MAY 2020

LEO

THE FINANCIAL CENTRE'S MAG

COVID-19: THE NEW NORMAL

ON DECK DURING THE STORM: INTERVIEW WITH PIERRE GRAMEGNA

EMERGING FROM A CRASH COURSE IN THE UNKNOWN TO WHAT NEXT?

HOW RESILIENT IS THE FINANCIAL SERVICES INDUSTRY?

A SUPERVISORS' VIEW

THE DIGITAL-LED RECOVERY

LuxembourgforFinance
Agency for the Development of the Financial Centre

LUXEMBOURG
LET'S MAKE IT HAPPEN

NICOLAS MACKEL,
CEO,
LUXEMBOURG FOR FINANCE

Dear readers,

2020 is certainly turning out to be a historic watershed moment, with the Covid-19 virus clearly defining the periods before and after the crisis. Since the beginning of the year, the virus has achieved putting a halt to our economies, something our minds would have had difficulty imagining. As country after country went into lockdown around the world, some wanted to see this pandemic as a crisis of globalisation. By cutting vital supply lines, these lockdowns demonstrated, to those who had previously not cared to understand, how we depend on some countries for certain goods and how our economies are generally interconnected.

In a straw poll conducted among Luxembourg's financial services leaders (see infographic with detailed responses in this edition), a full 82% express concern for the future of globalisation. A majority also sees risks of a fragmentation of the EU single market. The fears expressed in these responses stem from the way some governments have reacted during the initial stages of the crisis, either by finding someone or something to blame, or by raising the drawbridges. Even within the EU single market, border controls were brought back by countries which for 60 years had worked tirelessly to make them irrelevant. If the current crisis has underscored one thing, it is that such a virus does not stop at borders.

As a result of the lockdowns required to stem the pandemic, our economies are going to experience very testing times. Indeed, nearly three quarters of those we polled expect a global recession with insolvencies and rising unemployment. This situation is not going to fade quickly, as most expect the recovery not to make itself felt before a year or two, if not, even three.

The future growth needed to dig ourselves out of this hole cannot be generated in autarchy. No country can flourish on its own, unless you think North Korea serves as a model economy. Financial services in particular have become an inherently international business relying on the efficiencies created by specialisations. This cannot and should not be replaced by the chimera of self-reliance, neither at EU nor at global level. Every economy around the world needs funds that come from investors based in other countries pooled by the expertise available in financial centres like ours.

But a crisis is always also a moment for opportunity. New servicing models and strategic realignment are seen as the main impact on their business. More than half of those surveyed view increased digitalisation as an area of future growth. The same goes for sustainable finance. If indeed we want to avoid future climate crises with economic effects on par, if not worse, than those caused by this pandemic, we absolutely need to get serious about the transition of our economies and thus industries. The financial industry will be key in providing the capital needed to support this transition.

In this LEO magazine, we feature an interview with Minister of Finance Pierre Gramegna and share the views of some of the main leaders on the impact of the crisis and what it will mean for the future. It is obviously too early to draw clear conclusions and lessons from the epoch-making moments we are going through but some trends clearly emerge.

Enjoy the read, stay safe and see you soon again in person.

N. Mackel

3 | **ON DECK DURING THE STORM**
Interview with Pierre Gramegna, Luxembourg Finance Minister.

FOCUS
THE NEW NORMAL

7 | **EMERGING FROM A CRASH COURSE IN THE UNKNOWN TO WHAT NEXT?**
Four captains of the Luxembourg financial industry examine the effects of the pandemic on business.

15 | **FACING UNPRECEDENTED TIMES: HOW RESILIENT IS THE FS INDUSTRY?**
Key players of the FS industry share their views on the current state of the sector amidst the sanitary turmoil and the potential upcoming consequences on the economy.

23 | **A SUPERVISORS' VIEW: STEERING THROUGH THE FOG**
The Commission de Surveillance du Secteur Financier (CSSF) and the Commissariat aux Assurances (CAA) discuss how they navigated the health crisis and the challenges ahead.

29 | **THE DIGITAL-LED RECOVERY: HOW CRISIS BREEDS INNOVATION**
While financial services have been heavily relying on technology to keep their business going over the last few weeks, Covid-19 serves as a catalyst for digital transformation across the industry.

35 | **INFOGRAPHICS**
183 leaders across the Luxembourg financial industry, including asset managers, bankers, insurers and professional service providers, took part in LFF's Covid-19 straw poll.

37 | **LIFESTYLE | ONLINE CLASS OF 2020**
Supporting home learning during a pandemic is not the simplest task, but ISL's strong network and independent pedagogical approach has helped them to empower families and teachers to face the unknown.

41 | **UPCOMING EVENTS**

ANY QUESTIONS?
GET IN TOUCH ON TWITTER - @LUXFINANCE

PIERRE GRAMEGNA,
LUXEMBOURG'S MINISTER OF FINANCE

ON DECK DURING THE STORM

AN UNPRECEDENTED CRISIS REQUIRED UNPRECEDENTED MEASURES IN A VERY SHORT TIME. THIS IS HOW PIERRE GRAMEGNA, LUXEMBOURG'S MINISTER OF FINANCE SINCE 2013, SUMS UP THE DECISIONS HE HELPED SHAPE BOTH AT NATIONAL AND AT EUROPEAN LEVEL. AS THE VIRUS THREATENED, THE FOREMOST PRIORITY WAS TO MANAGE AND MINIMISE THE RISK IT POSED TO THE HEALTH OF CITIZENS BY ORDERING A PARTIAL ECONOMIC LOCKDOWN (BANKS AND INSURANCE COMPANIES AS WELL AS OTHER ESSENTIAL SERVICES NOT BEING INCLUDED) THAT WILL HAVE SAVED MANY LIVES, EVEN IF THE MAGNITUDE OF THE ECONOMIC CONSEQUENCES REMAINS TO BE DETERMINED AND WILL PROJECT GLOBAL ECONOMIES INTO AN ERA OF UNCERTAINTY.

"The financial industry has been very constructive in its attitude in this crisis, and is part of the solution."

PIERRE GRAMEGNA

WEATHERING THE STORM

As we talk to the Minister, Luxembourg had recently entered the second phase of easing restrictions on 11 May, with shops and secondary schools opening doors. As he points out, partially shutting down an economy is easier to do than opening it up again.

Nevertheless, Luxembourg had several advantages as it entered into the sanitary crisis.

First of all, sound public finances documented by a consistent AAA rating on the basis of its very low public debt. This in particular allowed the government to react not only very rapidly but also very forcefully to support the economy. In total, the different measures adopted by the government add up to a whopping 17.5% of GDP, placing Luxembourg among the top 3 EU countries in terms of support measures. The Restart Luxembourg programme announced on May 20th adds another 800 million euros of measures to the initial package of measures. In terms of direct expenditures and deferrals, Luxembourg even ranks first in relative terms in the EU. The main aim of this support is to secure jobs and thus consumption and livelihoods. Luxembourg's generous partial unemployment scheme which compensates 80% of furloughed workers' pay, introduced during the global financial crisis of 2008 to help avoid unemployment in certain sectors, was extended to the entire economy. In addition, the government increased the scope of beneficiaries of family leave in order to allow parents to mind their children during the closure of schools. This creates a solid social buffer, says Minister Gramegna.

To help companies weather the storm, besides a range of direct aid schemes, the government introduced loan guarantees whereby the State covers 85% of the loan risks. Minister Gramegna underlines that banks also did their fair share by taking on 15% of that risk, going beyond the 10% minimum that revised European rules would have permitted. Overall, he lauds the financial industry for its very constructive attitude in this crisis, which he sees as being part of the solution. To him, this goes to show the very nature of the financial industry and its core function in our economies, i.e. supporting economic activity by providing the funds companies need to support their activities and thus generate growth and create jobs. The Minister expresses great satisfaction in underlining that banks have approved more than 95% of requests from companies for payment holidays on existing loans, thus freeing up valuable liquidity for these firms. This sort of partnership has proven a great asset in getting the country through the initial stage of the crisis.

A second advantage that has allowed Luxembourg to fare relatively well is the share of the financial sector in its economy. Deemed essential under the state of emergency, the financial industry was able to continue to work remotely. Indeed, a vast majority of the staff of Luxembourg banks, asset managers, insurance companies and other financial institutions have been working remotely over the first 9 weeks of the lockdown, allowing economic activity to continue. This obviously was not easy, acknowledges the Minister, expressing appreciation to all those who helped in this effort. A number of issues had to be resolved and here Minister Gramegna is very grateful to his counterparts from Belgium, France and Germany for their flexibility in suspending currently applicable rules on taxation and social security for commuters, avoiding a bureaucratic headache on top of the already difficult situation. How much of this remote working will remain in place is not yet clear but it will have impacted mentalities and encourage companies to further explore its potential.

EUROPEAN SOLIDARITY

As regards action at the European level, Minister Gramegna rebuffs any overly critical voices. Obviously, more could or even should have been done but then again, politics is the art of the possible. Europe has shown solidarity by agreeing on a comprehensive support package, the importance of which should not be underestimated. The first three pillars agreed in April and entering into force by June of this year are worth 540 billion euros, composed of credit lines made available through the European Stability Mechanism of up to 240 billion euros for health sector related expenditures, the SURE scheme making funds available to combat unemployment and a 25 billion EIB guarantee fund to make up to 200 billion euros available to support companies. Added to this, will be a recovery fund that is being negotiated and which will be worth at least 500 billion euros, thus bringing the total of European support to over 1 trillion euros. This overall package shows that Europe did step up to the plate, says the Luxembourg Minister of Finance.

“Europe has shown solidarity by agreeing on a comprehensive support package, the importance of which should not be underestimated.”

Minister Gramegna would like to see more common action, after the regrettable initial reactions by most governments for instance when closing borders. While it is understandable for countries to take action nationally and thus in an uncoordinated fashion in the heat of emergencies, Europe should now work together to address the remaining short-term and medium-term issues and reflect on the importance of deepening the single market. If Europe cannot act together to face external events like this, one should not be surprised if citizens question the role of the EU, the Minister admonishes.

RECOVERY UNDER HEADWINDS

Looking ahead as to what the crisis will mean, Minister Gramegna, ever the optimist in normal times, predicts strong headwinds. While acknowledging he does not have a crystal ball, he considers that even the best case scenario of a V-shaped recovery, where a 6% dip in Luxembourg's GDP would be followed in 2021 by a 7% increase, would essentially mean that Luxembourg, used to consistent growth above EU average for the past 10 years, would experience little or no growth over two years. Europe and the world is entering an era of economic uncertainty, he remarks darkly.

There are however also positive consequences he sees emerging from this ongoing crisis with an acceleration of two trends in which Luxembourg was already very strongly engaged.

First, in the last 10 weeks, digitalisation will have made several years' worth of strides in its normal evolution. Whether in remote working and client interaction, video-conferencing, online shopping, payments and many other ways, the crisis has abundantly shown that we are far from exploiting the full potential of technology. One aspect, which also has been central in allowing Luxembourg to manage the crisis, was the quality of its digital infrastructure, which sustained traffic three times that of normal times without any problems. Investments in this area have proven their value.

Second, also dear to his heart, the importance of the transition towards a sustainable economy and how financial services will help financing this transition is taking a completely new dimension. Luxembourg has not waited for this crisis to commit but the crisis has certainly added to the government's resolve to push this issue very high up its agenda and that of the EU. In particular, Minister Gramegna thinks this crisis will have extended the focus from environmental issues to address a larger spectrum of sustainable and social issues, such as housing and healthcare. This reflects also the trends seen by the growing number of listings for such bonds on the Luxembourg Green Exchange. Overall, governments will become more sensitive to these considerations and screen their investments and will, at the very least, reward companies for integrating them in their activity through incentives and awarding of government contracts. For the Luxembourg fund industry this will soon translate into a reduced subscription tax for qualifying investment funds, the Minister announces. Minister Gramegna invites the financial industry to submit ideas to identify and develop new sustainable financial services and products.

Making progress on sustainable finance is not a choice, it is a must, Minister Gramegna concludes as he rushes off to his next appointment, a video-conference with the Chairman of a major Japanese bank, one way to help him feel the pulse of the global economy and stay in touch with leaders from the global financial services industry, who are key to the international financial centre of Luxembourg.

"Making progress on sustainable finance is not a choice, it is a must."

PIERRE GRAMEGNA

THE NEW NORMAL: EMERGING FROM A CRASH COURSE IN THE UNKNOWN TO WHAT NEXT?

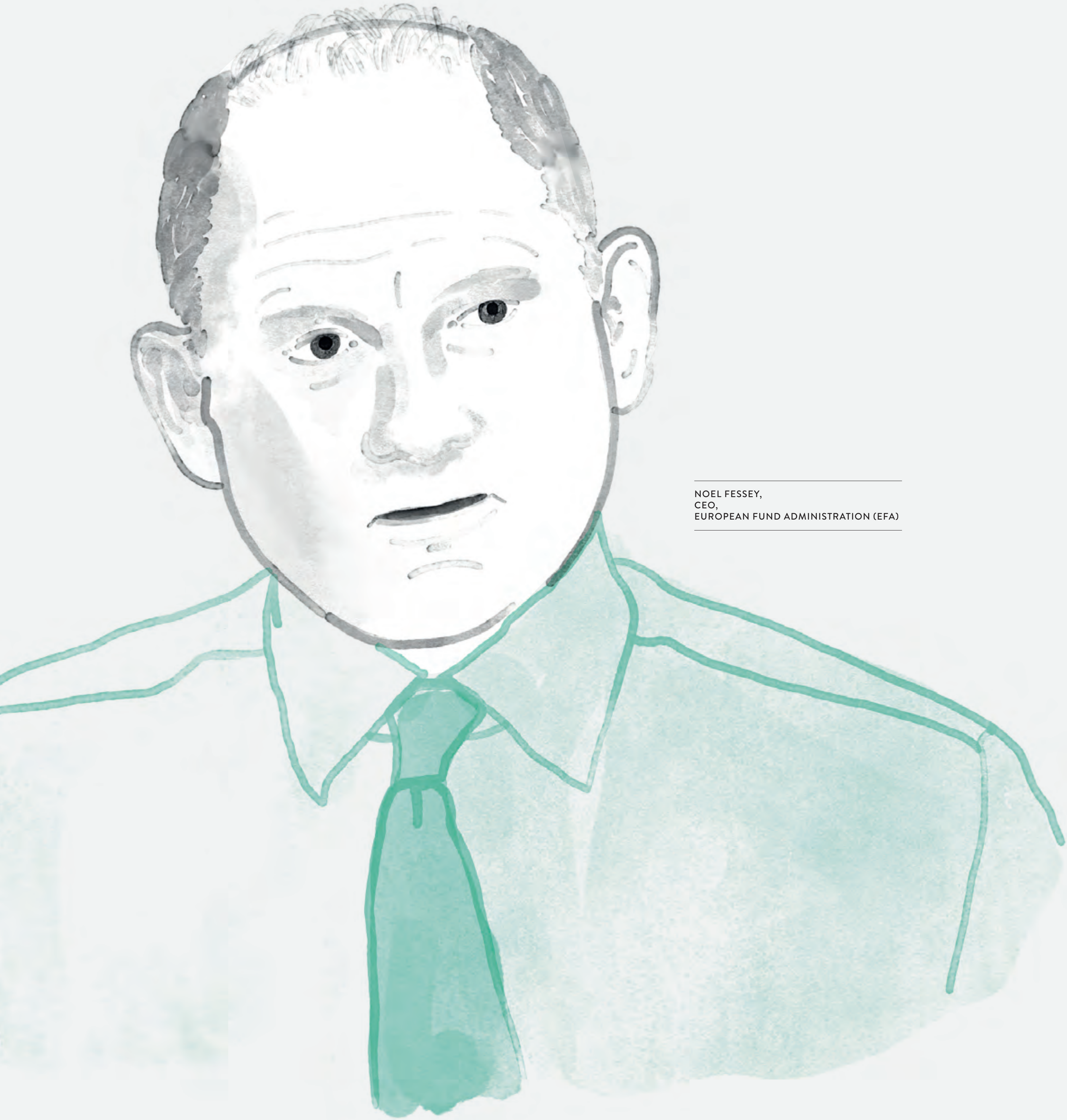
WE SPOKE TO FOUR CAPTAINS OF THE LUXEMBOURG FINANCIAL INDUSTRY TO EXAMINE WHAT EFFECTS THE PANDEMIC HAS HAD ON BUSINESS. FOR SOME A BEAR MARKET, AN ACHILLES HEEL AND AN UNEXPECTED BOOST TO PROBLEM-SOLVING, ARE JUST ANOTHER TWIST IN THE GLOBALISATION TALE. ALBEIT PERHAPS STILL TOO EARLY FOR TRUE EPIPHANIES, SOME ARE PRUDENTLY OPTIMISTIC ABOUT THEIR RESILIENCE TO ADDRESS THE CHALLENGES AHEAD.

> "We can do far more than we imagine - and necessity really is the mother of invention. When in contact with the event itself, it comes back to being a people-centric business. There's only so much planning you can do."
>
> NOEL FESSEY

NECESSITY (NOT PROCESS) IS THE MOTHER OF INVENTION

Noel Fessey, CEO European Fund Administration (EFA) takes stock of the dramatic exodus from office life as we knew it in March 2020: *"…if you'd have asked us to plan and perform an exercise in which 95% of the company left the building not to return for weeks or months, we would probably have consumed a whole year in the detailed response planning."*

Following clear signals from governments and regulators to migrate to home offices: *"It was done over a weekend. We can do far more than we imagine - and necessity really is the mother of invention. When in contact with the event itself, it comes back to being a people-centric business. There's only so much planning you can do."* Fessey points to the positive effects of rising to such a challenge: *"Our people have grown through this and that's something to be celebrated. It has galvanised them to common goals to maintain EFA's operations."* He notes that culturally this is supporting, and even accelerating, the company's intellectual, emotional and managerial shift towards an 'agency model' away from the older, outdated mode of *"we want you under our nose, where we can see you so we know that you are working."*



NOEL FESSEY,
CEO,
EUROPEAN FUND ADMINISTRATION (EFA)

"We'd underestimated the amount of resilience and capacity in the business. We are very happy that our teams rose to the challenge and dealt with this crisis so well."

KEITH O'DONNELL

KEITH O'DONNELL, CEO, ATOZ

From a leadership perspective, he has been focussed on not letting *"the dislocation that's inherent in the event, dislocate the company"* by guiding with confidence and empathy to achieve that most British of all aphorisms *"keep calm and carry on"*. Regardless of glitches, it's important to communicate a can-do, yet empathetic mindset: *"for some people [the pandemic is] very worrying and for some families there have been some really sad moments in that."*

In the same vein, Keith O'Donnell, Managing Partner of ATOZ found himself caught off guard in a fascinating process: *"Whether you call it a black swan moment, the pandemic came out of nowhere. As a business, it was a crash course in a lot of things. Suddenly we were all looking around asking, do you know what the hell just happened?"* He points to the realisation that despite technology and being a well-organised firm: *"we are [all] very vulnerable."* The upside was that *"we'd underestimated the amount of resilience and capacity in the business. We are very happy that our teams rose to the challenge and dealt with this crisis so well."*

Aside from the well-documented implications of remote work, the future of business travel and commuting in general, working practices are benefiting from the extra productivity muscle being exercised into *"unstructured yet creative problem-solving"*, an upside that O'Donnell hopes will endure beyond the pandemic: *"Although it's still early to say, I think we'll do more of that."* Has it impacted productivity? *"From what we can see so far having closed in March and April, we don't see much of a hit, if any, in productivity for us as a firm. We have learnt very fast that there's a better way of working."*

Frank Krings, CEO of Deutsche Bank Luxembourg S.A., does not view the pandemic as a black swan event: *"I think what we all now have learned collectively is that the scenarios we look at need to be even more extreme. It's not that it was unheard of, it is the sheer scale of it. Most scenario planning did not necessarily account for it being that global and brutal when it comes to the real economy standstill. Yet, if you re-visit the history books, it's nothing new that human beings are adaptable and ultimately solution oriented."* Krings highlights that the pandemic has brought the role of banks in general and the role of Deutsche Bank into focus, differentiating it from the last big crisis: *"I think this time it is clearly understood and respected that banks are part of the solution and play a critical role."*

"It's not over yet" cautions Julie Becker, Deputy CEO of Luxembourg Stock Exchange reflecting on the pandemic, *"we don't know what the end looks like, as we are only in May 2020. Perhaps there will be a second confinement period, or even a third one. The impact on exchange markets in particular is difficult to assess at this stage; despite high volatility in financial markets, impacts have been somehow limited in the fixed-income sphere because of the unconventional actions of central banks worldwide."* Becker is practical about the left-field nature of Covid-19: *"You must always challenge your assumptions, and preparing for the unforeseen is clearly the main Achilles heel. Disasters rarely happen according to a plan, that's for sure."*

SHINING A LIGHT ON THE 'S' IN ESG

2020 had been expected to be a year of transition for sustainable finance, but perhaps not as anticipated. The pandemic has now shifted priorities from green to social, highlighting that sustainability is no longer just about climate or green concerns. Becker notes, *"This is a fact which is neither positive nor negative. We have to consider the overall impact of our economy and the way we behave and the way we invest. A stronger focus on the 'S' is very important because the 'E', 'S' and 'G' in ESG are better when interconnected."* Green bond issuances were expected to continue on the very positive growth rate of 2019: *"Perhaps green is on hold; it's not that we won't see any green issuances in the future. It's just that maybe there are some more pressing socio-economic issues to address for the time being."*

Instruments such as Covid-19 bonds are by nature social or sustainability bonds because they support health, education, food security and affordable housing, but also basic infrastructure such as clean drinking water hence why they can be sustainable. *"With the 'S' of ESG emerging strongly, we are witnessing strong demand for social bonds issuances which is really exceptional. They were a niche but are now becoming an important asset class, and the appearance of specific Covid-19 response bonds issued to mitigate the massive social impact of the crisis."* By way of making a contribution of their own, the LGX decided to waive the entire listing fee for clearly earmarked Covid-19 response bonds which are eligible for display on LGX, until 30 September 2020.

With strong and encouraging appetite from institutional investors, April figures revealed that social bonds were issued to the tune of 7 billion dollars. For context, 1.2 billion dollars on average were issued a month in 2018 and 2019. HSBC recently published a study suggesting that companies with a good ESG score, i.e. with at least 10% of their revenues coming from sustainable sources are weathering the current storm better than their counterparts. Becker sees this as strong evidence that *"sustainable finance is a way to perform and you should not continue to divide financial from environmental performance"*.

Julie Becker thinks back to when it seemed that *"Past crises were limited to some continents or some countries. This is now a global phenomenon."* She believes that this is fundamentally a time to rethink and renovate, rather than rebuild: *"such as the New Deal that was established after the Great Depression and the Marshall Plan that was launched in the wake of WW2. We are not in the same situation now, but we do have to rethink, to behave differently."* Starkly, she warns: *"We have no choice, we knew that it was already on the agenda before the crisis. Perhaps not all of us were convinced, or had the willingness to achieve those objectives. But now we have a huge opportunity to think differently, to build differently. While extremely challenging, it is feasible. My conviction is that we will manage to make the renovation process green and social, in other words, sustainable. We clearly need a green recovery and a sustainable renovation."*

BEWARE OF BEARS BEARING GIFTS

Noel Fessey remains quite cautious about the future: *"People like to talk about furlough as a temporary thing. We are comforting ourselves with the idea that some companies can come back. But for many of them, the destruction is permanent. The financial markets upon which companies and all of our pensions and savings, etc., depend are continuing rather serenely as if the solution has already been found; and that the recovery is almost baked in. We as an industry and individual companies must be poised for when that second shoe drops. What this means for the world economy and the financial services industry is unknown, but it's likely to be profound and durable. That's why we manage EFA for sustainability. No matter the depth and duration and uncertainty of this event, our clients are taking a long-term view, and so do we."*

> "When you talk about Luxembourg specifically there is a history and a tradition of advocacy. But on certain aspects, I would say with hindsight, we as an industry and maybe as banks, we could have been stronger in our constructive public challenge."
>
> FRANK KRINGS

In the medium-term, however, Fessey sees himself as cautious but hopeful, if a vaccine or a significant therapy comes to market quickly: *"That's a coil spring which will unload and catapult markets and economies upward again."* He also believes that even if particularly strong therapies or vaccines have not been identified in five years' time, *"we will have learned to live with this, and accommodate it."*

Keith O'Donnell is generally very optimistic: *"When confronted with a problem, we can as humanity be tremendously creative at fixing problems. This whole crisis has taught me that although human beings are fundamentally very vulnerable, it has also brought out some of the best things in humanity. When the pressure was on, we saw how quickly businesses reoriented what they were doing: hand gels from high-end spirits, car factories producing ventilators, mask production from factories that never produced a mask in their lives… my optimistic message coming out of this is when we get beyond solving the specific problem of this pandemic, that we will hopefully move on and see that there are a lot of other problems to solve. We can apply the same ingenuity and flexibility to solve these."*

FRANK KRINGS,
CEO,
DEUTSCHE BANK LUXEMBOURG

He also has hopes that on a human level the pandemic will have instilled a bit of humility, with the realisation that interdependence also relates to how we depend on other people. He cites the pay of healthcare workers as an example of some of the worst paid people in our societies, and paradoxically: *"Suddenly we're all looking to them and saying save us. Frankly, the salaries in the financial sector compared to the salaries of people working in the healthcare sector are very generous and is that right?"*

L-U-V AND OTHER THEMES

Krings sees himself as a cautiously optimistic realist when looking at the current panorama: *"It may still be too early to tell, we don't yet know how deep the 'V' of a 'V-shaped' economic development will be, or if it is not a 'V' but more like a 'U-shaped' recovery...We don't know how long the 'U' will be and even if it is a 'U' at all, or if it will turn into an 'L'? We don't know if we can avoid the 'L' in the trajectory. One would hope for the 'V', even if it's a very deep one, as then the self-healing forces begin to kick in. If the 'U' gets longer, then of course there will be more industry and sector specific fallout. And if it turns to an 'L', we will certainly also have a debate about public finances."*

Consolidation will be a big theme both in the financial and non-financial 'real economies' sectors, says Krings: *"How much of that we will see may also depend on the question of the depth of the recession and the trajectory of the recovery. Although it's likely to be something that comes with opportunities, there's an inherent survival bias in consolidation, as we know. Yet, it would be naive to believe that there won't be economic fallouts and in certain industries, certain geographies of a certain size".* He does not see this necessarily as about future-proofing, but instead how they as a bank look at their support to the different economic and industry sectors.

Krings stresses that the financial centre can draw some positives out of the crisis, such as *"proof that critical functions work in a resilient way. From a risk management perspective,*

JULIE BECKER,
DEPUTY CEO,
LUXEMBOURG STOCK EXCHANGE

things have been managed prudently. I don't just mean during the crisis mode but continuously. This is on the back of important previous transformation work yielding a well-defined, focussed strategy. The longevity of such strategy and staying the course has proved extremely valuable in particular in times of stress and of crisis." He cites liquidity, advice and risk management as the three main drivers of the client dimension: *"thereby given our business model, obviously the provision of financing. That was one dimension and that came very early in the crisis. I think in parallel, the second dimension, i.e. actual advice and orientation then meaning the client seeking guidance, analysis, advice, ultimately advice from us as bank as we see a cross-section of industries. Then once the liquidity heart attack is avoided, clients really want to better understand what this all really means i.e. deeper analysis, actual trusted advice, also cross-sectoral and cross-geographic perspectives because again the pandemic moves around the globe in waves. The third interaction is to then talk about the importance of and instruments for potential risk mitigation without underestimating its inherent imperfection."*

"My conviction is that we will manage to make the renovation process green and social, in other words, sustainable."

JULIE BECKER

Of the winners and losers in the business world, Keith O'Donnell notes that overconfidence in the ability of capitalism to solve problems, is part of the problem: *"This is a huge wake up call to reassess its efficiency. When stuff really hits the fan, we all go running towards the state bail-out. Some of the potential losers are businesses that become more and more state oriented. And, if you're sitting there as a shareholder in one of those businesses, you've also got to accept at some point, that you will get diluted down to zero. As an equity holder, this business has virtually no value left in it (e.g. as with some of the airlines). As a tax firm we get asked the question who's going to pay for all of this? A lot of equity is going to get wiped out by this and then afterwards we've all got to accept, that a reckoning is coming down the line for when we have to pay for this. The financial industry will be realistic about that."*

He goes on to highlight that valuation models were built on a very predictable world with the progress of humans and societies being driven for growth: *"We were getting really good at tightening the screws here and there but now we are confronted with this very big risk. The question is, what's the ultimate repricing of that as people realise the vulnerability. Monetary policy will be interesting and governments are throwing money at this. Will that bring the risk-free rate down even further?"*

ACTIONS FOR THE NEW NORMAL

Krings believes that the competitiveness of our financial centre has and will always prevail if one can find ways to increase efficiency: *"With hindsight, of course, we are all collectively smarter than we were before the pandemic."* He cautions on the importance of being sufficiently articulate in the constructive public challenge of the status quo of the financial centre and wider industry: *"When you talk about Luxembourg specifically there is a history and a tradition of advocacy. But on certain aspects, I would say with hindsight, we as an industry and maybe as banks, we could have been stronger in our constructive public challenge."*

Fessey is equally vocal about not getting entrenched: *"In a highly regulated financial services world, we tend to make a mistake of focussing on process to the point of rigidity yet - if I was speaking with our regulators I would be saying a similar thing - it's not necessarily process-led [bureaucracy] that keeps us safe, it is understanding what good business conduct actually is, not simply what rules and regulations we must mechanistically respect. How do you do that whilst coping with the fact that most of our assumptions about how we work have been completely thrown out the window? We've got to connect effectively with our clients despite the physical distance between us and have better transversal interaction within our firm than we did, even when we were in the building."*

Despite the uncertainty, Becker is clear about the role of the financial centre and capital markets in fighting the pandemic: *"From a business point of view, we will need a huge amount of financing to assist recovery, not just to re-boot the economy, but society as a whole."* But how?

Her perception is that the overall economy is likely to suffer more than the exchanges themselves, pinpointing entrepreneurship as a "synonym" of dynamic business development and innovation: *"As two key drivers behind the success of modern economies, which is why we need to safeguard continued and reactive access to funding and support. We should continue to reward risk takers with access to capital, but in the current context, it's quite difficult to do so. And I hope these actors won't be discouraged too quickly, because if funding and access to capital becomes another stumbling block, then we are at risk, at serious risk of weakening a substantial part of our economy…"*

Historically people were not receptive to the word 'sustainability'; it was seen as just being environmentally-friendly or a tick-box exercise. But now Julie Becker is wondering whether semantics might help to shift attention: *"We should also talk about 'business resilience' instead of sustainability."* It is her hope that this crisis will help a more recalcitrant audience to realise they are faced with no other choices, compounded by an unpredictable event.

CC

PETER VELDMAN,
HEAD OF FUND MANAGEMENT,
EQT FUND MANAGEMENT

FACING UNPRECEDENTED TIMES: HOW RESILIENT IS THE FS INDUSTRY?

FOR MOST OF US, THE SPEED AND INTENSITY OF COVID-19 HAS COME AS A SHOCK, FORCING MANY COUNTRIES INTO LOCKDOWN AND PUTTING A HALT TO A NUMBER OF ACTIVITIES.

NICCOLO POLLI, ROBERT SCHARFE, MARC LAUER, PIERRE BOUCHOMS AND PETER VELDMAN SHARE THEIR VIEWS ON THE IMPACT OF THE CURRENT HEALTH CRISIS ON THEIR INDUSTRY, AND POTENTIAL UPCOMING CONSEQUENCES OF THE PANDEMIC.

“This will definitely reshape the private equity scene. Mediocrity is not going to cut it.”

PETER VELDMAN

HAS THE PANDEMIC LEFT A DENT IN FS INDUSTRIES?

The current pandemic has led the world to its first truly global health crisis, affecting industries on a worldwide scale, be it the banking, insurance, private equity, capital markets or asset management industry.

“If you go back in history, you’ll find a lot of examples where people have been in lockdown for a certain amount of time due to a virus or a disease, but it has always been local. No virus has previously spread this quickly on a global scale,” says Peter Veldman, Head of Fund Management at EQT Fund Management S.à r.l. Nevertheless, he notes that a good and steady level of demand in fundraising has been observed amidst the sanitary turmoil and considers the impact of the pandemic to have been fairly limited to date.

Pierre Bouchoms, General Manager at Generali Investments Luxembourg S.A., agrees that no major impact on the asset management industry has been felt on his side, stating that they have not suffered many redemptions, though specifying that his clients, being long-term investors, do not show the same behavioural traits as retail investors: *“Considering the investors we have in our funds, we have not seen any major movements. We have, however, seen a slight recovery of the markets and we are experiencing a slow climb back to the level we had prior to the crisis.”*

Robert Scharfe, CEO of the Luxembourg Stock Exchange, continues along this positive note. Even though the industry has suffered an 18 trillion dollar stock market capitalisation loss after the peak in mid-February, he notes that the Luxembourg Stock Exchange has seen a 65% increase

PIERRE BOUCHOMS,
GENERAL MANAGER,
GENERALI INVESTMENTS LUXEMBOURG

"I believe the asset management industry will reinforce the economic grid by supporting the infrastructure sector and additional developments, by setting up new ways to help develop the economy."

PIERRE BOUCHOMS

of volume in the first four months of 2020: *"Being a cornerstone organisation in the financial centre here, our key focus was ensuring continuity of services and security of infrastructure. Thanks to the actions of our staff a smooth continuity with no delays was ensured in the listing process of business, which has been booming with record levels of new listings."* Looking at the industry as a whole, Scharfe insists on the role and responsibility of the exchanges, which had to remain open under these extreme volatile market conditions in order to facilitate transactions and ensure the flow of funds to the real economy. Touching on the financial support provided by governments and public institutions, capital markets have seen the rise of Covid-specific financing for social and healthcare projects as a direct consequence of the crisis. Scharfe reveals that LuxSE has attracted most of these deals to list in Luxembourg: in the period from March to May 2020 alone, social and sustainability Covid-19 response bonds totalling 20 billion dollars were displayed on LGX.

The insurance industry, on the other hand, has had to deal with a number of aspects. The commercial impact on the industry, according to Marc Lauer, CEO of Foyer Group, depends on the markets focused on by different insurers and their business models, with a slowdown in commercial activities having been felt throughout the industry. Regarding insurance and reinsurance companies, being mainly institutional investors, the most immediate impact on their accounts has come from the turbulences on the financial markets: *"Indeed, this situation has created a new paradigm, from the employee point of view through teleworking, new working tools, adaptation skills and agility, but also from the client point of view, with insurance currently not being a priority in the retail market."*

From a banking perspective, Niccolo Polli, Country Chief Executive Officer of HSBC Luxembourg, describes the biggest disruption since the beginning of the pandemic as being the valuations of net assets in the currently volatile market: *"Throughout the crisis our focus has been on ensuring the safety of our staff, and continuity of service for our customers. In private banking we have seen a lot of brokerage and trading activity as clients reposition their portfolios, and limited redemptions. In many cases, new debt requests have been postponed as uncertainty prevails. For the fund-related business, assets have generally moved in-line with the markets while large corporations have been working with us to ensure they have access to liquidity in case of need".*

Facing the sudden lockdown, over 90% of workforces throughout the various industries were met with the unprecedented circumstances of no longer being able to go about business as usual. Though cast into uncharted territory, IT specialists have managed to get businesses up and running in record time, allowing most industries in the financial services sector to carry on working. *"Five years ago, we started pushing for new technology and moving to Google Suite, introducing an online environment. It was not a natural transition, but it was something that we realised we needed to do. In hindsight, it prepared EQT for the current situation and allowed us to shift to teleworking fairly smoothly,"* says Veldman. It is important, however, to keep in mind the mental health of employees, especially during lockdown, with Veldman conveying that companies need to provide health monitoring for staff. Polli also notes that working from home does not eliminate the need for people to take a break and recharge; on the contrary, in these times it's ever more important for employees to take holidays. Staying on the subject of employees, he says that HSBC has currently put their hiring plan on hold.

In regard to policies, Polli speaks highly of his experience with the regulators regarding permissions: *"We have had to change processes and procedures, and the regulators have been very approachable and pragmatic."*

"We anticipate business volumes in capital markets to remain extremely high with strong funding activity for the second half of 2020."

ROBERT SCHARFE

ROBERT SCHARFE,
CEO,
LUXEMBOURG STOCK EXCHANGE

ARE WE STEERING TOWARDS ANOTHER FINANCIAL CRISIS?

"The financial crisis of 2008 was quite different as it impacted mostly one sector, which is the finance sector. Governments were confronted with making sure that financial services to the real economy continued to be delivered and that savings were safe. The current pandemic, however, impacts the whole economic and societal models, which will last longer and take years to recover," predicts Scharfe.

Rather than developing into a financial crisis, the aftermath of the pandemic is forecast to turn into an economic crisis. According to Bouchoms, *"the financial sector must support the economy to avoid the economic crisis developing."*

"All economic crises in the past have always jeopardised the financial situation of the population. This crisis, however, will also affect the physical situation of the population and will have a major impact on consumer habits. What these impacts will be, how long they will prevail and what the effect on businesses will be is yet to be seen," says Lauer. The insurance sector has been very proactive, with insurance companies and clients discussing on the spot solutions where needed.

As opposed to being the cause of the crisis, as was the case in 2008, Polli expects banks to be an enabler in this crisis, keeping the economy afloat as much as possible. *"I think the root causes of the two crises couldn't be more different; one is a healthcare disease and the other was a banking disease. While both crises started as something very different, they would both be very similar in that they're going to have a huge economic impact."*

Looking at the 2008 crisis that originated from the financial system and transitioned into the real economy, Veldman states that while policymakers and central banks responded with measures directly aimed at mitigating the impact of the financial crisis, the measures to contain the health crisis have created the shock in the real economy with far-reaching consequences for businesses, which in turn is impacting the financial sector. *"This will definitely reshape the private equity scene. Certain specialist private equity players are going to have to deal with serious impacts of the pandemic. Those who manage to deal with the crisis and handle their portfolios in the right way to deliver good returns will benefit hugely. Mediocrity is not going to cut it."* He goes on to state that it is currently too early predict a V-shape, U-shaped or perhaps a long-term L-shaped recovery, indicating, however, that a long-term L-shaped scenario might be very possible, even if economies are put back on their original trajectories.

Based on the recovery rate in China after lockdown, Polli notes that recovery has been slow. *"From what we can tell, it's not what is called a V-shaped recovery at all. It is taking a little bit longer. Though the threat has been diminished, the fear lingers and the fear is going to linger on for a while."*

TAKING STEPS TO SHAPING THE POST COVID-19 FUTURE

From a strategic point of view, EQT has, over the long-term, been investing in industries such as fibre infrastructure, software and healthcare, to name a few. Veldman explains: *"For each of the companies EQT has invested in, business plans of how to react and work through a crisis has helped keep business stable. In general, private equity firms need to not only think of the financial aspect of investing in companies, but also about bringing added value and transforming these companies."* According to him, the global crisis has triggered a lot of financing and alternative investments will play an increasingly bigger role on the market.

In addition, Veldman sees being a tech-enabled company as an advantage, not only from an operational, but also from a business point of view, assuring that the pandemic will only accelerate digital strategies.

MARC LAUER,
CEO,
FOYER GROUP

"An important step has already been done by the Luxembourg insurance and reinsurance community by massively subscribing to the recent bond issue of the Luxembourg Treasury."

MARC LAUER

Polli shares his view on the impact on customers, pointing out that people will need to become more 'disease savvy' by applying physical distancing measures and getting used to taking care of business via digital means. He also notes a change in client investment behaviour. *"Generally we see that when people get worried, their money moves from what might have been a sort of sexy deposit investment paying high interest rates to a stable low interest investment."*

Polli also touches on the increasingly symbiotic relations between banks and Fintechs. *"The crisis has shown that you need both the banks and Fintechs. They serve very different purposes."*

Risk strategies across industries have started adding pandemics to the list, though many remark that while people and organisations perfect their pandemic BCPs, risk will come from another source. *"If you are expecting it and you have planned for it, it is not much of a risk."*

Scharfe acknowledges that the current situation exposes two major weaknesses in current risk approaches:
1. BCPs need to be entirely reviewed, as complete remote working scenarios were not foreseen
2. Sanitary/health pandemics are not new to the markets, however, the assumption that pandemics are locally limited issues contained in limited geographical regions no longer applies. *"I believe that many organisations are currently drawing up first plans to improve risk assumptions and management processes, notably by inserting the most recent technology available."*

On the economic side, a number of industries will have a role to play in reshaping the post Covid-19 era. *"I believe the asset management industry will reinforce the economic grid by supporting the infrastructure sector and additional developments, by setting up new ways to help develop the economy."* says Bouchoms. He expresses worry, however, on the current employment state worldwide, with the increasing rise of unemployment having been triggered by the pandemic.

Similarly, Lauer suggests that insurance companies will play a role in financing the relaunch of the economy. *"An important step has already been taken by the Luxembourg insurance and reinsurance community by massively subscribing to the recent bond issue of the Luxembourg Treasury."* As to whether a pandemic can be insured, Lauer explains that the fundamental business model of all insurers is based on the fact that many pay a limited premium to pay for claims of a few, i.e. mutualisation. Based on that model, these mechanisms would not work should everybody be impacted by the claim at the same moment, unless the State steps in to finance pandemics, as is does in some countries, for natural catastrophes.

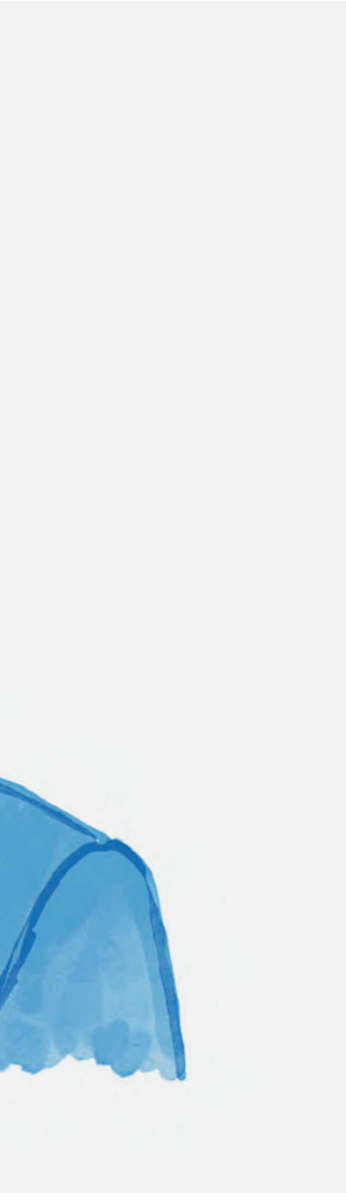
Seeing an over 50% reversal of the 18 trillion dollars market downward trend, demonstrating that markets in various countries are reacting to Covid-19 numbers, rather than evaluating economic potential of companies, Scharfe remains positive. *"We anticipate business volumes in capital markets to remain extremely high with strong funding activity for the second half of 2020."* He nevertheless stresses the fact that the impact on the real economy is currently still unknown and that many industries will be under severe pressure despite various funding programmes. *"At one point in time we expect to see a shift from the equity market to the debt market. Financing needs will be huge, both from public and private users. Issuers, be it the government or SMEs, will need to gain access to multiple sources of funding, from the conventional market of syndicated transactions up to B2B platforms."*

Operationally, all industries agree that teleworking will be part of their future working culture. How this will shape up, however, varies drastically. Some argue

NICCOLO POLLI, COUNTRY CHIEF EXECUTIVE OFFICER OF HSBC LUXEMBOURG

"While both crises started as something very different, they would both be very similar in that they're going to have a huge economic impact."

NICCOLO POLLI



that the need for traditional office models and secondary remote sites/business continuity sites will be revised, as the transition from pre-pandemic office spaces to working from home has been tried and tested positively by most over the past few weeks.

"Typically, the office space is what is set up in front of you: a computer, a keyboard, a monitor, a mouse and so on. We are looking more towards hot-desking, with employees having their own portable equipment to use from home or at the office. Through a poll taken within the company, we have noticed that preferences of teleworking and coming into the office vary among employees, with some preferring to forego long commutes and others seeking the calm and social interaction of the office." Polli reveals that they are looking to creating a more flexible work environment in the future.

Veldman raises the question of how the real estate market will be affected in the future. Will teleworking lead to a reduced need of office space? Or will the office space have a different, more social function? *"Rather than having dedicated desks for each staff member, it might be more important to transform that space into proper meeting facilities."*

While the pandemic has brought up many questions regarding globalisation in its classical form, Veldman examines the potential globalisation of labour, questioning whether all employees need to be brought to a same location, or if staff could work from different countries, should regulation allow it in the future. At the same time, he notes that while companies are reinventing business models and including an increasing amount of technology, employees will need to upskill and adapt to facilitate these new digital additions.

Alongside office transformations, Scharfe wonders if the current sanitary precautions will need to be taken into consideration in the long-term, leading to a revamping of traditional office spaces. Among teleworking and more flexible working methods, he points out that one should not underestimate the impact that decentralisation could have on corporate culture and mutual socialisation.

It is clear that the pandemic has already had an effect on the financial services industry, but which of these changes, be it on a financial, operational or human level, will persist into the future remains to be seen.

LM

CLAUDE MARX,
DIRECTOR GENERAL,
THE COMMISSION DE SURVEILLANCE
DU SECTEUR FINANCIER (CSSF)

THE SUPERVISORS' VIEW: STEERING THROUGH THE FOG

IT DOESN'T MATTER WHERE YOU LIVE OR WHO YOU ARE, THE CURRENT COVID-19 PANDEMIC HAS IMPACTED US ALL IN ONE WAY OR ANOTHER. LFF SAT DOWN, KEEPING A SAFE DISTANCE, WITH CLAUDE MARX, DIRECTOR GENERAL OF THE COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER (CSSF) AND WITH CLAUDE WIRION, DIRECTOR OF THE COMMISSARIAT AUX ASSURANCES (CAA) TO GET A GLIMPSE OF THE PANDEMIC THROUGH THE EYES OF A SUPERVISOR.

> "The financial centre today is better equipped to face a crisis than it was ten years ago due to a more robust legal framework."
>
> CLAUDE MARX

COVID-19 ON THE RADAR SCREEN

As Covid-19 spread around the globe, financial sector regulators found themselves under the spotlight probably more than ever before. The CSSF and the CAA, between them, supervise all of the Luxembourg financial industry which gives them a panoramic view of what is happening in the market.

While this was initially rather a health crisis than an economic crisis, the CSSF identified some of the possible consequences early on.

"The CSSF was one of the first authorities to issue recommendations to supervised entities regarding the implementation of business continuity plans in the context of the Covid-19 pandemic. That was two weeks before the lockdown," says Claude Marx, Director General of the Commission de Surveillance du Secteur Financier (CSSF).

Insurance is about managing risk and looking into the future. A pandemic is a risk that is quite well known to the insurance world and is normally considered within underwriting policies.

"*CAA officials followed what was going on. First in China and then in other countries. We were fully aware that this virus could sweep over to Luxembourg, but it is fair to say that the CAA took only concrete measures when similar measures were recommended by the Luxembourg government. The lockdown was a key-moment when we all realised how serious this was,*" says Claude Wirion, Director of the CAA.

THE FIRST POSSIBLE IMPACT

The financial centre today is better equipped to face a crisis than it was ten years ago due to a more robust legal framework. Also, so far, the situation is not dramatic; total net assets held in Luxembourg undertakings for collective investment were down by 11% in March compared to the previous month and the banking industry looks stable.

Marx warns that: *"if many companies and individuals are not capable of reimbursing their loans, this unprecedented economic crisis could worsen and even lead to a financial crisis. It is too early to assess the extent of both the economic crisis and its impact on the banks. In a few month's we will have a clearer picture, probably in the fourth quarter."*

Claude Wirion agrees. The greater part of the impact on the insurance sector will only materialise over the next 12 to 18 months. However, for him, the immediate effects are threefold;

Firstly, on the valuation of assets: this impact is material and instantly visible, with stock market prices and corporate bonds sharply down as companies were perceived to experience difficulties or were even downgraded. Fortunately, the market has recovered somewhat but it remains volatile. As long-term investor, the insurance industry is less worried about short-term market movements.

Secondly there is the effect of change in the value of future claims. The CAA has tried to identify the business lines that could be affected directly or indirectly by Covid-19 such as healthcare, credit insurance, business interruption and event cancellation. These areas, though not of primary importance to the Luxembourg insurance sector, saw an instant impact.

The third immediate effect is operational risk and loss of business. A concern was that companies should be able to provide services to their customers. Loss of business means no new business for the insurance sector.

"The great part of insurance is just renewing contracts. Luckily, we don't need physical interaction between clients and insurers, so that business continues. New business is different, and we will still have to wait and see the effects of this pandemic over time," says Wirion.

The CSSF foresees several impacts on the investment fund and banking sectors.

"We have issued a number of recommendations to the sector and alleviated some of the administrative burden by, for example, extending deadlines for submitting regulatory reports. We have done this in parallel to legislative action by the EU authorities. We have had numerous contacts with our supervised entities and with representative associations such as ABBL and ALFI, to name but two," Marx comments.

A SERIOUS ISSUE

The regulators have been in continuous discussion with both local and international counterparts as the crisis unfolded.

The CSSF remains committed to its main mission, which is to protect investors and consumers of financial services and, together with the BCL, contribute to the financial stability of the country. Even though the CSSF has had to adapt, it continued to be fully operational as evidenced by the recent launch of their new website.

"During the crisis, the Ministry of Finance organised regular digital meetings with the members of the Systemic Risk Committee, a committee that brings together the Minister of Finance, the Central Bank, the CSSF and the CAA."

CLAUDE WIRION

CLAUDE WIRION, DIRECTOR, CAA

"Our first priority was to take care of the health of our staff, whilst ensuring the continuity of our missions. Between mid-March and the end of May, 98% of our agents have worked remotely. I must say that thanks to the investments we made in the context of our CSSF 4.0 strategy, we were well prepared for this." Marx adds, *"No internal or external meetings or interviews had to be cancelled. They were simply held at a distance via tele- or video-conferencing tools."*

When lockdown measures were decided by the Luxembourg government the CAA also realised that they had to think about the best way to continue their control mission and how companies would be able to cope with confinement. They were expecting these measures to a certain extent after they saw the action taken by neighbouring countries, starting with Italy and later Germany. The CAA had no illusions that Luxembourg would escape the pandemic.

The CAA conducted a survey amongst its supervised companies two weeks after the lockdown. 80 to 90% of staff within the insurance sector were working from home. So, within a very short time they made it possible to switch from the office to home.

"A great part of the country is relying on commuters coming from Belgium, France and Germany. It would have been an illusion to think that we could prevent this virus from skipping into Luxembourg. An immediate closure of our borders would not have been a viable solution since most companies could no longer have functioned without any workforce coming in from abroad," says Wirion.

NECESSARY MEASURES

"The CAA is a small organisation of 50 people, so we don't have a lot of handbooks about crisis management. We needed one or two afternoons with the management board to put the necessary measures into place. Initially, we started with half of the staff working from home, only one person was allowed to be present at a time in one office space. Then, when the lockdown became a reality everybody was sent home. Except for maybe one or two people who were absolutely necessary to run the business," says Claude Wirion.

During the crisis, the Ministry of Finance organised regular digital meetings with the members of the Systemic Risk Committee, a committee that brings together the Minister of Finance, the Central Bank, the CSSF and the CAA. In normal times this interaction would take place 4 or 5 times a year. During this crisis, meetings were held on an almost weekly basis and fed by input provided by the banks, the fund industry, the insurance sector, the central bank and the government about the measures being taken and the trends observed.

"This has been a remarkable time in so many ways," says Wirion looking back on the past two months.

TIMES ARE CHANGING

In recent years the regulators have witnessed supervised companies investing a lot in digitalisation and facilitating digital interaction with their clients. So, even if these tools were not put into place specifically for a pandemic, they proved to be very useful and most companies were able to continue business seamlessly.

"I think many companies now have discovered the advantages of working from home. People spend less time in traffic jams or public transportation and it certainly contributes to a better environment. Teleworking is definitely one change that will stay in the future," says Wirion.

THE SUPERVISORS' ROLE DURING A PANDEMIC

One of the things that has remained the same during this current crisis is the role of the supervisors. They continued to oversee what is happening in the financial and insurance sectors by supervising the application of rules, business controls and documents. The same goes for their international relations where physical meetings have been replaced by video conferences.

"The Covid-19 crisis has been, and still is, extensively discussed at the level of all the EU institutions, including the ECB, EBA, ESMA and ESRB. We actively participate in these discussions and provide input on measures to be taken at various levels", states Marx. *"We also interact locally with the Ministry of Finance, the Luxembourg Central Bank and the Systemic Risk Committee. But of course, due to the specific nature of this crisis, the CSSF is also in close contact with the Ministry of Health."*

It is obvious that there has been additional work due to this pandemic. The CAA for example has made regular requests for additional data that they didn't need before.

Wirion says: *"And of course, some of our work could no longer take place as before. Physical meetings and onsite inspections had to be cancelled for example. We had a certain number of interviews lined up with potential newcomers to Luxembourg that had to be postponed. Some we could replace by video calls, but when it comes to newcomers they still prefer to meet physically with a supervisor."*

It is safe to say that the main supervisory work will continue together with new measures that had to be taken, as recommended by the European Insurance and Occupational Pension Authority, EIOPA, which represents all national insurance supervisors within the European Union. The CAA had to perform some top down stress tests to simulate the potential impact of the Covid-19 crisis on balance sheets and foresee possible requirements for insurers. This of course is dependent on the figures that are reported by companies.

Wirion adds: *"We called up companies where we thought that there could be problems. Some companies contacted us to share and discuss their concerns. In some cases we intensified supervision, replacing quarterly reporting by monthly reporting. We took these measures in conjunction with the industry of course."*

LONG-TERM IMPACT

According to Claude Wirion it is still too early to tell what the medium-term or long-term impact is. Insurance, especially in the non-life business, is quite aligned with the overall economic situation. If businesses are disappearing there will be fewer clients for the insurance industry.

The insurance industry has proven to be quite resilient even if they were not prepared for a pandemic of this size.

As we look forward, both in the short and the long-term, few can predict every step in the evolution of this pandemic. This being said we can see trends emerging and can safely ascertain some key themes that will emerge from the crisis.

Marx sees three key areas of sustained change: the adoption of teleworking, the acceleration of digitalisation and heightened hope for the EU green deal.

"Teleworking could have a positive impact on the costs of supervised entities, on the environment due to less traffic and on our work-life balance," predicts Marx. *"I also see an acceleration of digitalisation, a positive for our ecosystem, including start-ups, Fintechs and specialist service providers."*

> "Teleworking could have a positive impact on the costs of supervised entities, on the environment due to less traffic and on our work-life balance."
>
> CLAUDE MARX

Wirion, who sees similar themes in the insurance sector, doesn't expect immediate issues within the sector either.

"We are not overly worried. I'm sure that the insurance industry will be able to prove itself and provide solutions in the future. Of course, there will not always be a solution for every problem; but. I remain optimistic and I truly hope that we can revert to normal soon. We are looking forward to that moment," says Wirion hopefully.

As confinement is gradually eased in line with government decisions, this does not mean that one should not remain alert.

"We have to remain vigilant as to the liquidity and solvency of supervised entities. At present, we encourage supervised entities to continue relying on teleworking, which remains the best social distancing tool for banks and other supervised entities," counsels Marx.

MvH

> “Digital is not a “nice to have” anymore, but vital to survive and thrive in this current environment.”
>
> NASIR ZUBAIRI

THE DIGITAL-LED RECOVERY: HOW CRISIS BREEDS INNOVATION

AS WINSTON CHURCHILL ONCE SAID: “NEVER LET A GOOD CRISIS GO TO WASTE”. WHILE FINANCIAL SERVICES HAVE BEEN HEAVILY RELYING ON TECHNOLOGY TO KEEP THEIR BUSINESS GOING OVER THE LAST FEW WEEKS, COVID-19 SERVES AS A CATALYST FOR DIGITAL TRANSFORMATION ACROSS THE INDUSTRY.

WE TALKED TO KEY INTERNATIONAL PLAYERS TO LEARN MORE ABOUT THE SHORT AND LONG-TERM IMPLICATIONS OF THE PANDEMIC ON DIGITAL OPERATIONS WITHIN THE ASSET MANAGEMENT AND INSURANCE SECTORS.

“Digital is not a “nice to have” anymore, but vital to survive and thrive in this current environment,” says Nasir Zubairi, CEO of the Luxembourg House of Financial Technology, LHoFT.

Like the rest of his peers from the financial sector, Zubairi has set up a home-office to navigate this new normal, increasingly relying on technology to keep business going.

“All of us, even those few that shunned digital tools, have had to rely heavily on digital solutions to help us run our lives during confinement. As a consequence we are coming to terms with profound societal and behavioral changes that will impact our engagement with services in the longer term. Businesses will need to adapt, not just on the cost saving side but also in the way they engage with their customers.”

NASIR ZUBAIRI,
CEO,
LUXEMBOURG HOUSE OF FINANCIAL TECHNOLOGY, LHOFT

EDUARDO GRAMUGLIA,
COUNTRY HEAD,
STATE STREET LUXEMBOURG

The impact on innovation within financial services as a consequence of the pandemic is expected to be two-fold. While in the short-term, innovation projects and collaborations with start-ups have come to a grinding halt as businesses focus their attention on managing their core operations, Covid-19 will to lead to a long-term acceleration of digital transformation across the industry.

"For some reason, financial services firms have not yet fully grasped that technology is a core pillar of strategy, not just an enabler. The pandemic should finally be the catalyst for them to change and transform faster."

> "Technology is what made it possible in such a short period of time and allowed us to maintain client deliverables, all while keeping everything secure from a cyber perspective."
>
> EDUARDO GRAMUGLIA

NO BUSINESS CONTINUITY WITHOUT TECHNOLOGY

"Financial services have now experienced the dependency and criticality of digitalisation to their competitiveness and their sustainability as a business. I hope that they will therefore now more aggressively pursue digital transformation going forward to be more resilient against risks of this nature and take full advantage of all the added-value technology can deliver," adds Zubairi.

While the general timeframe for the implementation of new digital tools in financial services was still taking between 2 to 3 years, Covid-19 has pushed companies to accelerate their innovations in a matter of weeks.

"It's been eye-opening how fast financial institutions have been able to adapt and transform their operating models to deal with the confinement. The ability for them to keep their business going fully relied on technology, whether it is video conferencing tools, data management or document management."

OPERATING FASTER IN A COMPLEX WORLD

"There are a lot of lessons learned. The pandemic will accelerate all our undergoing initiatives around digital transformation or the adoption of new solutions allowing us to operate in a faster way, whether that be in terms of communication or different types of automated systems," explains Eduardo Gramuglia, Country Head of State Street Luxembourg.

As the largest fund administrator, custodian and transfer agent in Luxembourg, State Street has relied on its global footprint to prepare large-scale remote working for all of its employees, relying entirely on technology to ensure stability of service to asset owners and managers.

"We started implementing command centers out of the U.S. and global planning as we saw the pandemic travel West. When we had to jump to action, we had already run tests and made sure that everyone could fully operate from home with the necessary access they needed. Technology is what made it possible in such a short period of time and allowed us to maintain client deliverables, all while keeping everything secure from a cyber perspective, the way clients would have expected us to do if Covid-19 would not have been there."

As a LHoFT member, State Street is not new to innovation and has been looking at digital transformation to propel itself into the future. The digitisation of its processes, in particular with regards to its fund accounting system with processes moving to hand written ledgers to real time activities and data, has proved a key element in the company's resilience during the crisis, allowing for faster real-time processes. *"It proved very handy once market volatility started to hit and allowed the processes to flow much faster and not repeat themselves too many times. The checks that we did manually are no longer needed electronically, which reduces the cycle that needs to be run. As a result, our remitting is getting out a whole half hour earlier, which in some cases is a lot of time,"* adds Gramuglia.

In an increasingly competitive environment, the service providers that adopt an open architecture mindset, providing solutions that aggregate data and give a holistic view to their clients, have a bright future. This trend is expected to accelerate in a post Covid-19 environment.

"For the asset servicing business, the type of products that we need to support our clients with have evolved, as their requirements have become more stringent. Due to the evolving complexity of their products, technology is paramount for asset managers to achieve alpha for their investors, as it needs to cater not just for today's need, but also for the future."

AGILE BECOMES THE STATUS QUO

The insurance group Foyer has managed to navigate smoothly the transition to remote working for its 800 employees and 600 agents within 2 weeks and maintained business continuity relying on its paperless policy.

"Digitalisation will keep us in business in a world of social distancing. If all your operational processes were already paperless, the passage from on-site operations to teleworking was much easier. The fact that data processing is highly digitalised within the insurance industry was another element that allowed for a smooth transfer to large-scale teleworking," highlights Marc Lauer, CEO of Foyer.

For Lauer, such agility is a good omen for the future of innovation within the industry. *"That shows that in difficult times, things can happen which will never have happened otherwise. Generally speaking, that's good news for all innovators."*

Leader of the local life and non-life insurance market, Foyer has stepped up its digital game over the years in a bid to reinvent the relationship with its customers.

"Innovation means making a daily effort to change habits and look to the future. The fact that our customers can send their health reimbursement requests via mobile phone, or that we can film a claim via video conference with the loss assessor creates a high added-value." As of today, thanks to artificial intelligence, more than 90% of the documents sent to Foyer are recognised automatically and 20% of the claims are already fully automated.

Aware of the deep behavioral changes arising from the crisis, the insurance group is accelerating his digital agenda and has started to reflect on how to adapt in the months and years to come as a result of this experience. For Lauer, the challenge will be to find processes where digitalisation creates value for both the client and the insurer.

"As customers may continue to apply social distancing rules, all clients facing processes will undergo, if not yet already the case, an accelerated digitalisation. However, it will not be the only item for business opportunities. Will digitisation be the answer to everything? I don't think so," adds Lauer.

Insurers will need to find the right balance between the value proposition of personal, agent-delivered services and that of the imperative to digitise and automate.

"Automation and self-servicing should definitely be pushed for specific types of claims while actions involving emotion will still require personal contacts. More automation will also be key in optimising our processes, speed up claims processing and remove significant cost across the value chain," underlines Lauer.

While new needs will emerge, new risks will come into play.

"During the two months of lockdown, people's major concern wasn't insurance. However, they were still facing different risks. The acceleration of remote working will obviously generate new insurance needs like for example in cyber security."

RECASTING THE ROLE OF AGENTS

While measures to contain the spread of the virus have grounded the insurance industry's face-to-face sales consultants, the rise of video conferencing tools during the pandemic is expected to accelerate the digitisation of sales channels and serve as a catalyst for agents to do more business digitally.

For Lauer, insurance agents will continue to have a valuable role in the post Covid-19 digital area.

"It will change our process of selling, change our process of advising but personal contact will still play a key role in our industry, even though it may be over Webex or Skype. Clients want great digital experiences as much as they want great human experiences. It is especially true as we are often dealing with complicated products. If you want to write a pension insurance or health insurance, you don't want to do that over three clicks."

DATA: A MAJOR GAME-CHANGER IN THE MAKING

Never before has the need for accurate and timely data been greater. The data generated and collected by end-users is expected to lead to potential new business-models post Covid-19 for insurance incumbents.

"Insurers will have to reassess their product offerings, looking to provide more agile and customised services given the new habits coming out of the crisis, whether it is car insurance or home insurance. It means looking at how to manage risks better through data collection and data analysis. This can be achieved with technology, particularly artificial intelligence," underlines Zubairi.

At Foyer, tapping new data sources is achieved with Data Studio, a dedicated service created more than 2 years ago.

"Data has been extremely important for us and will be even more important in a post Covid-19 world. The service counts a dozen of employees just working on our data and integrating data from open sources into our systems. That service has to create value, especially for the younger generation aware of the fact that data is value and if you pay, you have to get something valuable in exchange," says Lauer.

REGTECH: CUTTING RED TAPE

"The pandemic has shown that we can cut through a lot of our own red tape. That's an opportunity for us, but also for all the FinTech ecosystem around us that have the innovation and solutions to operate faster. The LHoFT, as a public-private organisation, has been a key piece in that puzzle so far and will be even more important in the future to bring start-ups and companies together," explains Gramuglia.

Covid-19 has broadened the mindsets in what is considered as equally safe in the technological solutions used by financial services and will impact future contingency planning accordingly.

"Anything from digital signatures to allowing for board meetings to happen remotely and securely, we couldn't have imagined it without Covid-19. To me, the pandemic has eradicated faxes, as people at home obviously did not have access to it anymore so it pushed us in getting more comfortable in putting instructions in e-mails. It has become a normality in what used to be considered as a contingency situation," adds Gramuglia.

Now is not the time to put compliance on the back burner. New technologies brought to the fore by the pandemic have highlighted the growing need for RegTech, a segment expected to continue to thrive in a post Covid-19 environment.

"Once financial institutions have stabilised their operations, they must turn again to developing strategy; business growth and cost cutting. It will be difficult for them to on-board any new customers because of social distancing measures and their antiquated methodologies of needing signatures from customers, use of faxes, the necessity for notarisation, etc. Technologies around digital signatures, video onboarding tools and customer engagement that can allow for the regulatory requirements and KYC process to be effectively done remotely will be front and centre in institutional minds," highlights Zubairi.

REINVENTING OURSELVES

RegTech is not the only sector expected to flourish coming out of Covid-19. In a changing world, we too, as individuals, must reinvent ourselves to ensure our relevance. With all the uncertainty presented as a result of the pandemic and the likely transformation of financial services, Zubairi expects EdTech, education technology designed for financial services to also come to the fore. *"Financial services practitioners should look to focus on re-skilling their teams and, as individuals, improving their capabilities to be prepared for the changes to come."*

While the last few weeks have witnessed a level of adaptation never experienced before, a lot of questions remain open. For Gramuglia, collaboration with financial sector authorities in order to accelerate cloud development will be key.

"How can we get working with the regulator collaboratively, find a solution to be able to make it more widespread and continue to have the same level of protection for our clients, for ourselves and for the industry at large in terms of adoption of that type of technology?"

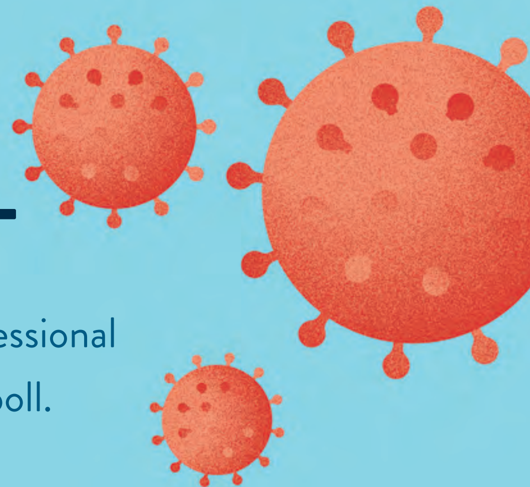
Now is the time for bold learning at scale.

"The long-term memory of the financial industry is about 12 to 18 months. It will be important to keep reminding ourselves of what we just went through and how vital technology has been in our resiliency," concludes Gramuglia.

OB

> "It will change our process of selling, change our process of advising but personal contact will still play a key role in our industry, even though it may be over Webex or Skype."
>
> MARC LAUER

COVID-19 STRAW POLL



183 leaders across the Luxembourg financial industry – including asset managers, bankers, insurers and professional service providers – took part in LFF's Covid-19 straw poll.

Top economic concerns

Global recession	**72%**
Financial stability	**26%**
Rising unemployment	**24 %**
Widespread insolvencies	**24%**

Impacts on trade and business

Slowing globalisation	**82%**
Increasing fragmentation of the EU single market	**52%**
New servicing models	**51%**
Strategic realignment	**44%**

Top 3 business growth drivers

Digitalisation	**57%**
Sustainable finance	**52%**
Global growth	**42%**

Recovery expectations

40% of respondents expect to see economic conditions normalise to pre-crisis levels earliest after 1 year, 34% only after 2 to 3 years.

Authorities' handling of the situation

54% qualify the authorities handling of the situation "above average", 29% labeling it "excellent".

Will business travel get back to normal?

Just 8% thought business travel would return to pre-crisis normality quickly. Instead most saw business travel as being limited to only the most important events.

PATRICIA ANGOY,
ISL'S LOWER SCHOOL PRINCIPAL

ONLINE CLASS OF 2020

SUPPORTING HOME LEARNING DURING A PANDEMIC IS NOT THE SIMPLEST TASK, BUT ISL'S STRONG NETWORK AND INDEPENDENT PEDAGOGICAL APPROACH HAS HELPED THEM TO EMPOWER FAMILIES AND TEACHERS TO FACE THE UNKNOWN.

EARLY WARNING SIGNS

The International School of Luxembourg (ISL) welcomes more than 1300 students from 50 different nationalities every day. Their network effect is notable with strong relationships with schools all over the world, especially in China.

Prior to Covid-19 making headlines in Luxembourg, the ISL was already receiving early warning signs about the virus from their fellow schools in China. By January, the school was already alarmed and carefully monitoring what was happening on the other side of the world.

"As more cases came on the radar we formed a crisis team in order to monitor what was going on. We were looking at the World Health Organisation (WHO), Johns Hopkins and at the European Centre for Disease Prevention and Control (ECDC) on a daily basis," said Patricia Angoy, ISL's Lower School Principal.

PREPARED FOR THE UNKNOWN

The ISL immediately set-up a crisis team including the COO, the Head of Communications and the Head of IT in case the school had to close its doors and they needed some sort of online platform. Additional members of the core team included two principals of the school, the Head of Maintenance and Security, Head of Communications and Media and the Head of HR.

Patricia Angoy explains: *"We gathered key-people to make sure we were looking at a broad perspective of areas that might be affected by whatever was going on. We started to collect information and looking at who might be the people, groups and areas at risk. You can never quite prepare for something like Covid-19. But you prepare for the unknown in many different ways."*

SCHOOLS' ONLINE

The ISL's investment in technology has been notable, paying particular attention to the role it plays in learning. The result is a well-resourced offer, which has been appreciated by all including its very young students. The school has a one-on-one programme for the upper school together with one grade in the lower school. The rest of school they offer a wide range of devices to students to work with.

"We have a curriculum that incorporates technology in every area of the learning process. As it was becoming more and more clear that confinement was only a matter of time, we decided to have a look at our existing curriculum. We created a virtual learning environment and developed guidelines for the teachers and students. The whole process was surprisingly smooth," says Patricia Angoy.

As it became very evident that this pandemic was not going to disappear within two weeks, nor that the school was likely to re-open at the beginning of April, the school honed its skills both at home and from the teacher's perspective in online learning. The guidelines were up-dated regularly to maintain the flow of communication during the uncertainty.

"You can never quite prepare for something like Covid-19. But you prepare for the unknown in many different ways."

PATRICIA ANGOY

"Technology has supported us in terms of our relationships with each other and the school as an educator. All of us have spent a considerable amount of time connecting with other people going through a similar situation. That is a powerful way of moving forward as a school," adds Joachim Herrmann, Chief Operating Officer.

PEDAGOGICAL IMPACT

It is still too early to predict the long-term impact, if any, from confinement on teachers and students. There is not a lot of research about the long-term impact on student and teacher wellbeing as yet, although there are current studies underway. The University of Luxembourg, for example, has just launched a large study on the impact of Covid-19 on the wellbeing of children and adolescents.

Counsellor Patricia Andersson comments: *"The pedagogical impact is obviously linked to the impact on your wellbeing and your mental health. I think it is safe to say*

> "One of the first things we asked parents to do was to set-up a schedule or some kind of routine that they could follow. It is important to give kids security, and especially so during unprecedented times."
>
> PATRICIA ANGOY

that those who have a pre-existing health condition such as anxiety or depression are more vulnerable to having difficulties than others. It is really important that we pay attention to these families and students. On the other hand, we also have to support our students in becoming more resilient and to find ways to mitigate the possible long-term consequences of this pandemic. Many of these skills can be taught.What is just as important is how we teach resilience skills to the broader ISL community."

Patricia Andersson noticed a variety of responses from the kids. Some were concerned about missing social times with their friends and some were excited about this new situation. The students had to navigate between difficulties that they hadn't encountered before: *"It has been a journey for all of them with ups and downs."* This being said, on the whole, she was amazed at how quickly and positively the majority of the students took to the challenge and adapted.

"As Counsellor, I have been conducting conversations with the students over Zoom. Children could share their concerns with me and we tried very hard to create an environment where all emotions are ok. That it is sometimes ok to not feel ok," Andersson observes.

JOACHIM HERRMANN,
DIRECTOR OF OPERATIONS

ONLINE CLASSES

Most people expect a scenario involving synchronised classes where students sit in front of a screen for 7 hours, when they imagine online teaching. This might happen in some schools, but not the at the ISL where screen hygiene is encouraged amongst students.

Patricia Angoy reflects on the experience: *"What is interesting to see is how students behave differently online. Some children with a passion in certain areas were able to have small online group sessions where they had much more intimate conversations with the teachers than they do in school. Children didn't necessarily learn from 9 to 5. Some did their learning at 10 o'clock in the evening. Online classes afford students the opportunity to work at their own pace and within allocated timeframes."*

Counsellor Patricia Andersson noticed that most of the students responded very positively to online teaching: *"The children were finding creative ways to be social with each other; some organised Zoom lunches or watched movies together with a chat exchange on the side."*

SCHOOLING THE PARENTS

The school opted to share a daily update, sometimes including the weekend, to parents and teachers during lockdown. Patricia Angoy highlights that the time investment is well worth it, as it fosters a strong bond with the school.

Not only do teachers and students need guidelines in times like this, but it is helpful for the parents who suddenly find themselves juggling between being a parent, a teacher and homeworker simultaneously.

"One of the first things we asked parents to do was to set-up a schedule or some kind of routine that they could follow. It is important to give kids security, and especially so during unprecedented times. When they are faced with an unknown situation, they can still maintain a routine of getting up and dressed in the morning, having breakfast and beginning their day in a learning environment. We also remind parents to try not to expect too much of their children - we want to encourage them to also see this time as a unique opportunity," says Patricia Angoy.

According to Patricia, learning is also about understanding what family is. Routines such as involving your children to lay the table for meals helps them to understand what responsibility is. These are important by-products of education.

Patricia Angoy reflects on the creative options available: *"There are more ways to teach something to your children. We gave parents ideas how they can connect what they were doing in cooking, with mathematics or languages."*

IT'S ABOUT THE LITTLE THINGS

After more than two months of confinement, the school opened its doors again on the 11th of May for the Upper School and the 25th of May for the Lower School. Although a return to normal still seems far off, the children are excited to see their friends again, even from a social distance.

Patricia Andersson observes a sense of growing nostalgia: *"The kids miss their friends the most. They have suddenly realised how much they enjoyed the small things in life, such as eating lunch together in the canteen or studying with their classmates. They are very excited to have some of those things back."*

It is no different for teachers, Patricia Angoy enthuses: *"Teachers have also missed being with each other. As this is an international school, many of our teachers are far away from home which means that the school becomes a very important base for them. Their professional relationships become their social relationships; they are intertwined."*

MvH / CC

> "The children were finding creative ways to be social with each other; some organised Zoom lunches or watched movies together with a chat exchange on the side."
>
> PATRICIA ANDERSSON

PATRICIA ANDERSSON, COUNSELLOR

TENTATIVE EVENTS AGENDA

Due to the spread of Covid-19, please note that the dates listed below are tentative and might be subject to change.

2020
30.09 - 01.10

SWITZERLAND 2020 - NEW DATE

Luxembourg for Finance plans to host seminars in Geneva on 30 September 2020 and in Zurich on 1 October 2020 in the presence of HE Pierre Gramegna, Minister of Finance.

2020
20.10

TORONTO 2020

Luxembourg for Finance plans to host a seminar in Toronto honored by the presence of HE Pierre Gramegna, Minister of Finance.

2020
28.10

SUSTAINABLE FINANCE FORUM - NEW DATE

The 3rd Edition of the Sustainable Finance Forum will be held in the presence of HE Pierre Gramegna, Minister of Finance at the Cercle Cité Luxembourg on 28 October 2020.

2020
10.11

PARIS 2020 – NEW DATE

Due to the spread and threat of the Covid-19 pandemic, the conference in partnership with l'Opinion originally scheduled on 16 June 2020 in Paris, will be held on 10 November 2020.

2020
16-20.11

CHINA 2020

Luxembourg for Finance plans to host seminars in China from 16 to 20 November 2020 honoured by the presence of HE Pierre Gramegna, Minister of Finance.

Postponed to
2021

CHINA FINANCE FORUM

The 6th China Finance Forum originally scheduled on 28 October 2020 will be postponed to 2021. A new date will be communicated in due course.

IMPRESSUM
EDITOR: LUXEMBOURG FOR FINANCE / 12, RUE ERASME / B.P. 904 / L-2019 LUXEMBOURG
TEL. (+352) 27 20 21 1 / FAX (+352) 27 20 21 399 / EMAIL LFF@LFF.LU
WWW.LUXEMBOURGFORFINANCE.COM
RESPONSIBLE FOR PUBLICATION: NICOLAS MACKEL.
EDITORIAL TEAM: OPHÉLIE BINET (OB), CHRISTINA CLARK (CC), LOREN MOTIANI (LM), MARJOLEIN VAN HOOF (MvH).
CIRCULATION: 2,500 – QUARTERLY.

COVER ILLUSTRATION AND INFOGRAPHIC BY O STREET - WWW.OSTREET.CO.UK
TYPESETTING BY INTERLIGNE - WWW.INTERLIGNE.LU

THE NEXT EDITION OF LEO, THE FINANCIAL CENTRE'S MAG WILL BE PUBLISHED IN SEPTEMBER 2020.