see:
 - Efficiency gains and process optimization from the extensive integration of digital tools, notably in the areas of KYC / client onboarding, advisory services and portfolio management (robo-advice), and client interaction (increased recourse to electronic and video communication channels, e-signatures, biometric identification, etc.);
 - Extended use and integration of “new” technologies such as robotics, AI and the blockchain technology;
 - Enhanced focus on data management (client as well as bank), monitoring, reporting and data security, as a key component of building client and supervisor trust;
 - Disruption from new entrants in the payments and robo-advice areas, but synergies will come from partnerships or other types of cooperation agreements with such actors.

The Private Banking sector may benefit from a number of Luxembourg **specific opportunities**:

- **The Luxembourg Private Banking Hub:** Over the years, Luxembourg has become a true European Hub for major financial institutions active in Private Banking. And we have seen this trend strengthening over time (e.g. among Swiss and French banking groups). More precisely:
 - Banks licensed in Luxembourg operate across the EU, allowing them to leverage their Luxembourg platform either through their own branch network or taking advantage of the European Passport to provide cross-border financial services, and
 - Some private bankers have further extended their offering by developing their Luxembourg hubs for servicing other group entities located either in Europe or even outside of Europe (e.g. Middle East).
- **Brexit:** The attraction of the Luxembourg financial centre for private banking activities was further confirmed by the recent announcements made by a number of U.K.-based

institutions, among which larger U.S. financial groups. These moves aim to ensure that potential Brexit-related disruption to business is adequately mitigated, and that clients can benefit from seamless intra-EU servicing out of the Luxembourg booking centre.

Acknowledgements

We would like to take this opportunity to thank all 64 banks that participated in this 11th edition of the CSSF / ABBL private banking survey 2018. Although performed on a purely voluntary basis by the participants, the **Survey achieved a market coverage exceeding 95% of the industry segment**. Obtaining consistent statistics allows us to gain a better understanding of and obtain reliable data on a regular basis to measure trends affecting private banking activities in Luxembourg.

By Alain Hondequin, General Counsel Business Clusters and
Fabio Mandorino, Adviser, Private Banking, Commercial Banking, Sustainable Finance