

# LUXFIN

# 2020

A VISION FOR  
THE DEVELOPMENT  
OF THE LUXEMBOURG  
FINANCIAL CENTRE

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by Pierre Gramegna,  
Minister of Finance

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## *Foreword*

Pierre Gramegna,  
Minister of Finance  
November 2015

Over the course of the last three decades, Luxembourg has been able to build a financial industry which is uniquely specialized in cross-border activities. This is a common feature throughout the entire range of services provided in Luxembourg, whether in investment funds, wealth management, capital market operations or advisory services. Enabling investors to connect with different markets has become our trade.

The success of the Luxembourg financial industry has not only benefited Luxembourg but Europe more generally. Luxembourg's leading position in the investment fund area is foremost a success story of a European investment product, the UCITS. The assets raised in the fund industry through Luxembourg are assets that benefit companies all over Europe as they are being reinvested in various countries and help finance economic activity. Luxembourg's expertise plays the role of enabler of this investment.

Luxembourg has grown economically with the completion of the Single Market of the European Union where goods, people, services and capital can move freely. This Single Market has spurred trade and thus ensured growth. It is imperative not only to preserve it but also to continue to work for its completion.

Since the crisis, the world of financial services has gone through major changes, in the regulatory sphere and in matters of tax transparency. Luxembourg is unequivocally committed to tax transparency and has embraced this move. The government has abolished banking secrecy in tax matters and supported or even, during our time as the rotating EU Presidency, pushed automatic exchange of information.

Transparency is a welcome opportunity for Luxembourg. Its financial industry, for instance in the investment fund area, capital markets and many other activities, grew to a global role without being covered by banking secrecy. Its wealth management industry has risen to prominence for its unique expertise and lately came to suffer more from the stigma of tax secrecy.

Today, I take great pride in the success of the financial industry which is due to the expertise of the men and women who work

in Luxembourg and every day support investors from around the world in their economic activity. I also look towards the future of Luxembourg's financial industry with great confidence.

Luxembourg will continue building on its unique cross-border expertise to consolidate its role as a bridge between investors from different markets. As the world economy is becoming ever more globalised, the international nature of the ecosystem available in Luxembourg is one of a kind and will play an increasingly important role for truly international operators. Luxembourg is also becoming an ever more global financial center both in terms of client base as well as in terms of markets it operates in. This is also reflected in the expanding geographic reach of the trade missions I regularly have the pleasure of leading to an increasing number of countries.

The attractiveness of Luxembourg as a hub in the EU has been recognized by many leading international financial institutions over the last years. It is the ideal location from where to operate, whether in the Eurozone or more generally in the EU as a whole. Going forward, Luxembourg will spare no effort in enhancing its overall competitiveness.

One of my personal priorities since I took office two years ago has been the digitalisation of the financial industry. This process is accelerating very rapidly and it could very well be the start of a new era in financial services. The FinTech revolution brings about immense opportunities and Luxembourg very firmly aims to position itself as a 21<sup>st</sup> century financial center. It is already solidly established in this space with global e-payments institutions as well as new, disruptive players such as virtual currency operators having chosen Luxembourg as their hub in Europe.

All these issues are developed in more detail in the following pages which I invite you to read and enjoy.

Let me conclude by congratulating the team at Luxembourg for Finance on the excellent work they are doing on behalf of the entire financial industry in Luxembourg. I attach great value to this public-private partnership where synergies are created between the industry and the government.

## *Executive Summary*

Luxembourg has grown into one of Europe's leading destinations for investors, savers and companies alike. With an inherently international financial centre, Luxembourg has played a leading role in the development of Europe's financial services industry.

The country has developed cross-border products and services in a variety of sectors including banking, investment funds, wealth management, insurance and capital markets – offering a high degree of complementarity to other financial centres that predominantly serve domestic markets. Its multijurisdictional expertise, the diversity of its financial services ecosystem and its high degree of stability have helped the Luxembourg financial centre flourish, while delivering benefits to households, companies and governments across Europe and beyond.

Like other financial centres, Luxembourg's aim is to remain competitive and to do so it must contend with two major forces: globalisation and technology.

With this in mind, LUXFIN2020 sets out a vision for the financial centre with a view to build on Luxembourg's core strengths, seize opportunities and support innovation in other, newer sectors of the financial services arena. This vision is built around three principal objectives:

### **1 — TO DEVELOP FURTHER AS A CENTRE OF EXCELLENCE IN CROSS-BORDER FINANCE**

Consolidate and develop Luxembourg's expertise in cross-border financial services

### **2 — TO BE THE EU ONSHORE FINANCIAL HUB OF REFERENCE**

Expand Luxembourg's role as the European location of choice for global financial services providers

### **3 — TO BECOME A DIGITAL LEADER IN EUROPE**

Foster innovation and become a leader in digital financial services

Luxembourg will continue to serve corporate and private clients, whether EU or non-EU, in need of specialist high quality international financial services and compliant cross-border investment solutions. Luxembourg will expand its geographical scope beyond the European Union's borders and refine its know-how in serving international clients around the world.

Asset managers, private equity firms, banks, insurance companies, payment institutions and many other financial services professionals have chosen Luxembourg to set up their pan-European operations and to have a strong foothold in the Eurozone. To encourage this development, Luxembourg, which is firmly rooted within and strongly committed to the European Union, will enhance its attractiveness as the EU onshore location of choice for international investors and financial institutions.

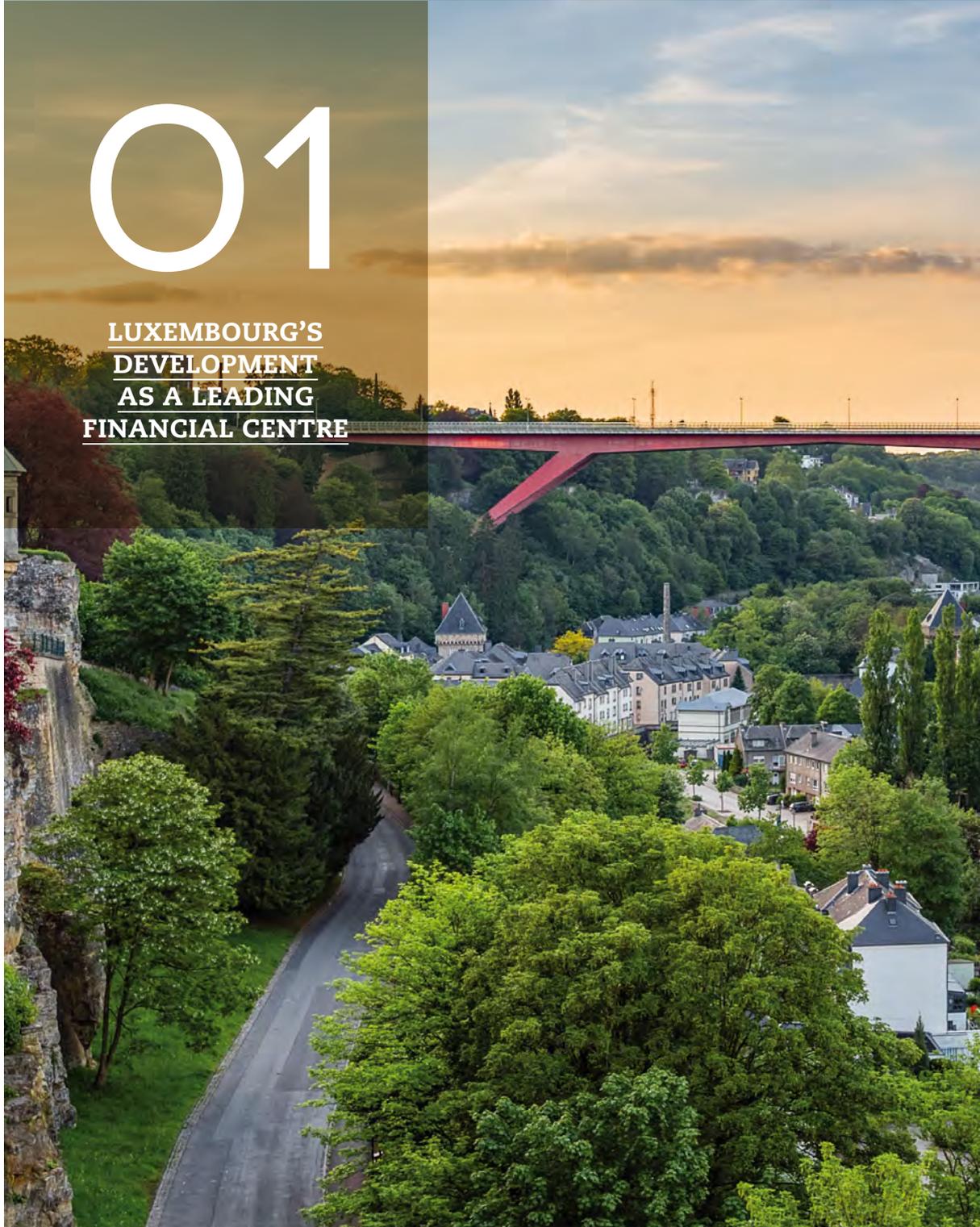
The final objective will see Luxembourg foster innovation and become a leader in digital financial services. By seizing the opportunities of digitalisation and leveraging technological enablers, the financial services industry in Luxembourg is committed to stay at the vanguard of innovation in order to ensure the highest levels of efficiency and reliability and offer best-in-class services and products. The nation will set about creating the ideal physical, regulatory and investment environment to enable financial technology businesses to create their products and services and bring them to market.

Luxembourg's approach to business will remain open and innovative, which combined with the depth and maturity of its financial ecosystem, makes the financial centre the best possible launch pad for new financial services and products.

Luxembourg is committed to doing all of this while offering the best environment for international businesses, skilled professionals and their families. To do so, Luxembourg will develop both its hard and soft infrastructure and strive for excellence and high quality of service in each sector operating within its financial centre.

# 01

**LUXEMBOURG'S  
DEVELOPMENT  
AS A LEADING  
FINANCIAL CENTRE**



## STEEL FOUNDATIONS

The Grand Duchy of Luxembourg has always been an outward looking, internationally-facing country, yet the foundations of its modern economy were built on steel rather than financial services. Back in 1955, for example, the steel industry accounted for nine-tenths of Luxembourg's exports. The country's banking sector was modest in contrast, with just 13 banks and total deposits worth 11.4 billion Luxembourg Francs (€283 million).

When Luxembourg was chosen as the headquarters of the European Coal and Steel Community (ECSC) – the early forerunner of the European Union – in 1952, the need emerged for a broader banking sector in the country to service the inevitable cross border flows of capital from both the sovereign and corporate participants in the ECSC.

The choice of Luxembourg as a base for pivotal European institutions and agencies such as the headquarters of the ECSC - and later the Court of Justice, the Court of Auditors, the European Investment Bank, the European Stability Mechanism, a number of European Commission services and the secretariat of the European Parliament - have also spurred the growth of the country's financial services sector.

## DEVELOPMENT OF THE SINGLE MARKET

Thanks to its geographic location in Europe as well as its heritage of open borders and innovation, Luxembourg was ideally placed to take advantage of the abundance of opportunities presented by the development of the Single Market in banking and financial services.

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Luxembourg's steel industry still represented 30% of GDP in 1970, although this fell to 10% by 1985. Over the same period, financial services contribution to total GDP rose from 5% to 22%. While steel continues to play a significant role in Luxembourg's economy, with ArcelorMittal as the country's largest private employer, financial services had replaced steel by the 1980s as Luxembourg's number one export.

Firstly, its inherently cross-border financial centre enabled Luxembourg to contribute to the development of the European financial services industry and deliver widespread benefits to Europe's citizens and businesses. Secondly, Luxembourg developed products and services that complement each other in a variety of areas, including investment funds, wealth management, insurance and capital markets and also offers access to a wider range of services than clients have in their domestic markets. The complementarity and excellence of these financial services offered, combined with the international reach of the financial centre, are the foundations of the centre's scale versus its competitors. A third factor contributing to the growth of the financial centre has been its stability and dependability, which has often contrasted with the uncertainty and sudden policy shifts in other jurisdictions. Successive governments have demonstrated their commitment to provide a business-friendly environment for international companies.

In the 1960s, Luxembourg played an important role in the development of a pan-European financial services market, which was able to compete with the US - something deemed impossible before this time. One of the earliest examples came in 1963, when the United States decided to levy a 15% tax on interests received by US investors on US dollar bonds issued by foreign borrowers. The unintended consequence of discouraging US investors from investing abroad was the creation of the Eurobond market in Europe.

The Luxembourg Stock Exchange (LuxSE), founded in 1928, played a pioneering role in this and was the first exchange to list a Eurobond, the Italian Autostrade bonds in July 1963. The legendary banker S. G. Warburg had asked both the London Stock Exchange and the LuxSE whether he could start listing these new types of bonds on their

exchanges and based on its readiness to deal with foreign currencies, as well as its innovative flair, the LuxSE was selected for this historical event: a bond issued by an Italian company, denominated in US dollars, governed by an issuance contract based on English law and listed in Luxembourg. This established the LuxSE as Europe's leading exchange for listing international bonds.

Today, the LuxSE lists more than 40,000 securities in 55 currencies, from more than 3,000 issuers in more than 100 countries. It holds a 20% global market share of all internationally listed securities. The Autostrade bond is emblematic of what has remained a key strength of Luxembourg's financial centre to this day: the ability to provide financial services in a multi-jurisdictional and multi-currency environment.

Another consequence of the success of the LuxSE was the development of a powerful clearing house. CEDEL, the Security Delivery Exchange, was founded in 1970, and merged with Deutsche Börse Clearing in 2000, eventually becoming Clearstream, one of the world's pre-eminent International Central Securities Depositories (ICSD). This further strengthened Luxembourg's role as a centre point for global capital flows.

**DEVELOPMENT**  
**OF A STABLE**  
**AND**  
**DIVERSIFIED**  
**FINANCIAL**  
**CENTRE**

As the commercial opportunities expanded in Luxembourg, so did the financial community, and banks from all over Europe and the rest of the world followed. Lenders from Germany, the US, Switzerland, Japan, Scandinavia and many other countries began to choose Luxembourg as a base and by 1970 there were 37 banks operating in the country. By 1980, that number had grown to 108 with the Bank of China establishing its first foreign branch in Luxembourg (since the creation of the PRC) as an early move into the international capital markets just a year

earlier. From the very beginning, Luxembourg's banks were among the first in Europe to offer multi-currency accounts to businesses and private clients, facilitating loans and deposits in various currencies to support foreign trade.

In addition to banking and wealth management, the insurance sector played a pivotal role in shaping Luxembourg's economy. In December 1994, after the government implemented the third generation of EU Directives into national law, the country became the first true pan-European centre for life insurance, specialising in insurance products that could be marketed on a cross-border basis. The sector has enjoyed several years of growth with recent figures from the Luxembourg Insurance Association showing that revenues of Luxembourg's insurance sector grew by 11.9% in 2014.

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## ISLAMIC FINANCE

Luxembourg is recognised today as one of the leading European centres for Islamic finance. These activities started in 1978 when Luxembourg hosted the first Islamic finance institution to establish in a Western country. Luxembourg was the destination of the first European sharia compliant insurance company in 1983. Takaful (Islamic insurance) products took a long time to gain traction but are now growing in line with the market. Today, Luxembourg takaful products are being sold cross-border into Germany and France, linked to a range of investment funds and asset management tools.

Over the years, Luxembourg has clearly demonstrated its ambition to encourage investors and service providers who wish to serve the European and international Islamic finance community. In 2010, the Central Bank of Luxembourg, for instance, was the first central bank of a European country to join the Islamic Finance Services Board.

Luxembourg is the largest domicile for Islamic funds in Europe, and third worldwide, after Malaysia and Saudi Arabia. More than 100 Islamic investment funds have been created in Luxembourg. In addition, the Luxembourg regulatory framework supports a range of sharia compliant structures. The Luxembourg Stock Exchange was the first European stock exchange to list a sukuk (Islamic bond) in 2002 and is now a recognized listing centre for international sukuk issues. In 2014, it listed Luxembourg's sovereign sukuk (the first sovereign sukuk to be denominated in euro), as well as the first sukuk by the Republic of South Africa and Goldman Sachs.

Asset management, the final key component of Luxembourg's financial centre, fully emerged in the late eighties. In 1984, the European Union published its rules on UCITS, a new class of regulated investment funds, which, once registered in one EU member state, could be marketed to citizens in every other. Having already been adept at looking beyond its borders and combining the best elements of existing fund products, such as umbrella funds or share classes, Luxembourg was quick to recognise the potential of this new pan-European instrument. Luxembourg was the first country to incorporate the UCITS framework into its own national legislation. Benefitting from this first mover advantage, the financial centre developed the necessary expertise to position Luxembourg as the primary centre for funds aimed at a pan-European investor base.

In the past 30 years, the growth of Luxembourg's fund industry has been truly remarkable. Today, Luxembourg is the undisputed leader in the cross-border distribution of funds. The largest cross-border fund management groups have chosen Luxembourg because of its broad international distribution network. The Luxembourg fund industry has almost 56,000 distribution agreements with points of sale abroad and distribution in over 70 countries around the world. There are a total of almost 4,000 funds registered in Luxembourg, with total assets under management (AuM) of more than €3.5 trillion. In 2014, Luxembourg represented 42% of net sales of all European regulated funds.

Having developed an entire ecosystem around cross-border investment funds, ranging from product creation and administration to listing and distribution, Luxembourg has not only played a crucial role in establishing a truly European financial product, but has also turned this European product UCITS into a global brand.

Beyond UCITS, the financial centre offers a broad range of fund vehicles that are suitable for all types of asset classes and investment strategies. Because of its drive towards product development and innovation, Luxembourg's fund industry also has a strong track record in alternative investment products, notably hedge funds, private equity vehicles and real estate funds.

Despite strong competition from other jurisdictions, Luxembourg remains by far the pre-eminent fund centre in the EU and is continuing to attract new promoters and funds due to its excellent reputation in setting up and serving cross-border investment fund products, the prospect of significant economies of scale, a culture of effective compliance and a transparent tax regime.

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## RESPONSABLE FINANCE

Luxembourg is eager to deploy the expertise it has acquired in the financial sector to create a social impact. Already being a major hub for microfinance, Luxembourg has actively supported the foundation of the European Microfinance Platform (e-MFP), the federating body for European microfinance industry, of which it hosts the secretariat.

Luxembourg is the European domicile of choice for promoters of responsible investment funds: 30% of all European RI vehicles (and 35% of RI assets) are managed out of Luxembourg.

By granting a label to responsible investment funds, Luxembourg gives confidence to investors and helps raise capital for responsible investment. The LuxFLAG agency grants three recognised labels (microfinance, environment, ESG) to funds following responsible investment strategies.

The Fondation de Luxembourg is the Grand Duchy's specialist philanthropy service-provider. It provides an umbrella organisation for the creation, management and supervision of charitable foundations through which long-term philanthropic engagements are managed.

## THE FINANCIAL CENTRE'S ECOSYSTEM

Luxembourg's financial centre has developed into a broad and stable economic powerhouse, grouped around four main activities: banking (retail, commercial and corporate) and wealth management, capital markets, fund management and insurance. These in turn are supported and developed by a body of high quality professional advisors, lawyers, accountants and corporate service providers, whose aim is not only to address their clients' international needs but to advise and support families and businesses on managing their activities from a centralised location. This diverse ecosystem allows for a high degree of synergies and partnerships between different industry segments for the benefit of clients. For example, Luxembourg's private banks, wealth managers and life insurers, who are important distribution channels for Luxembourg funds products, can leverage on the expertise of the fund industry to offer tailor-made wealth management and succession planning solutions to their clients. Examples of this are dedicated fund vehicles or personalised unit-linked life insurance products.

## DIGITAL ECONOMY

Luxembourg is well placed to compete in the new digital economy. This has been ensured through the significant development of its state-of-the-art data centre infrastructure and high-speed connectivity along with the recent creation of a vast research centre at the University of Luxembourg in areas such as information security. The "IT for Innovative Services" (ITIS) department at the Luxembourg Institute of Science and Technology (LIST) bolsters this area of expertise through multi-disciplinary scientific and technological research leading to the development of innovative IT services. In 2013, the Luxembourg government set a national target to invest the equivalent of 2.6% of GDP on research and development (R&D).

## SUPERVISION

The growth of the financial sector would not have been possible without an efficient regulatory framework, strong governance and a high level of investor protection. Luxembourg prides itself in having a regulatory system that supports growth and innovation but one that acts rapidly to stamp out any signs of wrongdoing or misconduct. As a founding member of the European Union, Luxembourg implements the EU regulatory framework in financial services when issuing licenses to financial institutions that can then operate and offer their services throughout the entire EU.

As an active member of all major international standard-setting bodies, including FATF, the OECD, IOSCO and the Basel Committee, Luxembourg abides by all their regulations and standards. Moreover, Luxembourg's regulators have demonstrated they are nimble and adept at dealing with institutions that are in difficulties, in such a way that causes minimal impact in the wider financial community. The speed with which the Government addressed the difficulties of both Fortis and Dexia at the height of the financial crisis in 2008 is a testament to this. The country's financial regulators are tasked with enforcing a considered and prudent business policy, protecting the financial stability of the regulated entities and the financial sector while monitoring the quality of the organisation and internal control systems.

Today, Luxembourg's financial centre can look back at more than half a century of growth and success. During those years it has supported European economic development and been at the heart of the transformation of the Single Market in both banking and financial services. It is now highly diversified and operates increasingly on both a pan-European level and a global basis.

## **LUXEMBOURG: FIRST IN FINANCE**

Throughout its long history, the Luxembourg financial centre has featured open-mindedness and efficiency. It has continuously adapted to a changing environment.



First bond listing in USD on the Luxembourg Stock Exchange (LuxSE).



First investment fund listing on the LuxSE.



Euromarket launches from Luxembourg when the first Eurobond lists on the LuxSE.



Luxembourg hosts the first Islamic finance institution in a western country: the Islamic Banking System Holdings Limited Luxembourg.



Since the creation of the PRC, Bank of China chose Luxembourg to set up its first international operations.



The first sharia-compliant insurance company in Europe is established in Luxembourg.



The first UCITS Directive is adopted and Luxembourg becomes the first country to implement the UCITS Directive into national law. From this point, most large asset management companies choose Luxembourg as the platform from which to set up and distribute their investment funds worldwide.



First global depositary receipts listing in Europe on the LuxSE.



First Sukuk (sharia-compliant bonds) listing in Europe on the LuxSE.



First Green Bond listing worldwide on the LuxSE.



First Masala bond listing on the LuxSE.



First Dim Sum Bond listing in Europe on the LuxSE.



Luxembourg was the first country in Europe and one of the very few countries in the world to regulate the family office industry.



Luxembourg was one of the first countries to implement the Alternative Investment Fund Managers Directive (AIFMD). All other funds that are non-UCITS – notably hedge funds – now fall under the scope of the AIFMD. This means that they are also granted a “European passport” enabling funds to be sold in all EU Member States.



The first offshore RMB bond, or Schengen bond, in the Eurozone is issued on the LuxSE by a Chinese mainland company. First Luxembourg UCITS receives authorisation to invest through the Shanghai-Hong Kong Stock Connect program. The CSSF, which is responsible for oversight of the financial sector in Luxembourg, becomes the first European regulator to take an official position on how to deal with virtual currency operators, considering virtual currencies as money. Luxembourg issues the first Eurodenominated sovereign Sukuk.



Luxembourg was the first to grant a European payment institution license to a virtual currencies operator.

# 02

**THE LUXEMBOURG  
AND EUROPEAN  
FINANCIAL SERVICES  
INDUSTRIES**



The health of the European economy relies on the strength of its banks and financial services companies. Indeed, the EU's four basic freedoms – the free movement of goods, services, capital and people – are inextricably intertwined with the financial services sector. Free movement of goods and services are only possible with efficient cross-border financing and payment systems, while the free movement of capital requires healthy and well-capitalised banks. And there is no other industry in Europe that has benefitted more than financial services from the free movement of people – perhaps best exemplified by the fact that the large majority of people working in Luxembourg's financial centre are from other countries.

Since the onset of the financial crisis in 2008, the reputation of some of the world's largest financial services companies has been tarnished. Bank failures were followed by state bail-outs and have given way to stories of misconduct and regulatory failure. With this backdrop, it is easy to forget the vital role that banks, exchanges, insurance companies and asset managers play in the EU's economy. The banking industry alone employs an estimated 3 million EU citizens, while insurance and asset management account for 1.5 million jobs. Overall the EU financial services sector employs 6.4 million people or 3% of the region's total workforce.

In 2014, total assets of the European asset management industry rose to an all-time high of €19 trillion. Indeed, between 2007 and 2013, total AuM grew 24% despite the severity of the financial crisis and the subsequent sovereign debt crisis that followed in parts of the continent. In banking, total assets stood at €42.5 trillion at the end of 2012, even after taking into account the effects of the financial crisis. The European banking system has never looked leaner and healthier with banks regaining access

to debt markets, de-risking their balance sheets, improving capital foundations and reducing their dependency on liquidity from the European Central Bank (ECB).

Global wealth reports note that Europe is expected to be a large driver of High Net Worth Individuals' (HNWI)

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## TRANSPARENCY IN INTERNATIONAL TAX MATTERS

The global financial crisis put renewed focus on transparency in tax matters and increased international efforts to combat tax evasion. In line with international developments, Luxembourg chose to abandon banking secrecy in fiscal matters.

The latter only concerned parts of the private banking and wealth management industry, and has in any case never played a role for the vast majority of the activities of the Luxembourg financial centre, whether in the fund industry, corporate banking or capital markets.

Thus, since 2009 Luxembourg is applying exchange of information upon request. As of 1 January 2015, Luxembourg has been applying the automatic exchange of information on EU residents' income savings. This was followed a few months later by the entry into force of the automatic exchange of information for US persons under the provisions of FATCA. Luxembourg is among the early adopters of the application of automatic exchange at OECD level, the so-called Common Reporting Standard. Reportable information from 2016, including all types of investment income such as interest, dividends, specific insurance contracts, annuities and account balances, will be reported and exchanged in 2017.

The impact of the financial crisis coupled with rapidly increasing globalisation also mean that more scrutiny than ever is being placed on the international tax arrangements of multinational companies. This was demonstrated last year when the International Consortium of Investigative Journalists published the so-called LuxLeaks reports, which focused on tax rulings granted to multinational companies. LuxLeaks generated significant media attention and unfairly impacted the perception of Luxembourg and its financial centre. Situations of double-non taxation, i.e. companies paying little or no tax, can only arise as a result of the interaction of various national tax systems. This issue requires a coordinated effort by the international community and a global level-playing field. Luxembourg continues to play a constructive role in these discussions, as demonstrated by its active participation in the BEPS (Base Erosion and Profit Shifting) initiative from its start in 2013. Moreover, it was under Luxembourg's EU presidency that an agreement was reached on an automatic exchange of tax rulings between EU member states.

wealth as the region recovers economically. Following a growth of 4.6% over the past year to \$13 trillion, Europe is predicted to expand 8.4% annually as a result of improved optimism for a more substantial recovery throughout the region. This contrasts with a more modest growth in HNWI in North America.

### **FACILITATING ECONOMIC GROWTH**

Financial centres in the EU such as London, Frankfurt and Luxembourg are paramount in helping financial services flourish. They are the focal point from which cross-border financial business can be conducted efficiently and profitably within a strong regulatory environment. The financial services sector generates gross value added of around €731 billion in real terms. Growth is also fuelled by Europe's ageing population and their desire to provide for their retirements, often in a climate of changing pension markets - one that gives them both more freedom and more responsibility to manage their pension arrangements.

The Luxembourg financial centre's services make a difference to households, corporates and governments around Europe. It helps achieve their economic aims and facilitates economic growth across EU Member States.

The Grand Duchy's diverse toolbox of investment vehicles and its expertise in setting up, administering and distributing investment funds makes it easier for investors, including pension and insurance funds on behalf of households to invest and provides external finance to corporates and governments. Importantly, the financial centre helps European companies, both SMEs as well as large corporations, to finance their domestic and international activities. The listing of bonds on the Luxembourg Stock Exchange gives corporates and governments access to liquidity to finance their activities in various currencies and to raise large amounts of external finance at maturities that banks

typically do not offer, on fixed rate terms. Its banking sector provides deposits accessible on demand, runs the country's payment systems and extends loans to households and corporations. Moreover, Luxembourg banks are an extremely important source of liquidity to their groups, which in turn allows these banks to finance, by extending loans for example, households and corporations in their respective domestic markets. The Luxembourg insurance sector specialisms in cross-border life insurance and captive reinsurance enable households and businesses across the EU to reduce their exposure to risk. Luxembourg's expertise thus contributes significantly to the financing of European economic activity.

The European Commission's Capital Markets Union project is testimony to the strong need and demand for cross-border financial services, notably to stimulate growth in Europe. It also demonstrates that, despite the single European Single Market, the European Union is also made of 28 different jurisdictions that in many areas, including financial services, have specific national provisions, rules and regulations as well as tax laws. This creates a lot of complexity for investors or companies that are active in a multijurisdictional context.

Luxembourg has specialised in helping clients to manage this complexity and to facilitate cross-border investments throughout Europe, notably by having developed an unrivalled expertise in "translating" financial solutions and products into a European context, without sacrificing the necessary legal certainty that goes with it since financial institutions and service providers in Luxembourg are familiar with the technical, legal and fiscal requirements in other EU member states.

## **GLOBALISATION AND TECHNOLOGY**

Like other financial centres Luxembourg is looking at ways to become more competitive over the next five years and to do so, it must contend with two major forces: globalisation and technology.

Historically much of the growth in Luxembourg's financial centre has been generated by the development of the European Single Market. In recent years, that emphasis has evolved into one of connecting Europe with the rest of the world. Luxembourg's growth has been fuelled by becoming the destination of choice for global banks, insurers and investment managers to establish and grow their European operations. Luxembourg's role in internationalising the Renminbi and the increasing number of international banks now operating in Luxembourg is just one example of this trend and the opportunities it presents.

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### **LUXEMBOURG, A RENMINBI HUB OF REFERENCE**

Since China launched its strategy of internationalizing its currency, Luxembourg has emerged as one of the leading global hubs for Renminbi business. The choice of Luxembourg as their continental European hub by the six largest Chinese banks has been an important factor in this regard. The role Luxembourg plays as an international fund center also had as a direct consequence that fund promoters used their Luxembourg platform to launch Renminbi denominated investment vehicles. Moreover, Luxembourg's regulator proved yet again open to innovation by being the first EU regulator to allow a Renminbi denominated investment fund, then the first to allow a UCITS fund to invest through the RQFII scheme and last but not least to be the first to allow a UCITS fund to invest through the Shanghai Hong Kong Stock Connect Scheme. Luxembourg's Stock Exchange was also the first in Europe to list a commercial dim sum bond and is today a market leader with 43% of the market share outside Asia. Compared to other hubs, notably in Europe, Luxembourg can leverage its traditional strengths and expertise in international finance, in particular its role as a leading fund center and bond listing place of choice.

Another area expected to see explosive growth in the coming decade is Financial Technology or FinTech. This is a very broad term that covers a wide range of businesses, from consumer transaction portals to technology-based tools and services for wholesale banking. What is clear though is that a multitude of banking and financial services are being reimagined through the lens of technology and the web. In some cases, such as P2P lending and foreign exchange, traditional markets are being rapidly disintermediated. In others, there are enormous opportunities for businesses to serve traditional companies with the threats presented by the digital world, such as cyber security.

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### **SUPPORTING FURTHER DIGITALISATION OF FINANCIAL SERVICES**

As one of the EU's leading financial centers, Luxembourg's financial industry is also looking at the digitalisation of financial services. Many of the entities present in Luxembourg are not waiting for innovation to trickle down from their headquarters but are actively looking for solutions locally that are geared to their activities in Luxembourg as well as aiming to feed into the group's innovation. They find a very mature FinTech support environment with a number of public initiatives such as the Technoport, a state-of-the-art incubator, as well as Luxinnovation an agency serving as a one-stop-shop to help innovators set up their company and launch their solutions.

A number of private initiatives are setting new standards and therefore particularly noteworthy, such as Nyuko, an independent non-profit start-up, think tank and incubator or larger group's dedicated programmes such as PwC's Accelerator, KPMG's Khube or BGL BNP Paribas' Luxembourg Future Lab. The latter demonstrates a remarkable level of cooperation between a bank and start-ups.

Luxembourg's regulator issues licences to operate throughout the entire EU. It has a solid reputation for its competence and openness to innovation -- with a dedicated department for financial technology as well as for its accessibility and its responsiveness.

Besides private funding from venture capital and business angels, the Government offers support through grants, a new seed fund and more importantly the Luxembourg Future Fund set up jointly with the European Investment Fund, headquartered in Luxembourg.

The potential growth from both of these trends is enormous and will need to be supported by proper infrastructure investment, both in hard infrastructure such as telecommunications and transport, and soft infrastructure, such as skills, education, research and regulation. The latter, in particular, should be seen as a vital component of any growth strategy in financial services. As financial markets globalise and new technology-based financial services businesses grow from start-ups to international leaders in a short matter of years, the regulatory challenges are substantial but have to be addressed by any responsible financial centre to ensure that it can retain and build confidence amongst all participants.

Overall, the European Union has laid the groundwork for building the world's largest and most dynamic banking and financial services industry, one that not only serves the EU's 500 million citizens but also reaches out worldwide and attracts capital and fund flows from around the world. And now that the vicissitudes of the financial crisis finally appear to be receding, these industries look to be well-positioned to take advantage of new growth opportunities.

Luxembourg is a pre-eminent cross-border financial centre and makes a significant contribution to meeting Europe's demand for financial services, fostering economic growth around the globe.



## INVESTMENT FUND INDUSTRY

In 2014, Luxembourg was home to

**13,849 funds**

with net assets totalling

**€ 3.1 trillion**

This was

**25 percent**

of the total number of funds located in the EU, investing 27 percent of the net assets of funds located in the EU. The net assets equate 22 percent of European Union GDP.

Nearly

**3/4 of investors**

(74 percent by asset value) in Luxembourg funds are sourced from Europe.

Some

**€ 1,115 billion**

of these assets are held in the equities and debt securities issued by EU firms and governments.



## CAPITAL MARKETS

In 2014, the Luxembourg stock exchange had a market share of

**40 percent**

of international securities listed in Europe.

**€ 1,105 billion**

was raised by the issuance of newly listed bonds on the Luxembourg Stock Exchange and tap issues in already listed bonds.

**HALF**

of all EU Member States' governments issued debt through the Luxembourg Stock Exchange.

In September 2015, securities held under custody in Clearstream's international business as International Central Securities Depository (ICSD) totalled

**€ 7,1 trillion**



## BANKING

In 2015, of the

**143 banks**

and other types of credit institutions that were operating in Luxembourg, 138 originated from abroad. Of these, 102 were European.

The surplus of deposits raised from investment funds and other funding are used by Luxembourg's banks to make loans and invest in debt securities.

The majority of these loans were made to banks, with

**42 percent**

going to the head office and branches elsewhere within the same banking group and 15 percent to unrelated banks

Nearly half

**45 percent**

of bank lending to non-financial corporations went to firms in the rest of the Euro area and the remaining 34 percent elsewhere in the world.

Some

**23 percent**

of the banks' lending to people and families went elsewhere in the Euro area and 20 percent around the rest of the world.



## INSURANCE SECTOR

In 2014, income from life and non-life insurance premiums totalled almost

**€ 27 billion**

Some 73 percent of these originated from customers in other EEA countries and 16 percent from customers outside the EEA.

Luxembourg reinsurance companies issued insurance with premiums worth

**€ 9.3 billion**

billion in 2014. Of these premiums, €8.2 billion originated from EEA countries.

# 03

CORE GROWTH  
AMBITIONS  
FOR THE LUXEMBOURG  
FINANCIAL CENTRE



Luxembourg's financial centre is well positioned in a number of key sectors that have significant potential for growth over the next five years. Building on its existing strengths, Luxembourg will confidently seize opportunities and support innovation in other, newer sectors of the financial services arena.

Bringing this together, Luxembourg's financial centre has three core growth ambitions that will guide its development over the next five years:

#### **1 — TO DEVELOP FURTHER AS A CENTRE OF EXCELLENCE IN CROSS-BORDER FINANCE**

Consolidate and develop Luxembourg's expertise in cross-border financial services

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The world's leading financial centres are built around a set of central activities in which they have developed particular strengths. Some are specialised in wealth management, some in investment banking, and others in trade finance. A number of financial centres have a more domestic focus, while others are more internationally oriented. **Luxembourg's financial centre is international by nature and one of our key priorities is to build on this inherent quality to continue to foster growth in the coming years.**

Luxembourg has a **unique international expertise applied throughout every layer of the financial services ecosystem**, whether in fund administration and distribution, securities listings, post-trade services, private banking, or life insurance. Many financial institutions already benefit from the country's cross-border expertise and have established their international or European competence centres in Luxembourg, whether to serve private banking clients who have interests in multiple jurisdictions, to provide international loans, to setup and distribute funds on a cross-border basis, or to provide insurance products which comply with the fiscal and legal requirements

of different countries. Corporates benefit from the financial centre's ecosystem to raise funds and manage group liquidity and treasury activities from a central location. Additionally, Luxembourg's highly developed market infrastructure, which covers everything from listing to post-trade services, allows financial institutions and companies from all over the world connect with international investors and capital markets.

One of the permanent consequences of the global financial crisis is the importance of compliance and risk management in every aspect of financial services. International institutions and investors require advice to abide with the various regulatory, legal and fiscal requirements and thus need compliant solutions to undertake investments, manage their wealth, develop their business activities or plan their succession on a cross-border basis. The Luxembourg financial centre will continue to support them in creating value for the long term by **offering expert advice and solutions to navigate the increasingly complex regulatory environment and ensure the necessary compliance in a multijurisdictional context.**

Luxembourg's role as a bridge connecting market participants from various jurisdictions is fundamental in the next few years as it further develops as a one-stop-shop for international investors and financial institutions based or, about to be based, in Luxembourg. The level of services throughout the financial centre is not only unparalleled in cross-border expertise but it also provides access to a **comprehensive toolbox of investment vehicles and instruments offering bespoke solutions** adapted to customer needs and market requirements. **Upgrading this toolbox continuously is done alongside updating, when necessary, the corporate legal framework.** The Luxembourg financial centre will also continue to **anticipate and adapt to regulatory changes in order to leverage its traditional**

**first mover advantage** with a view to allowing the financial services community to seize new market opportunities.

One example of the exceptional level of Luxembourg's international expertise is how it leveraged its traditional strengths in the fund industry and bond listings to become a major player in the internationalisation of the RMB. Not only will Luxembourg **continue to expand its geographical reach** and develop its international know-how beyond the EU's borders, but it will also continue to offer **world-class advisory services to international investors and financial institutions**.

## 2 — TO BE THE EU ONSHORE FINANCIAL HUB OF REFERENCE

### Expand Luxembourg's role as the European location of choice for global financial services providers

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In the next five years, Luxembourg will continue to build on its key strengths: **efficiency, stability and expertise**. These strengths attract international institutions and individuals to the Grand Duchy.

The Luxembourg financial centre will develop its attractiveness as the EU onshore location of choice for investors and international financial institutions to operate and grow their businesses. Luxembourg is already acting as a hub for major international financial institutions wishing to develop their activities within the European Union and, in particular, who wish to have a strong foothold in the Eurozone. Asset managers, private equity firms, banks, insurance companies, payment institutions and many other financial services professionals chose Luxembourg to set up their pan-European operations.

Being firmly anchored within and strongly committed to the European Union, Luxembourg has actively contributed over many decades to achieving the Single Market and will spare no effort in pushing for its completion.

While some countries have reacted to the financial crisis by re-establishing certain barriers, Luxembourg believes

that long-term growth in Europe can only come through strengthening the four pillars of the Single Market: the free movement of goods, people, services and capital.

Luxembourg's **successive governments have demonstrated their consistency by always maintaining a business-friendly environment where changes in regulation are carefully planned, steadily implemented and not contradictory** to ensure predictability and legal security. This consistency is what constitutes the stable character of Luxembourg as a whole and its financial centre in particular.

**Luxembourg will spare no effort in maintaining its fiscally responsible budgetary discipline, evidenced by its AAA rating.** Luxembourg is one of the few nations in the European Union that still have the highest rating from the three major credit rating agencies. This AAA rating not only demonstrates the global financial community's confidence in the stability of Luxembourg but is also evidence of the country's predictability and ability to anticipate, all of which will remain key pillars of Luxembourg's competitiveness.

While fully committed to tax transparency, Luxembourg will always strive to offer **a competitive tax regime**. Being at the forefront of international discussions on automatic exchange of information does not prevent Luxembourg from providing an attractive tax environment. **Remaining competitive will be a key objective of future tax reform in Luxembourg.**

Other aspects of a country's competitiveness may also include its level of employment, its access to qualified and multilingual professionals, operational costs, cost of living, housing availability, education and training as well as quality of life more generally. Luxembourg consistently scores highly in most of these categories and its overall attractiveness is confirmed by the number of high-level

professionals and internationally acclaimed financial institutions choosing to live, work and develop their activities in Luxembourg. Our aim is to continue to offer **the best possible environment for businesses, their employees and their families in order to remain one of the fastest growing onshore hubs in Europe.**

More specifically in financial services, one of the differentiating factors of the Luxembourg financial centre is the **quality of its service**. This feature is one of the reasons stakeholders choose Luxembourg. The Luxembourg financial industry as a whole prides itself in offering every client the appropriate level of advice, support and execution required. This is most notably demonstrated in the on-going shift in the profile of wealth management clients towards international HNWI and UHNWI who have increasingly complex needs. Another example of this attention to service quality is found in the area of listings of securities or post-trading services.

This approach to service can also be seen in our public services. **Efficiency, responsiveness and a business-friendly attitude are the hallmarks of the Government of Luxembourg** and government agencies. Our embedded culture of dialogue allows the government, and public services in general, to be part of the solution rather than the problem. Luxembourg, both in its private and public spheres, will maintain and continue to nurture this culture and where necessary improve its responsiveness even further.

### 3 — TO BECOME A DIGITAL LEADER IN EUROPE

#### Foster innovation and become a leader in digital financial services

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Luxembourg's approach to business is to be open and innovative and combined with the depth and maturity of our financial ecosystem, this attitude makes

the financial centre the **best possible launch pad for new financial services and products.**

Luxembourg intends to anticipate and facilitate financial innovation as we have done when anticipating the pan-European fund market or when we developed Luxembourg into one of Europe's leading Renminbi hubs. The global financial industry needs to stay ahead of trends to introduce new solutions for the benefit of customers. The Luxembourg financial centre will **seize opportunities emerging from financial innovation and will unlock the potential of these opportunities to broaden its financial services ecosystem.**

In particular, Luxembourg will focus on the **digitalisation of financial services** to ensure that its financial centre is at the leading edge. Luxembourg will seize these transformational opportunities to bring the existing pillars of the financial centre, such as its fund industry, wealth management sector or its capital markets infrastructure, to the next level. By leveraging **new technological enablers**, the financial centre aims to be at the vanguard of innovation, whether in terms of **business process efficiency, compliance and risk management solutions, reliability and security of financial services, digital distribution of products, customer relationship management or end user experience.**

In the next five years, Luxembourg endeavours to become **a leading FinTech platform offering start-ups the possibility to develop, test, market and distribute their products and services** from one of the leading international financial centres in the European Union. The Luxembourg financial centre will become a springboard for these solutions to reach the rest of Europe and beyond. In order to meet their ambitions, start-ups need a conducive environment. In Luxembourg, they will be able to rely on a strong network of private and public incubators and accelerators, a winning

combination of private and public funding sources as well as access to business minded and responsive public authorities.

New financial services may require us to **update our legal and regulatory framework**, and Luxembourg is ready to foster innovation by building on its regulatory expertise and ensuring that technology-based financial services are efficiently regulated. Adapting and updating the regulatory framework will contribute to the overall reliability, acceptance and exportability of FinTech products and services. This adaptability was demonstrated recently with payment services as Luxembourg is a European hub for some of the leading payment companies in the world. This was achieved by allocating the necessary resources and creating structures able to deal with this new type of financial services.

Luxembourg is ideally positioned for testing new ideas as it delivers a reactive and fast paced environment with **public-private partnerships**, expertise in a multitude of financial sectors, possible synergies with existing financial services, access to communities of investors, innovators, financial professionals as well as **funding for research and development projects**.

As an example of a public-private cooperation, a project for a House of Fintech is currently under discussion and is expected to be launched in Q2 2016. The purpose of this House of Fintech will be to bring the different communities - innovators, investors, professionals from the financial industry and academics - of the Fintech space together and thus create synergies.

The co-existence of a leading financial centre and a highly modern University will ensure that research in this area is also market-oriented and makes a valuable contribution to the development of the financial industry in the coming years.

# 04

LUXEMBOURG'S  
GROWTH  
ENABLERS



To achieve its three core growth ambitions, Luxembourg will develop further its national infrastructure to accommodate new firms, new employees and new technology.

This infrastructure takes two forms, hard and soft, and is needed to support both institutions and individuals operating in the financial centre. Hard infrastructure refers to the physical assets that enable firms and their employees to carry out their work efficiently and effectively. Soft infrastructure relates to the investment in attracting, developing, managing and retaining talented employees.

#### **Hard infrastructure**

- Property – commercial and residential
- Transportation – domestic and international
- IT and telecommunications

#### **Soft infrastructure**

- Education and training
- Quality of life and leisure activities
- Development of the financial centre

## **PROPERTY - COMMERCIAL AND RESIDENTIAL**

Luxembourg has enjoyed impressive growth over the past few decades, outperforming many of its European peers. National GDP has more than tripled between 1991 and 2014 and is expected to grow by 23% from 2014 to 2019. Luxembourg's workforce has almost doubled in 20 years while in wider Europe it has only increased by less than 20%. The office and residential markets are therefore expected to grow by nearly 60% and 50% respectively between 2012 and 2020.

To accommodate this, plans include:

- **The urbanisation of the Plateau de Kirchberg:**  
The Plateau de Kirchberg is home to many key institutions of the financial centre including the European Investment Bank and Clearstream. It provides Luxembourg with the infrastructure to operate a modern financial centre as well as valuable room for further expansion. An additional 16-acre development on the Plateau de Kirchberg is underway and will be completed in 2023 providing 44,000 square metres of office developments and additional housing.
- **The development of the Cloche d'Or area:**  
This is one of the largest projects in Luxembourg and will provide office space for an additional 50,000 staff with 490,000 m<sup>2</sup> of office space as well as an additional 1,000 homes. The project will also see the opening of 100 shops, a French school, and a park.
- **The Royal Hamilius project:**  
This Norman Foster-designed project illustrates the city's modernisation and includes the construction of a shopping centre, independent shops, an additional 7,500 square metres of office space and houses.
- **Belval:**  
The conversion of a 120 hectare former industrial site and one of the most ambitious urban development projects in Europe, Belval is today the new home of the University of Luxembourg, a school complex, numerous research and development institutions, incubators and start-ups, as well as international banks.

## TRANSPORTATION - DOMESTIC AND INTERNATIONAL

Luxembourg lies at the heart of Europe's strongest consumer markets, connecting Europe's main cities.

Luxembourg is served by Luxembourg Findel Airport. The airport is a 15 minute drive from the city centre and directly serves more than 60 destinations. Luxembourg offers direct flights to all major financial centres in Europe including London, Dublin, Zurich, Frankfurt, Geneva, Milan, Paris and the airport handles around 2.5 million passengers a year. Passenger numbers went up by over 12% last year and new routes are continuously added to facilitate traveling to and from Luxembourg.

A new tram line is being developed to speed up commuting times between the train station, Cloche d'Or and Kirchberg. The first of the new trams is set to roll through Luxembourg City in September 2017.

## IT AND TELECOMS

Following the launch of its "Digital Lëtzebuerg" strategy in October 2014, Luxembourg's Government has prioritised six key areas of development to transform the country into a "Digital Nation". These are FinTech, Infrastructure, Start-ups and innovation, e-Administration, e-Skills and Promotion.

Luxembourg boasts first class infrastructure including 23 datacentres, 8 of which have Tier IV certification. It is also connected through 23 different fibre routes to the main internet exchange hubs in Europe: Frankfurt, London, Paris, Brussels, Amsterdam and Strasbourg with extremely low latency rates of between 4 and 8 milliseconds. In terms of local internet connectivity, Luxembourg will gradually benefit from an excellent Fibre to the Home (FTTH) programme rolled out by 2020, ahead of current EU target.

An important factor in this ecosystem is LU-CIX, the Luxembourg Commercial Internet exchange. This Internet exchange point enable a variety of Internet service providers to exchange Internet traffic between their networks and connect directly to content providers and international Internet operators located in Luxembourg.

Today, Luxembourg has the highest level of internet usage in the EU with over 94% of coverage rates for next-generation networks. The government plans to install a universal high speed fibre network throughout the country with 1GB/second speeds by 2020.

During the next five years, Luxembourg also aims to seize the opportunities of the Internet of Things revolution to support the digitalisation of financial services.

## EDUCATION AND TRAINING

Although established only twelve years ago, the University of Luxembourg is now one of the most international universities in Europe with 6,300 students from more than 110 countries as well as 240 professors and lecturers. Courses are taught in a number of languages including English and the university offers 32 masters' degrees with a strong focus on finance and business.

The Master of Science in Banking and Finance of the University's Luxembourg School of Finance offers a comprehensive curriculum encompassing both classic and more recent areas of the finance discipline as well as the principal functions of banking. It provides an integrated approach to solving complex banking and financial problems.

In 2013, the Luxembourg School of Finance also launched a Masters in Wealth Management. The content was developed in collaboration with Luxembourg's Private Banking sector. The programme is taught in English and combines traditional finance subjects such as accounting, asset pricing and financial analysis, with person, legal and tax-centric subjects such as interpersonal skills, cross-cultural communications, personal

portfolio management, estate planning, ethics, international tax planning, and communication courses.

Another area of focus for the Luxembourg financial centre is to ensure the highest level of security for communication networks and software systems. The University of Luxembourg's Interdisciplinary Centre for Security, Reliability and Trust (SnT) and the "IT for Innovative Services" (ITIS) department at the Luxembourg Institute of Science and Technology (LIST) are therefore an essential interface with the financial industry. A number of joint programmes have also been developed with the private sector, with a particular focus in securing financial transactions.

With the House of Training, Luxembourg also features a key institution in the area of vocational training and professional certifications. It offers dedicated courses and certification programmes in a wide range including in financial services.

Over the next five years Luxembourg is committed to continue investing in higher education, vocational training and professional certifications both through public and private initiatives, not only to attract post-graduate talent but also to enable existing financial services' employees to develop their skills without needing to leave the country. Given its expertise in financial services, Luxembourg is ideally placed to continuously update employees and students' knowledge on the newest financial products and services, the ever-changing laws and regulations, as well as encouraging further interaction between financial professionals.

## QUALITY OF LIFE AND LEISURE ACTIVITIES

Luxembourg ranks 3<sup>rd</sup> in the world for talent competitiveness (INSEAD Global Talent Competitiveness Index 2015) and 9<sup>th</sup> best country in the world to live in (Boston Consulting Group).

Not surprisingly, Luxembourg is one of the world's most cosmopolitan countries with residents from over 100 nationalities. It ranks 11<sup>th</sup> in the OECD's Quality of Life survey out of more than 200 countries, which is based on a wide range of metrics including high life expectancy, excellent healthcare, high educational standards, low crime rates and clean air. Higher than average purchasing power and a low crime rate also explains why the prestigious Mercer Quality of Living Survey regularly places Luxembourg as one of the best places to live in the world and, with 40% of forestation and exceptional parks and playgrounds, the Grand Duchy is a great place to raise a family.

The country also boasts a rich cultural offer with memorable visits to the impressive modern Art Museum Mudam, the Grand Théâtre, the state-of-the-art Philharmonie Luxembourg and Rockhal not to be missed.

Luxembourg has three official languages: French, German and Luxembourgish, and English is also widely spoken across the country. In fact, Luxembourg ranks 8<sup>th</sup> worldwide for its high level of proficiency in English (English Skills Index 2015).

## **DEVELOPMENT OF THE FINANCIAL CENTRE**

Luxembourg for Finance (LFF), the agency for the development of the financial centre, will continue to work with its stakeholders to identify new target markets and business areas to develop, with the overall aim of further diversifying Luxembourg's financial industry.

Investor promotion will be intensified to attract new financial institutions to Luxembourg. In cooperation with the various professional associations, LFF has been taking steps to promote Luxembourg as a modern business, financial and economic centre. Luxembourg will enhance its communication efforts to promote its role as a leading international financial centre. A wide range of communication tools (magazine, technical brochures, videos, social media and website) have been deployed and adapted to target markets to support international promotion.

# 05

**GROWTH PLANS  
AND POTENTIAL  
IN EACH SECTOR  
OF THE FINANCIAL  
CENTRE**



Luxembourg's financial centre has identified areas of growth in each of its sectors between now and 2020.

## 1 **BANKING**

The Luxembourg banking industry will maintain its ability to offer a wide range of bespoke services while strengthening activities focusing on UHNWIs and corporates as well as incorporating digital services to offer innovative bespoke solutions for international clients.

Luxembourg's banking industry will continue to attract corporate and private clients, whether EU or non-EU, in need of specialist high quality cross-border financial services. Luxembourg also has a strong potential to attract an increasing number of non-EU banks and financial intermediaries, in a fully compliant and transparent manner, in particular those from growth markets such as Asia, the Middle East or Latin America, seeking a centrally located EU or Eurozone hub.

As in other sectors of the financial services industry, digitalisation will continue to play a crucial role in banking. The industry is committed to leverage digital innovations and partner with new FinTech players to develop new solutions, both with a view to offering the best possible customer experience as well as to help banks enhance their efficiency from an operational perspective.

## 2 **PRIVATE BANKING & WEALTH MANAGEMENT**

Luxembourg's Private Banking and Wealth Management providers have a high level of cross-border expertise, offering European and international clients a one-stop-shop that meets their diverse and complex multi-jurisdictional needs.

The trend towards transparency clearly represents an opportunity for the industry to further strengthen

its role as an EU onshore hub of choice for private banks, wealth managers and their clients. In order to continue providing added value to pan-European and international customers, the industry will consolidate and further strengthen its service offer as well as invest in talent development in order to meet the demands of an increasingly wealthy, highly mobile and sophisticated clientele. In the same line, the sector will further expand its geographical scope beyond the European Union's borders and refine its know-how in serving international clients around the world.

Private bankers and wealth managers have continuously expanded the range of services they offer their clients, establishing Luxembourg as a one-stop-shop. Beyond investment advice, asset management and wealth structuring, the industry offers a number of additional services, including philanthropy as well as art & finance, the latter activity having been reinforced by the recent launch of the Luxembourg Freeport. One of the objectives in the coming years will be to strengthen the Luxembourg Wealth Management toolbox, notably to provide additional services in alternative funds, family office services, life insurance and wealth advisory, including estate planning and asset structuring.

### **3** **COMMERCIAL** **BANKING**

In Commercial Banking, Luxembourg will further reinforce the link between the financial centre and the economy to establish Luxembourg as the destination of choice for pan-European businesses to solve their funding needs. This will include strengthening its position as a syndicated loan platform and developing into a centre of excellence for collateralised loan obligations (CLOs). Luxembourg banks also aim to enhance their commercial banking offer, with products especially targeted to investment funds and private equity vehicles, notably in relation to credit activities.

Luxembourg, moreover, has a strong legal framework for covered bonds (lettre de gage) and offers a significant level of flexibility, notably with the possibility to issue covered bonds on moveable assets and the recent introduction of a new category of cooperative covered bonds.

#### 4 **CUSTODY BANKING**

Custodian banks play a key role in Luxembourg's position as a centre of excellence for the full range of investment fund administration services.

A number of opportunities will arise from the Capital Markets Union (CMU) as its objectives are aligned with Luxembourg's banking expertise, in particular its well-established cross-border offering. Luxembourg's custodian banks will seize new opportunities arising from the fact that the CMU will expand non-bank financing and open new investment horizons for funds. Having developed a high level of expertise in fund administration and custody and on the basis of a highly developed market infrastructure, Luxembourg custodian banks are well positioned to offer additional services, notably in the area of collateral management, an area where Luxembourg already today plays a key role as a European hub.

#### 5 **INVESTMENT FUND INDUSTRY**

Luxembourg aims to remain the leading international fund centre of choice.

This will be achieved by:

- continuing to provide a sustainable and attractive environment for investment funds in Luxembourg
- constantly offering state-of-the-art and cost-effective solutions to structure and operate funds and management companies
- driving global distribution
- promoting UCITS and AIFMD as regulated cross-border solutions

The fund industry will continue to promote best practices that align the interests of investors and the industry. The industry will pro-actively engage with national and international stakeholders to promote “investor value-added” regulatory measures and best practices.

With a particular focus on the next generation of investors, the fund industry will also support the development of new retail investor technologies and applications.

The Luxembourg fund industry will continue to expand its geographical reach, notably by strengthening its position in growth markets in Asia and Latin America. Institutional investors will continue to be an important driver for growth in the fund industry. Investment funds, and particularly UCITS funds, provide institutional investors such as pension funds with a substantial degree of liquidity, diversification and a high level of investor protection for their international investments.

Having grown since the 1980s with the development of cross-border UCITS, the fund centre also has a very positive track record for private equity, real estate and hedge funds. The industry has the ambition to further develop Luxembourg’s position as the international fund centre of reference and seize the opportunities of the AIFMD to replicate its UCITS success in the alternative space.

The Luxembourg fund industry will also continue to emphasise and articulate the essential role of investment funds for the global economy. Funds moreover provide individual investors with solutions that meet their own financial needs. In this context, the industry will engage in investor education to improve financial knowledge. The industry will also support the development of responsible investment.

## 6 PRIVATE EQUITY

The Luxembourg private equity industry's goal is to become the prime on-shore centre for private equity by 2020, building on the strong foundation of asset management know-how, the availability of a broad range of investment vehicles and regulatory expertise.

More specifically, the industry has the ambition of increasing GP presence in Luxembourg. Having seen a continuous inflow of mid market private equity houses in Luxembourg, the industry also aims to attract a private equity 'mega fund' to further increase the centre's international reputation.

Factors that will drive the industry's expansion in Luxembourg include the European Investment Plan ("Juncker Plan"), innovation in financial technology, BEPS, as well as a positive global M&A activity.

The industry sees particular potential for growth in investment activities in the areas of impact finance, infrastructure, energy, mid market, debt, venture capital and FinTech.

The Luxembourg private equity industry also expects the sector to further expand its back and middle offices in Luxembourg.

## 7 INSURANCE SECTOR

Luxembourg is the leading platform for cross-border life insurance and reinsurance in Europe and aims to develop its existing capabilities, while attracting some of the largest international insurance and reinsurance companies.

The insurance and reinsurance sectors are developing outside the European Union, particularly in areas like Asia and Latin America.

One of Luxembourg's goals over the coming years is to become the European platform of choice for pension vehicles and offer private solutions to the pension financing in Luxembourg. The country will aim to become a centre of excellence in alternative reinsurance solutions.

The insurance sector will continue to supplement the financial services toolbox with appropriate tools. These may include the introduction of a legal framework for Protected Cell Companies (PCC), and increasing the offering of highly sophisticated long-term and international succession planning solutions for UHNWIs and their families. Similar to the other sectors, the insurance sector's regulatory framework will be closely monitored and adapted when necessary.

In addition to widening the scope of custody outside the EU, the industry sees further opportunities from the potential of the Single Market, which is not yet fully exhausted, and will continue to offer insurance solutions to niches in the European Union.

In the next five years, the insurance sector's key objectives are to:

- continue to generate 10-20% growth in the international life insurance business
- focus on digitalization of insurance and reinsurance solutions
- keep costs competitive
- keep profitability at a sustainable level
- keep the Single Market alive and ensure the freedom to provide services in the insurance sector.

## **8** **THE** **LUXEMBOURG** **STOCK** **EXCHANGE**

A pioneering institution since the earliest days of the Eurobond market in the 1960s, the Luxembourg Stock Exchange (LuxSE) has grown to be the world leader for the listing of international securities.

Providing a cutting-edge, efficient and fast infrastructure to list and trade securities of any type and currency for issuers from around the world, the LuxSE has been offering market recognized standards of disclosure and very high levels of transparency in the interest of global investors. Its truly global reach is confirmed by the dimension of its business: 40,000 listings, 3,000 issuers from more than 100 jurisdictions, 55 currencies and an open attitude to new markets and financial innovation.

From the Eurobond to RMB-denominated products, from Islamic to sustainable and green finance, the LuxSE has not missed an opportunity to embrace the newest market trends while maintaining the highest comfort for investors and a pragmatic approach to issuers' funding needs. The LuxSE strives to maintain a simple, pragmatic and dynamic approach to business in an ever-evolving regulatory environment, increasingly fast moving capital markets and growing digitalisation.

In doing so, the LuxSE provides simplified and smooth processes, high performance trading platforms and surveillance & post trade technology responding to the latest expectations of market participants, such as easy connectivity, instant and comparable access to data and information and liquidity enhancing tools. In the investment funds space, driving innovation through Fundsquare's FinTech approach will ultimately make existing models more efficient through collaboration, simplification and transparency and further contribute to the democratisation of financial services.

## 9 POST-TRADE SERVICES

The LuxSE has the ambition to expand the “Listed in Luxembourg” brand even further to new countries, new issuers and new products, leveraging its expertise as well as the Luxembourg financial services industry ecosystem which has always been driven by innovation.

Luxembourg has a strong tradition in market infrastructure, having developed an entire ecosystem that also includes a full range of post-trade services, a leading international stock exchange, a solid expertise in asset administration and the management of custody networks, as well as a large pool of eligible assets for collateral and triparty repo.

Luxembourg is home to 4 Central Securities Depositories (CSD), including the International Central Securities Depository (ICSD) Clearstream, a global leader in post-trade services.

To further consolidate its foothold in international market infrastructures, the industry aims to seize the opportunities that the Capital Markets Union will offer. Having already achieved sufficient critical mass to act as a one-stop-shop, the CMU will allow Luxembourg to further position itself as the preferred location for international and EU issuers, offering them the full range of cross-border solutions from issuing to listing and from trading to settling and clearing any security.

Moreover, the ECB’s Target 2 Securities project as well as the recent Central Securities Depositories Regulation should help attract new issuers to Luxembourg and allow the industry to develop and offer additional services, particularly in the area of collateral management. Close integration with Luxembourg’s thriving fund administration sector as well as the financial centre’s unrivalled capacities

**10**  
**LEGAL & TAX**  
**ADVISORY, AUDITORS**  
**AND CORPORATE**  
**SERVICES**

in the management of networks of custodians will further help position Luxembourg as an international centre of competence for post-trade and collateral management services.

The wealth of professional advisory services in Luxembourg, ranging from legal & tax experts to auditors as well as a broad range of corporate service providers, means Luxembourg can offer a comprehensive financial centre ecosystem to international investors and companies.

With more international clients choosing Luxembourg, the legal profession expects that the number of international law firms in Luxembourg will increase in the coming years. One of the most fundamental success factors for the next five years will be to maintain the stability of Luxembourg's legal, political and regulatory regime as well as to maintain a competitive tax environment.

One of the key focal points of the audit industry will be the continuous training and skill development of professionals so as to meet the highest quality standards in their profession and to attract the most talented individuals. A close coordination and cooperation between industry and training institutions as well as the University of Luxembourg, ensure that programmes meet the needs of the industry and regulated professions.

The industry aims to retain and expand its status as a centre of excellence in auditing services by developing additional training incentives.

Luxembourg's corporate services sector, moreover, aims at creating the most favourable environment for businesses by ensuring all types of administrative services related

to financial services are dealt with in a rapid and efficient manner. The industry aims to put Luxembourg firmly on the map as a centre of excellence for administrative services, notably in the area of corporate services, fund administration, compliance and governance solutions.

Another focus will be on increasing the sector's attractiveness by expanding the range of services it offers and contribute to establishing Luxembourg as a key hub for international UNHW families, in particular by providing more added value family office services, including asset structuring and family governance solutions.

Beyond family office services, the new regulatory environment has also created new growth opportunities for the industry to offer reporting solutions and depositary services for non-financial assets.

## **ABOUT LUXEMBOURG FOR FINANCE**

Luxembourg for Finance (LFF) is the Agency for the Development of the financial centre. It is a public-private partnership between the Luxembourg Government and the Luxembourg Financial Industry Federation (PROFIL). Founded in 2008, its objective is to promote the expertise of the financial centre and the diversification of its services abroad through different communication channels.

The agency continuously monitors global trends and evolutions in finance to identify development opportunities for the Luxembourg financial centre and to serve different target markets and target groups. It is also the first port of call for foreign journalists. In cooperation with the various professional associations, LFF develops documentation on products and services available in Luxembourg and their relevant legal and regulatory framework. Furthermore, LFF organises seminars in international business locations and takes part in selected world-class trade fairs and congresses.

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