

# BUILDING THE FINANCIAL SILK ROAD

**TUESDAY, 17 SEPTEMBER 2019**

The Peninsula | Beijing



# WELCOME

**Chris HOLLIFIELD**

Head of China Desk  
Luxembourg for Finance





# TESTING TIMES FOR EU-CHINA RELATIONS

**HE Pierre GRAMEGNA**

Minister of Finance  
Grand Duchy of Luxembourg





# KEYNOTE SPEECH

**Prof. WANG Yao**

Director General  
International Institute of Green Finance  
Central University of Finance and Economics







# HOW BREXIT RESHAPES EUROPE'S FINANCIAL SERVICES LANDSCAPE

**Nicolas MACKEL**

CEO  
Luxembourg for Finance





# THE AMAZONISATION OF THE FINANCIAL INDUSTRY

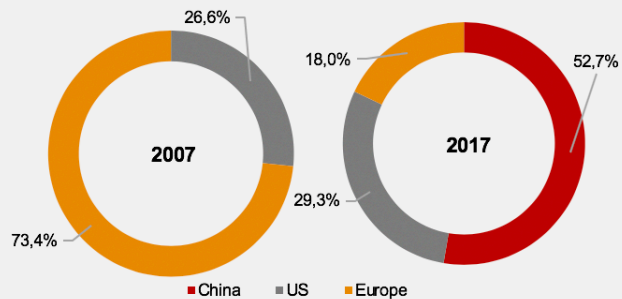
**Dariush YAZDANI**

Partner  
Global Market Research Centre Leader  
PwC

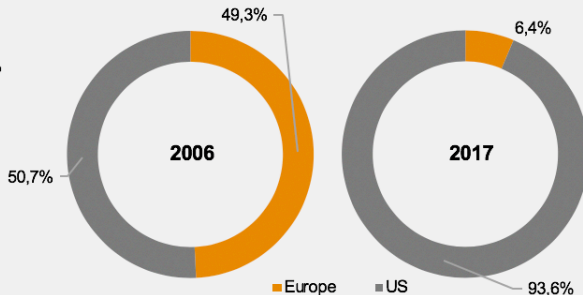


## THE EUROPEAN FINANCIAL SECTOR HAS LOST SIGNIFICANT GROUND

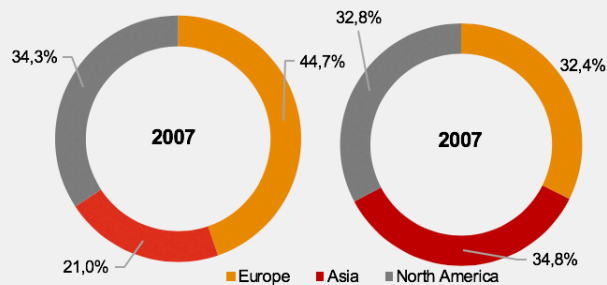
Banking: Share of Tier 1 capital of 10 largest banks\*



AWM: Share of assets of top 10 Asset Managers by region



Insurance: Relative share of Gross Written Premiums by region



# THREE TRENDS SHAPING THE FUTURE OF THE EUROPEAN FINANCIAL SERVICES INDUSTRY



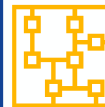
## Amazonisation

- Shift of power towards the client, where platforms will be the dominant client-facing usage interface within the financial services industry.
- These platforms will allow for transparency and comparability for FS customers.
- AI will be able to suggest FS products for each individual which fall in line with their client profile, expediting the decision process and offering a more personalised service.
- Millennials are set to become the dominant demographic in the consumer population and this will also drive Amazonisation.



## Mainstreaming of sustainable finance

- With a massive wealth shift between generations, as well as millennials desire for impactful investments, we expect to see strong growth in sustainable finance.
- In the future, FS institutions who sell products that do not comply will have to declare their product non-compliant.
- Millennial employees also care more than ever about their company's values, meaning that internal ESG policies will be important for retaining skilled workers.
- Rules and behaviours will need to be formalised to ensure transition to sustainable economy.



## Multipolarisation

- Due to Brexit, financial institutions had to set up alternative operations and thus relocate activities.
- One feature that emerges very clearly is that activities tend to be relocated to where the local ecosystem is best geared towards supporting a particular activity.
- In the banking sector, Frankfurt and Paris emerge as clear choices for relocations. While for asset management is Luxembourg or Dublin.
- This fragmentation increases multipolarisation, i.e. an increased specialisation of different financial centres and an increased complementarity between them.



# AMAZONISATION WILL PUSH BANKS TO BECOME WHOLE SOLUTION PROVIDERS



## Amazonisation of banking

- European banks are losing their competitive edge globally, especially in comparison to China and US
- European banks will need to embrace Amazonisation from a profitability, regulatory, and sustainability perspectives:

### 1 Re-imagining profitability drivers

- European banks are currently experiencing profitability struggles and upcoming regulations and a low interest rate environment are posing major challenges to European banks' profitability.
- Adapting to CMU-driven market changes, and becoming product aggregators and open banking platforms are key actions that European banks need to take to beat the profit crunch.

### 2 Regulations will facilitate Amazonisation of banking

- Client demand and the industry landscape is being reshaped by regulations such as Open Banking.
- New players without legacy operating systems are entering the market with a state of the art digital presence without branches.
- Keeping digital pace through internal means or acquisitions will be increasingly crucial for traditional banks to survive.

### 3 Sustainable finance as a foundation for future success

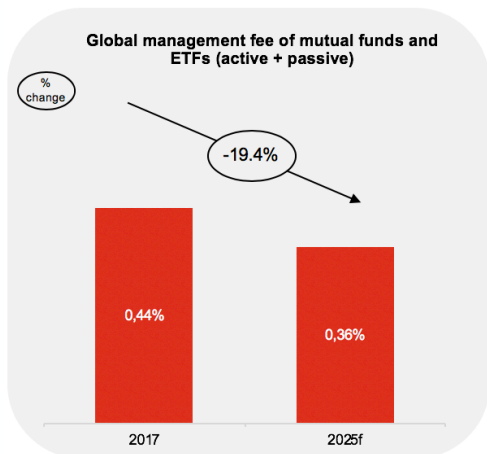
- The generational shift will lead to a rise in demand for sustainable finance products.
- European banks are currently leaders in the sustainable finance space.
- Proactivity remains key to lead the change in the sustainable finance realm at a global scale.

### 4 Moving towards a sustainable model

- Traditional banks' business models are often outdated, with faltering revenues from loans.
- Banks need to move towards public market financing (debt securities and equity financing).

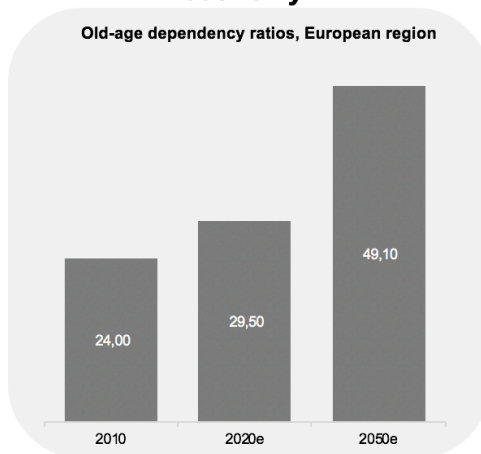
# AMAZONISATION OF AWM IS A BLESSING AND A CURSE

## 1. Margins set to fall



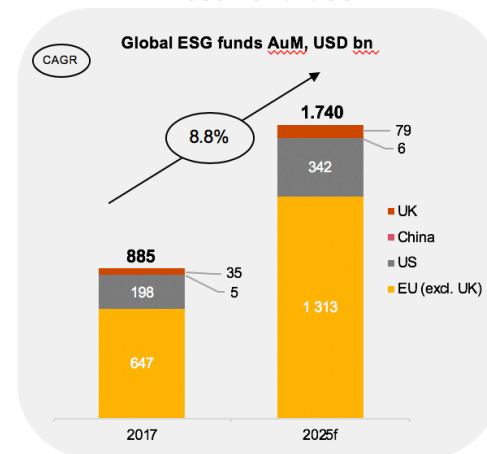
- The AWM industry is at a crossroads with compliance costs rising and management fees set to drop. Amazonisation will help to overcome these struggles by providing adapting to ongoing market trends and focus on evolving client needs.

## 2. Providing solutions to challenges for the European economy



- In addition to integrating Amazonisation, it is crucial for European asset managers to address the challenges facing society in order to revive the somewhat damaged image of financial services companies during and post-GFC.

## 3. European leads the burgeoning sustainable investment race







- A new generation of investors are far more aware of the impact their investments will make. Thus there will be a fundamental change occurring where the investment industry will need to evolve to answer its clients' demand for sustainability.



# AMAZONISATION OF PAYMENTS SET TO LEAD CHARGE TOWARDS CASHLESS SOCIETIES

The rise of ecommerce and mobile payments, driven by their convenience and the growing millennial demographic, will cause digital payments to spike. This will shift societies to become predominantly cashless, will render money transfers instantaneous and more efficient, and revolutionize POS payments.

		Merchant	
		Card	Mobile
Customer	Card	<b>POS, ATM</b> <ul style="list-style-type: none"><li>• Canada</li><li>• Sweden</li><li>• UK</li><li>• France</li><li>• USA</li><li>• China</li></ul> 	<b>mPOS, Mobile wallets</b> <ul style="list-style-type: none"><li>• China</li><li>• India</li><li>• Africa/Middle-East</li><li>• US</li><li>• Western EU</li></ul> 
	Mobile	<b>NFC, Contactless</b> <ul style="list-style-type: none"><li>• Australia</li><li>• Canada</li><li>• Japan</li><li>• Poland</li><li>• Singapore</li><li>• UK</li></ul> 	<b>Mobile remote</b> <ul style="list-style-type: none"><li>• Sub-Saharan Africa</li><li>• South and South East Asia</li><li>• Latam</li></ul> 

## Consumer trends

- Rise in e-commerce and non-cash payments
- Mobile adoption
- Seamless payment experience



## Technology & Data

- Transformation of the PoS
- Integrated payments and analytics
- Blockchain-enabled payments



## Competitive landscape

- New players in the landscape
- Decrease in payment fees – data monetisation
- Price pressure and technology to push consolidation



## Politics & regulations

- PSD2
- Real Time Payments becoming the norm
- Cyber threats and regulatory scrutiny
- Move to cashless societies?





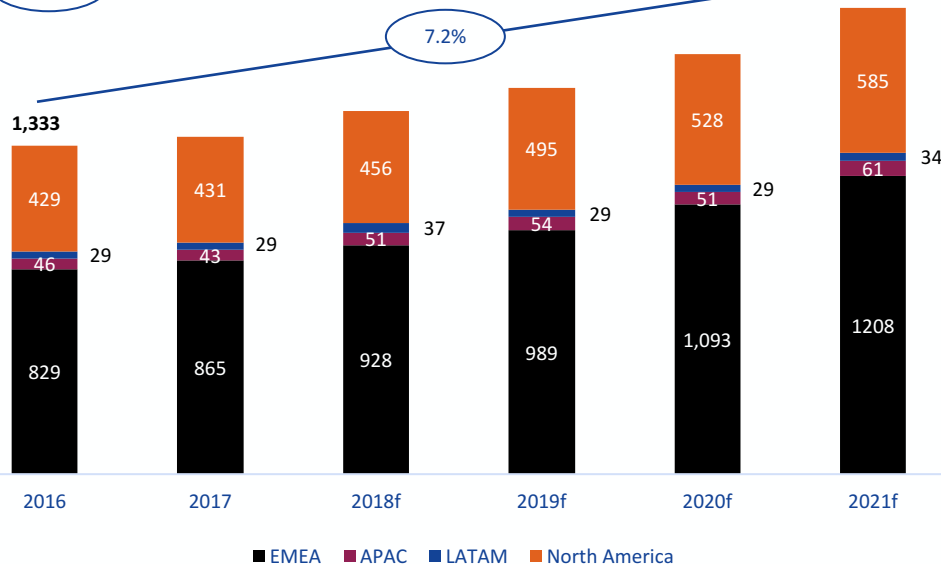
## AMAZONISATION WILL DISRUPT THE INSURANCE DISTRIBUTION VALUE CHAIN IN THE NEAR TERM

Amazonisation of the insurance company will be driven by online platforms providing access to a marketplace where clients can immediately compare and evaluate insurance offerings from multiple providers.

InsurTech Revenue, USD mn

CAGR

7.2%



***On demand and personalization will drive the future of insurance:***

**41%** of customers are interested in usage-based insurance

**37%** of customers are interested in on-demand insurance

The acceleration of connected devices will provide insurance companies with more data than ever before, therefore offering a better risk profile of their clients.

The rise of the sharing economy will push people from owning assets in the future and will lead to usage-based insurance.

An increasing number of InsurTech start-ups are focusing on adjacent industries and are looking to leverage the associated data for the traditional insurance sector.





# DRIVING EUROPE TO THE FORE: OUR RECOMMENDATIONS

## 1. Firms must disrupt themselves

- FS players will need to push efficiencies while balancing costs in order to adapt to the new era.
- Players will need to create value, not only for themselves, but also their clients and the European economy as a whole.
- Players must become disruptors themselves if they are to survive and thrive in the coming years.

## 3. Strengthen innovation and digital dimension of the single market

- European players must be proactive, leveraging on innovation and the digital trend.
- European FS companies must ensure they harness client data in order to deliver what their customers want.
- To counter the lack of uniform regulations across markets, would take concerted efforts to align regulation across markets.

## 2. Deepen cross-border integration

- Despite the European Single Market, Europe has struggled with cross-border Integration.
- Financial Centres across the single market should be allowed to specialise and flourish.
- Fragmentation is not a winning strategy and more needs to be done to bring markets together.

## 4. Lead the sustainable finance race

- There is already a US\$5 trillion to US\$7 trillion funding gap that is needed to meet the SDGs.
- UN estimates point to the fact that in Europe alone, for it to achieve its energy and climate policy targets, an additional EUR170 billion per year is required.
- The financial sector can play a crucial role by ensuring that capital flows towards sustainable investments, renewable energy etc.



# GLOBAL TRENDS IN SUSTAINABLE FINANCE

**Julie BECKER**

Member of the Executive Committee  
Luxembourg Stock Exchange





*“Tell me, and I will forget.  
Show me, and I may remember.  
**Involve me**, and I will understand.”*

*Chinese Proverb*

# 68%

of investors are confused  
by sustainable finance  
terms



68%

of investors are confused  
by sustainable finance  
terms

# Trend #1

## Developing sustainable finance education & literacy



# 27%

## China's contribution to total global green bond issuance



27%

China's contribution to  
total global green bond  
issuance

## Trend #2 Creating uniform standards & taxonomies



# 2020

## China Securities Regulatory Commission introducing mandatory ESG reporting



# 2020

China Securities  
Regulatory Commission  
introducing mandatory  
ESG reporting

**Trend #3**  
Turning unstructured data  
into reliable ESG data



# 70 trillion RMB

Value of the Chinese Inter-Bank  
Bond Market



**70 trillion  
RMB**

Value of the Chinese Inter-  
Bank  
Bond Market

**Trend #4**  
**Moving closer to  
international standards**



# 59%

of the world's middle-class  
consumption will be  
generated in Asia by 2030



59%

of the world's middle-class  
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## Trend #5 Enhancing global cooperation



# Sustainable Finance Trends

- Education
- Common language
- Reliable data
- International standards
- Global cooperation





# THE ASSET MANAGEMENT INDUSTRY IN A TURBULENT WORLD

**Camille THOMMES**

Director General  
Association of the Luxembourg Fund Industry (ALFI)





## TAKING STOCK

- ***Drivers***

1. Significant increase in AUM and revenues over the last years
2. AM industry - prominent actor in the World financial system
3. Substantial growth in passive strategies and alternative strategies
4. New markets

- ***favoured by***

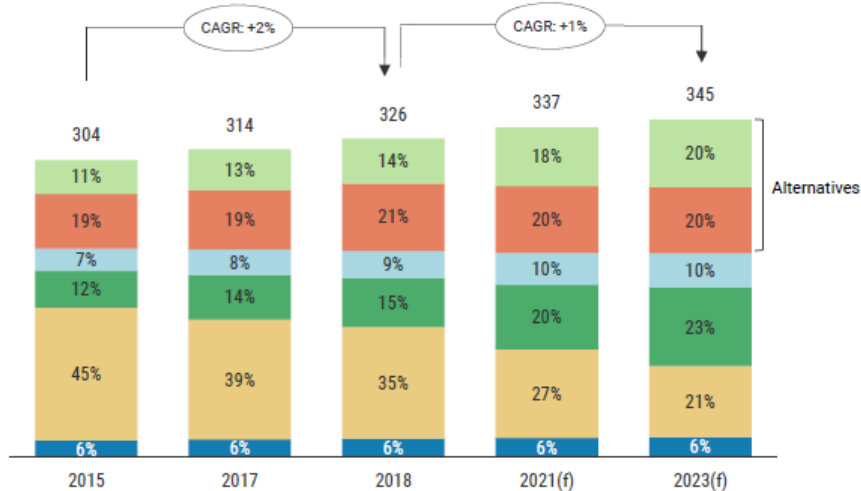
- Rise of middle class and ageing populations
- Positive global market environment and strong demand for investment products
- Need for long term savings
- Huge infrastructure needs



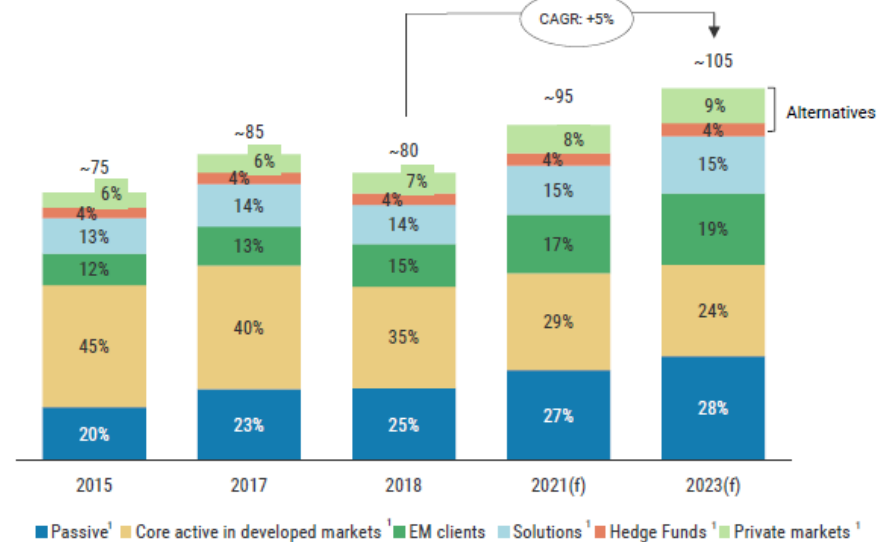
# WINDS OF CHANGE, ARE THE GOOD OLD DAYS OVER...?

## EXHIBIT 3 | The Winner-Takes-All Dynamic Is Stronger in the US Than in Europe

Base case global revenue composition, 2015 - 2023(f), USD BN



Base case year-end AUM composition, 2015 - 2023(f), USD TN



Source: Research paper- Morgan Stanley/Oliver Wyman – “Searching for Growth in an Age of Disruption”

**Sources:** Simfund, Strategic Insight; BCG analysis.

**Note:** The analysis excludes money market funds and includes fund of funds; US variable annuities are excluded.

<sup>1</sup>Includes Charles Schwab (\$30 billion), Fidelity (\$21 billion), Dimensional Fund Advisors (\$16 billion), Edward Jones (\$16 billion), PIMCO (\$14 billion), TIAA (\$10 billion), and First Trust (\$9 billion).

<sup>2</sup>Decreased from 85% in 2017.

<sup>3</sup>Includes Mercer (\$14 billion), Baillie Gifford (\$11 billion), State Street Global Advisors (\$9 billion), BlackRock (\$8 billion), Legal & General (\$8 billion), Allianz Global Investors (\$7 billion), and Royal London (\$7 billion).

<sup>4</sup>Decreased from 35% in 2017.

1. Does not include EM clients

Source: Oliver Wyman analysis

Source: BCG “How Asset Managers can win in a Winner-Takes-All World”, May 2019



## NO MATTER HOW TALL THE MOUNTAIN IS, IT CANNOT BLOCK THE SUN

1. Focus on client
  - ✓ Redefine value proposition (solutions, markets, pricing)
2. Concentrate on growth areas
3. Adapt your operating business model
4. Embrace technological change
  - ✓ Leverage on data and analytics



# AN INCREASED INTEREST FOR PRIVATE EQUITY

**Claus MANSFELDT**

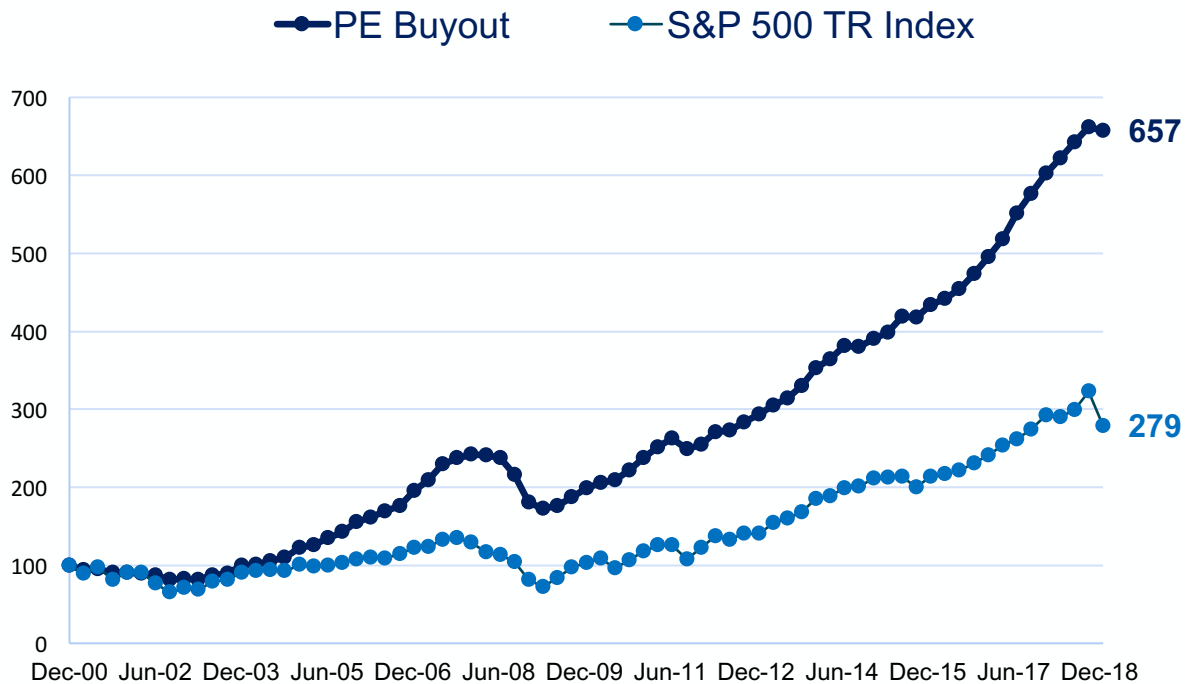
President  
Luxembourg Private Equity and  
Venture Capital Association (LPEA)





# PRIVATE EQUITY OUTPERFORMANCE

## Concentrated Ownership is a Decisive Advantage



**Private Equity**  
11% IRR

**Public Stocks**  
6% IRR

Source: Preqin (indices as of December 2018), Public Index IRR comparison on PME basis.

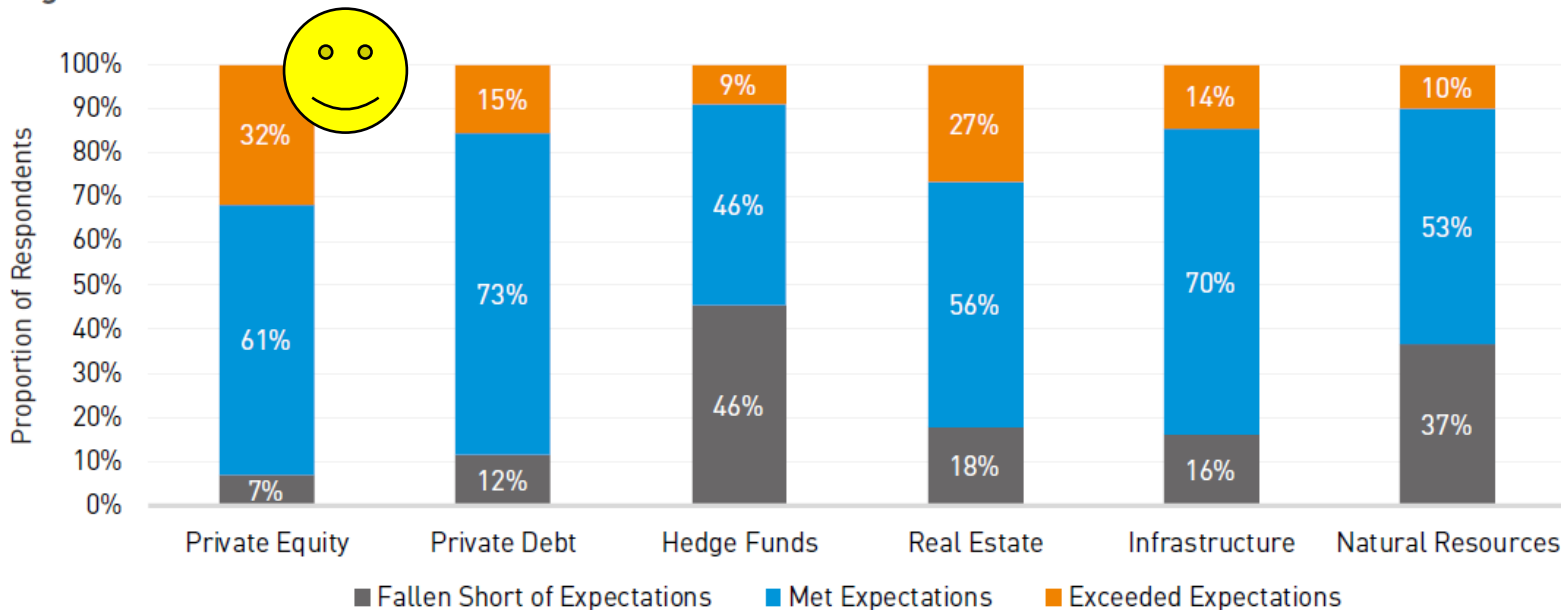




# PRIVATE EQUITY A POPULAR ALTERNATIVE

## 93% of PE Investors are Satisfied

Fig. 1: Investor Views on the Performance of Their Investment Portfolios over the Past 12 Months

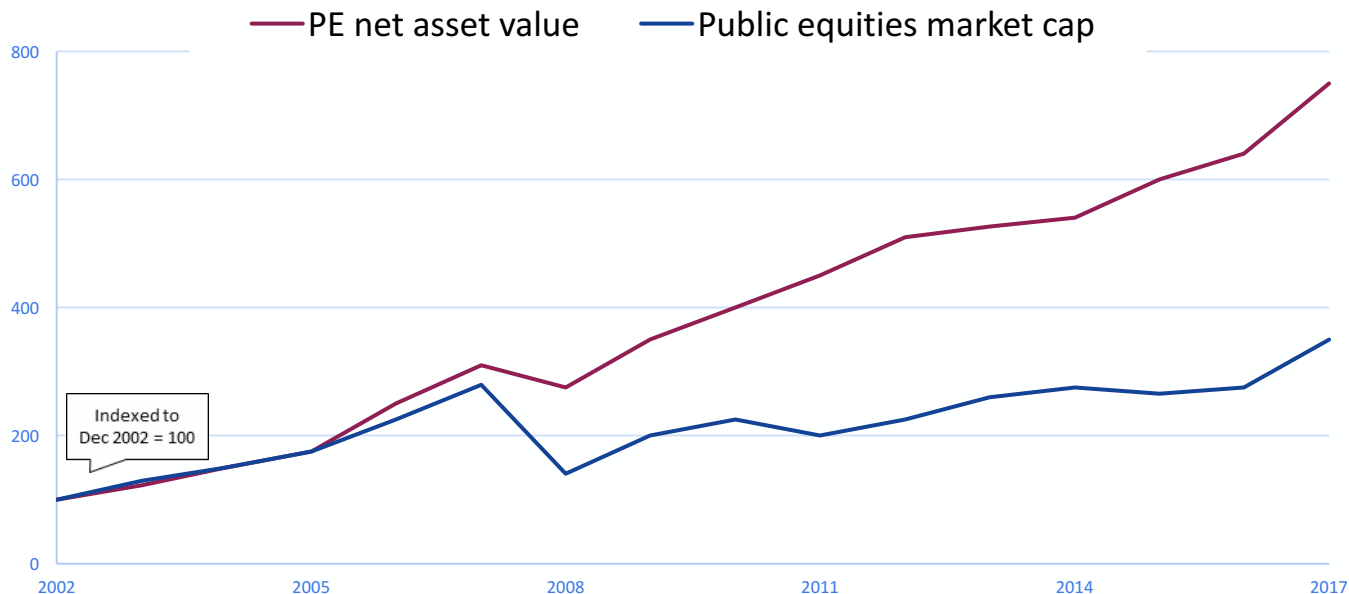


Source: Preqin Investor Interviews, June 2019



# INCREASED INTEREST FOR PE

## PE NAV up sevenfold since 2002



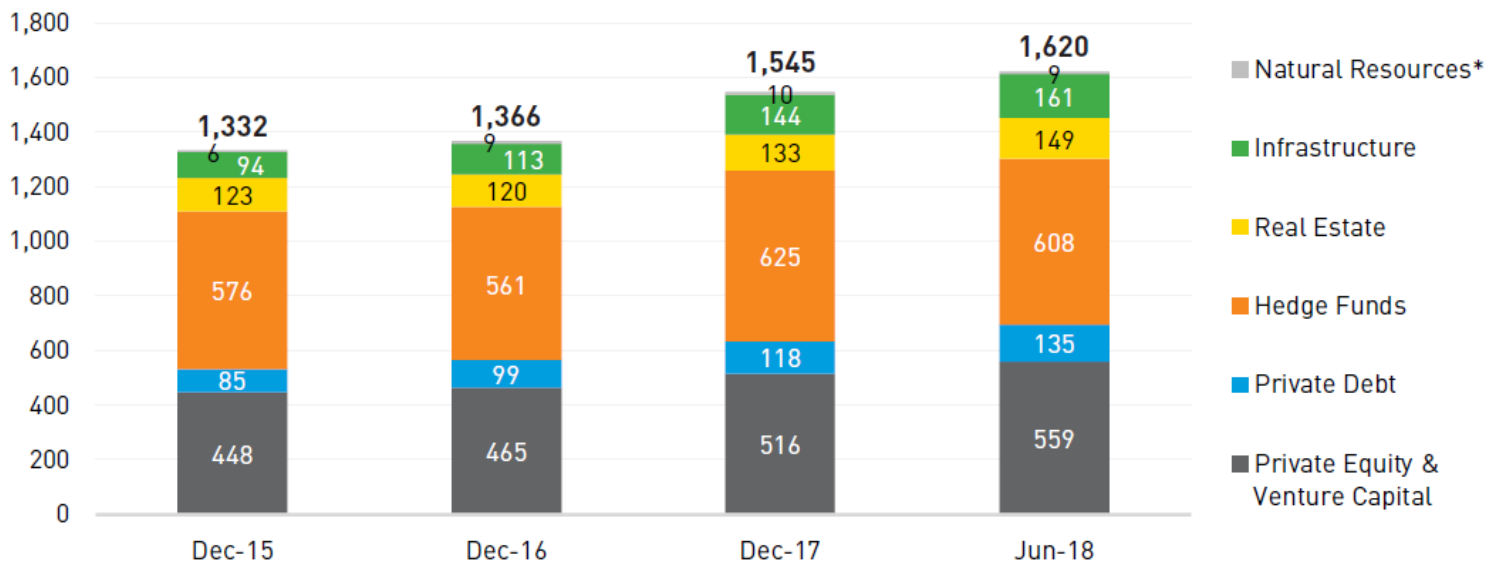
Sources: McKinsey, World Bank data.



# EUROPEAN PE AuM INCREASING

## Alternative Investments Increasing Overall

Fig. 1.2: Europe-Based Alternative Assets under Management (£bn) by Asset Class, 2015 - 2018



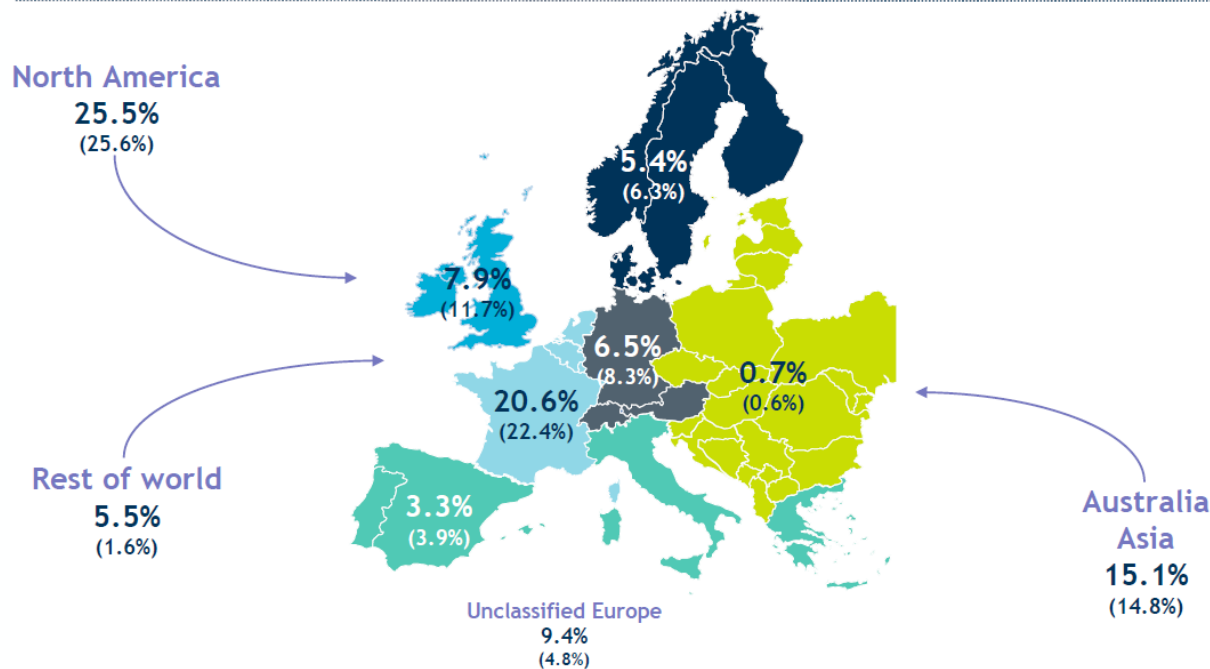
Source: Preqin Pro

# FUNDING FOR PRIVATE EQUITY IN EUROPE

## 46% Internationally Sourced

### All Private Equity - Fundraising geographic breakdown

2018 (2017) - Source of funds - % of total amount





# EUROPEAN PE INVESTOR CATEGORIES

~50% from Pension Funds and Fund-of-Funds

2018

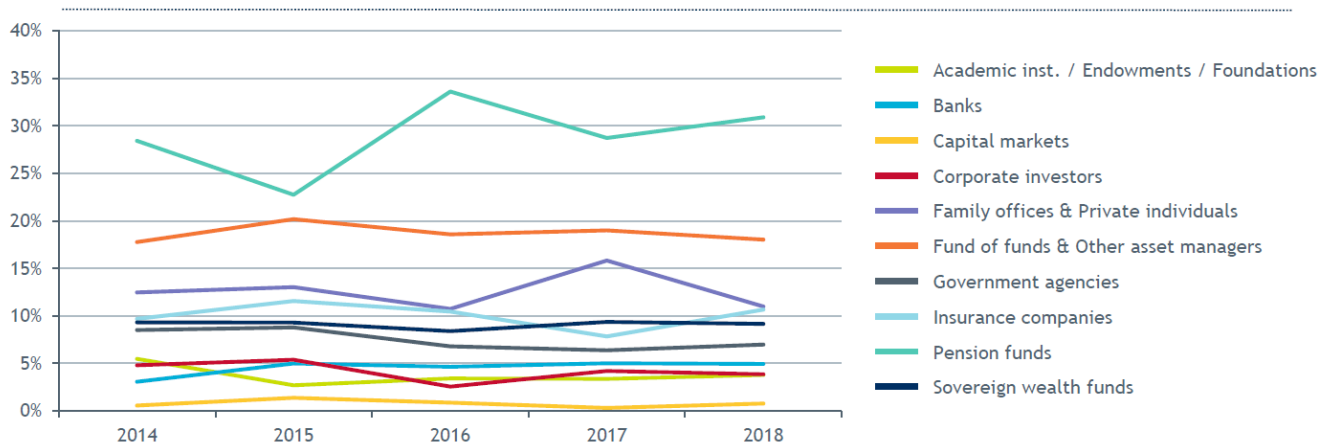
**€97.3bn**  
FUNDRAISING

**€80.6bn**  
INVESTMENT

**€32bn**  
EXITS

## All Private Equity - Funds raised by type of investor

2014-2018 - Incremental amount raised during the year - % of total amount

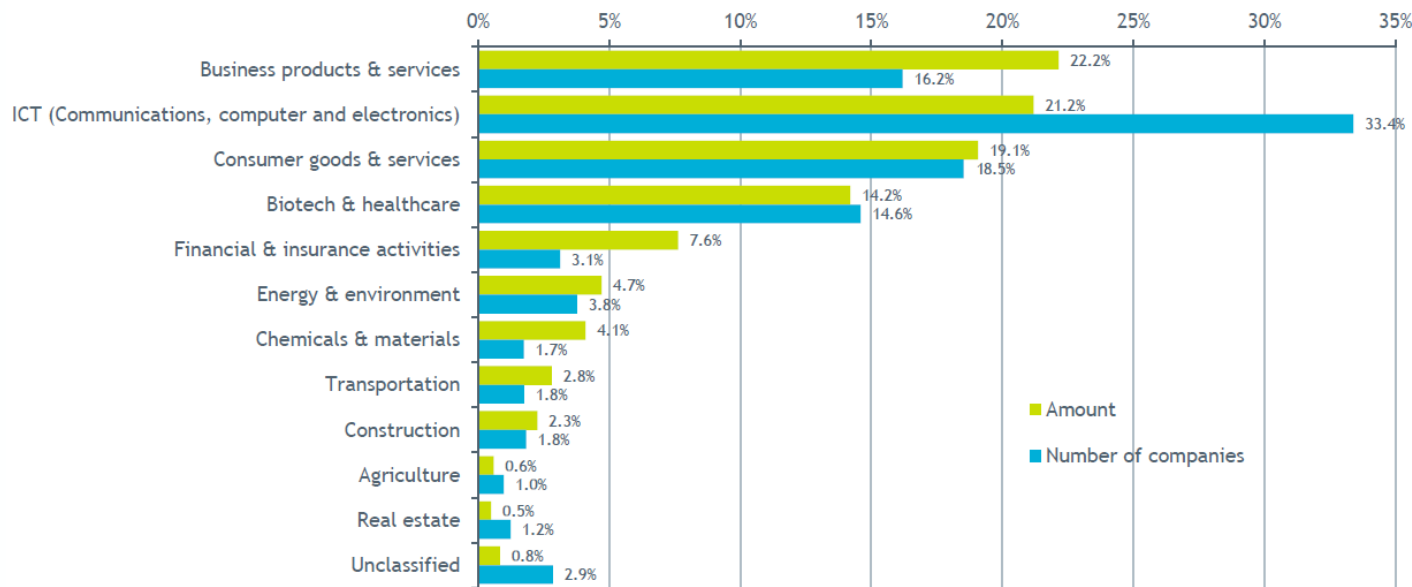


# EUROPEAN PE INVESTMENT SECTORS

## 44% into IT and Business Services

### All Private Equity - Investments by sector

2018 - Market statistics - % of Amount & Number of companies



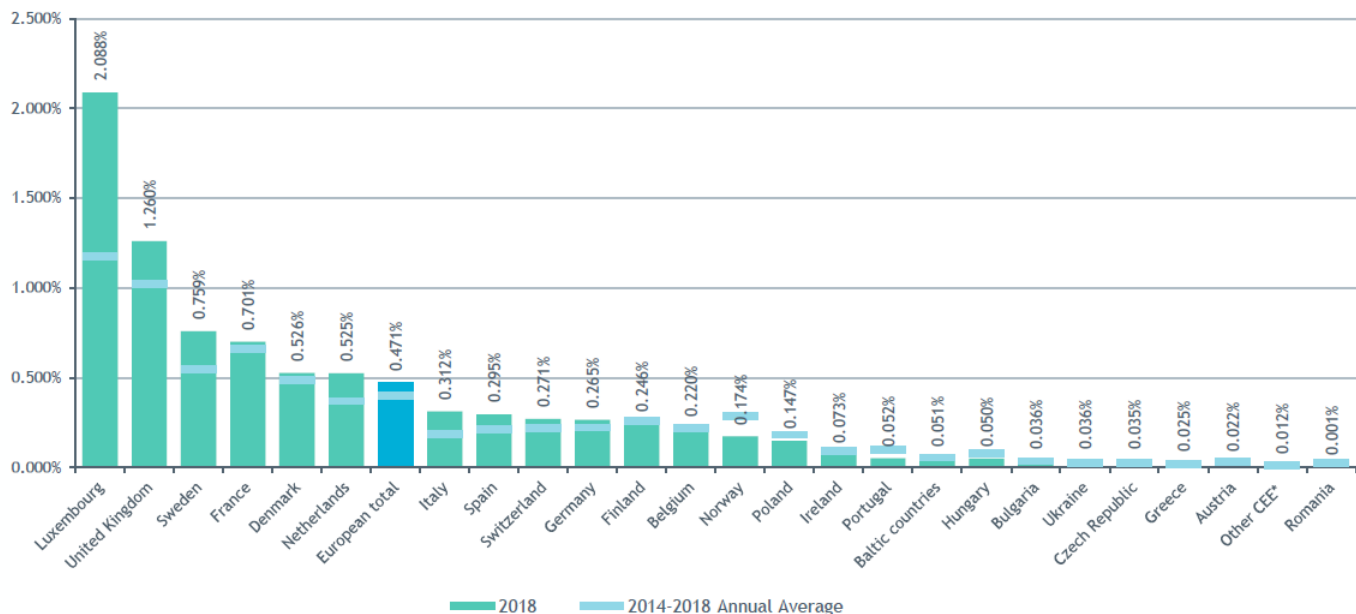


# EUROPEAN “PE COUNTRIES”

UK, Nordics, France, Benelux...Germany next?

## All Private Equity - Investments as % of GDP

2018 - Industry statistics: Location of the PE firm



Source: IMF, World Economic Outlook Database (GDP) / Invest Europe / EDC

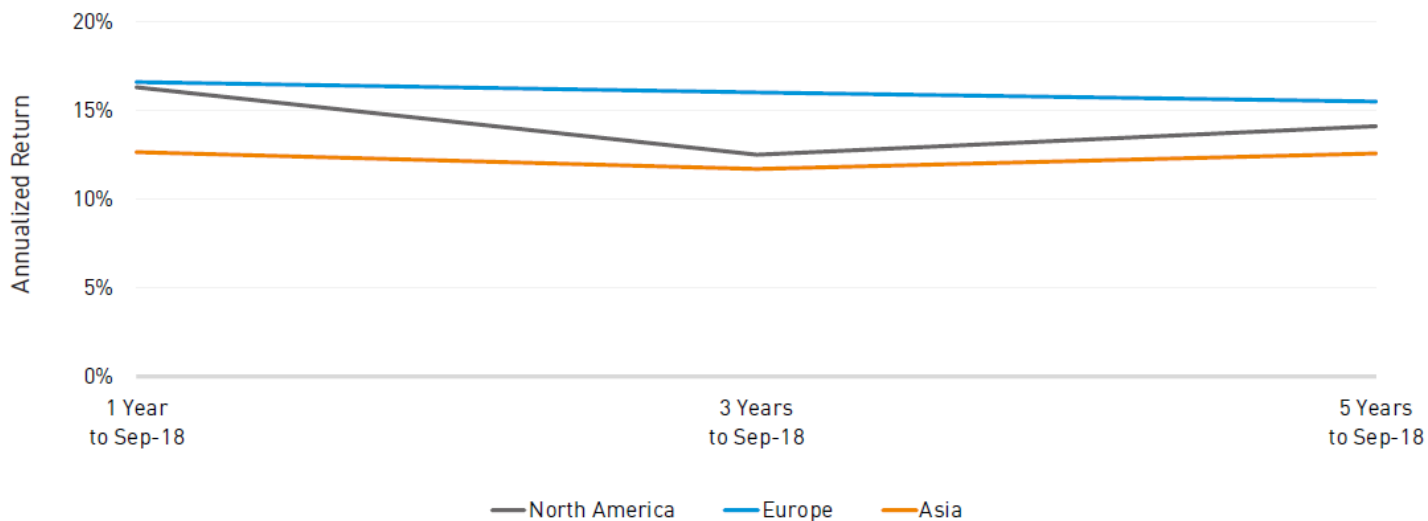
Note: \*Other CEE consists of Bosnia-Herzegovina, Croatia, Macedonia, Moldova, Montenegro, Serbia, Slovakia, Slovenia



# EUROPEAN PRIVATE EQUITY RETURNS

## Recent performance compares well

Fig. 5: Private Capital Horizon IRRs by Fund Primary Geographic Focus

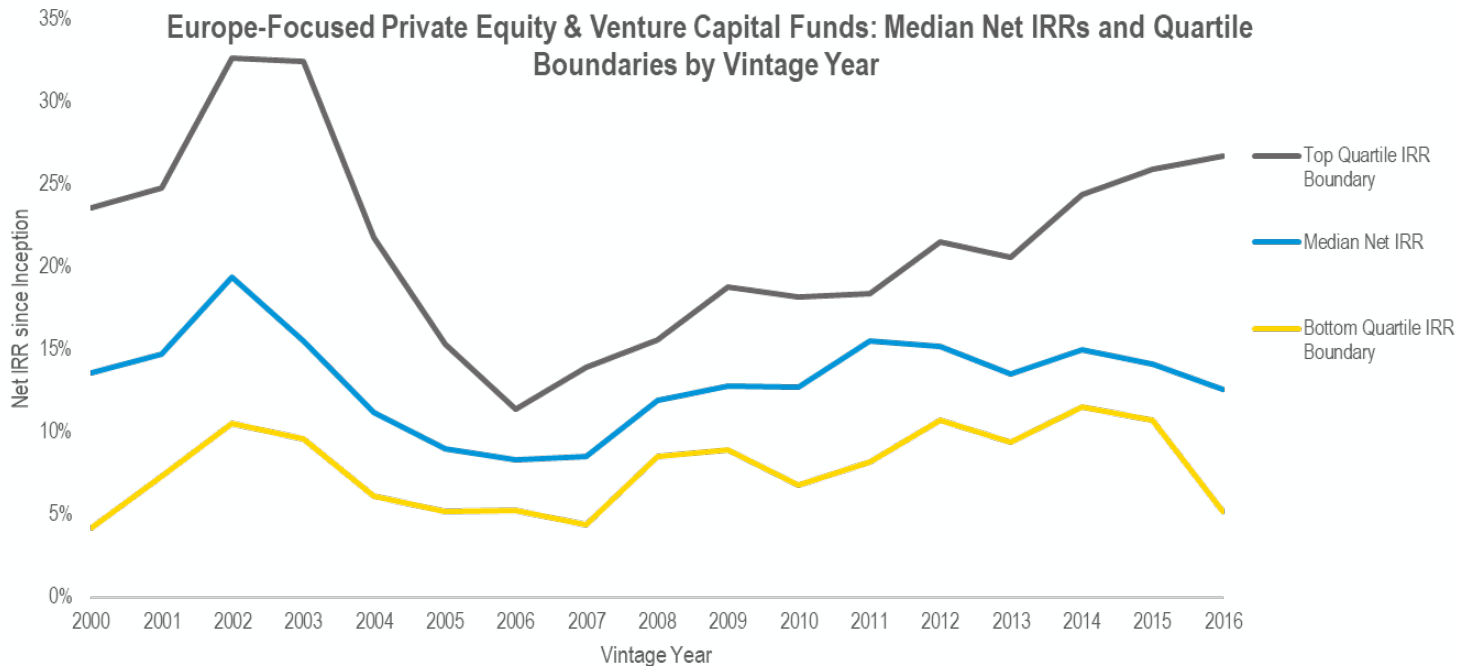


Source: Preqin Pro. Data as of 30 September 2018



# BUT NOT ALL PE RETURNS ARE EQUAL

## Selection & Access Remains Key



Source: Preqin