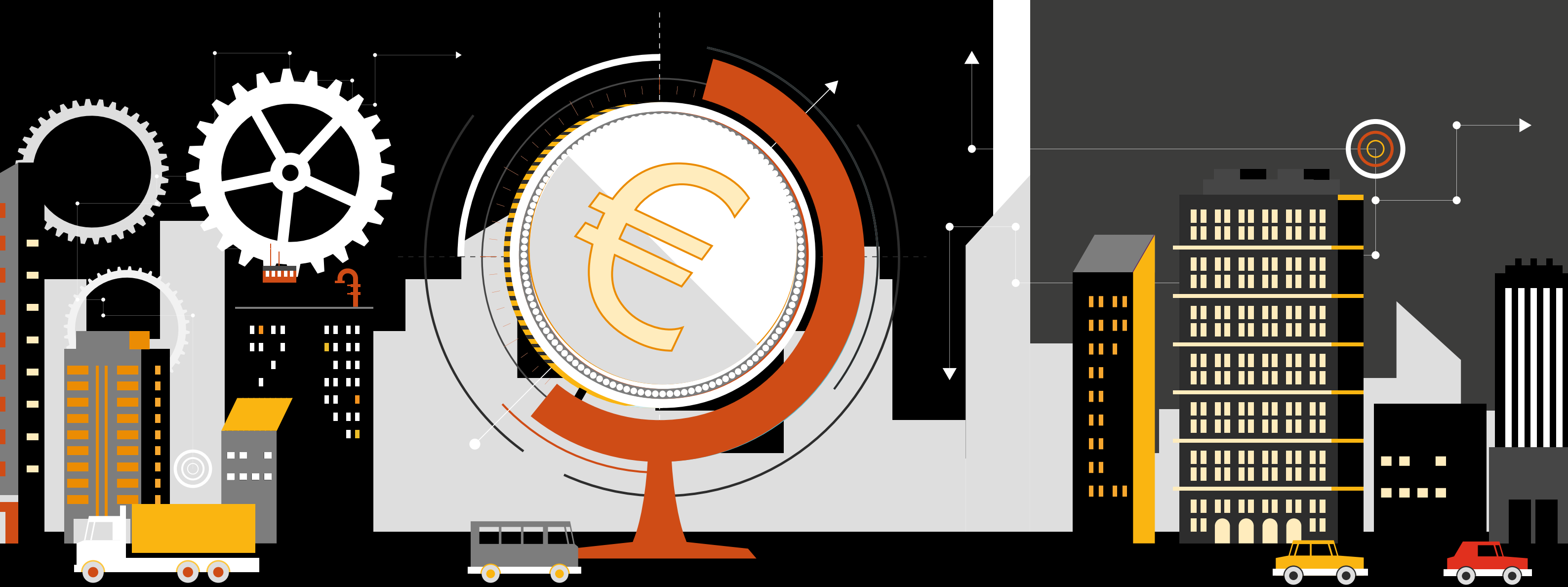
2022

Corporate Banking Survey



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Foreword

Having been instrumental in the formation and development of the Eurodollar market in the 1960s, Luxembourg's corporate banking segment has long constituted a significant part of the country's unique banking ecosystem. Today, the importance of the Grand Duchy's corporate banking landscape lies in its provision of tailored banking and financing solutions to its extensive client base: from the local sector and international businesses with operations across Europe to Non-Bank Financial Institutions (NBFIs) linked to the Asset and Wealth Management (AWM) industry.

The sector also boasts a comprehensive toolbox of products, legal and regulatory frameworks, as well as digital and cross-border transactional competencies; which make it attractive for both local and international corporations and investors. While all of these highlight the uniqueness of Luxembourg's corporate banking sector – compared to other EU countries where corporate banks mainly serve local companies – the segment remains relatively obscure, despite its size and significance.

In addition to these, recent times have seen corporate banking facing a number of era-defining shifts which are poised to utterly disrupt the sector. As the impacts of COVID-19 continue to linger across various aspects of the global economy, the need for corporate banks to accelerate the pace and rate of their overall transformation has been highlighted like never before. An increasingly rigid regulatory landscape and the rapidly changing needs of corporate clients require a closer look at products, services, and operating methods that have been in place for decades, while emerging trends such as ESG pose a fresh challenge for the sector. Also, the accelerated pace of digitalisation – first in response to the COVID-19 crises – has become an integral feature of banking in general, with corporate banking being no exception. For Luxembourg – where corporate banking represents one of the largest banking activities – this begs a closer look at the state of the industry itself in order to discover peculiar challenges and untapped opportunities.

This is why, in an attempt to uncover the jewel of Luxembourg's corporate banking sector, the ABBL and PwC launched the maiden corporate banking survey. The survey aimed to take a closer look at the state of the corporate banking segment – considering the sheer scarcity of precedent studies in this area – in order to discover peculiar challenges and untapped opportunities. Indeed, realising this goal did not come without veritable challenges, including the lack of a standard definition of corporate banking and the blurred lines between corporate banking and other banking segments such as investment banking and retail banking. That being said, the study also proved to be truly enriching as it led to the identification of a diverse set of business models operated by corporate banks in Luxembourg. It also aptly addresses the problem of the lack of existing sectoral studies by filling certain information gaps and offering much-needed insight to strengthen Luxembourg's position in the corporate banking space.

The ABBL Corporate Banking Survey 2022 report, which presents the analysis of the survey, is the result of a collaborative effort by the ABBL and PWC with support from the CSSF, LFF, and the participating banks – to whom we are truly grateful for taking the time to provide the requested qualitative and quantitative information. In fact, the survey recorded a relatively high response rate of 66% of all participants at the time of closing – despite being the first of its kind – , with more than half of the corporate banks also providing clear details of their business figures. Collectively, these banks represent about 80% of the corporate banking market in Luxembourg and thus, the market insights presented in this report are representative of the aggregated data and feedback (qualitative and quantitative) obtained from banks' CEOs and CFOs[1]. This makes it a one-of-a-kind evaluation that we hope will not only encourage the needed conversations among industry stakeholders and spur on the innovative drive we are seeing further but will also serve as a benchmark for future studies and assessments on the corporate banking sector in Luxembourg.

Jörg Ackermann,
Partner, PwC Luxembourg

Jerry Grbic,
CEO, ABBL

1 The ABBL and CSSF's initial invitation to all banks in Luxembourg identified 44 corporate banks for this Corporate Banking Survey. 29 of these banks responded to the online qualitative questionnaire, while 19 of them presented data sets to the ABBL which are aggregated for the purpose of this study.

A unique collaboration

The Luxembourg Bankers' Association (ABBL)

The ABBL is the oldest and largest professional association in the financial sector, representing the majority of financial institutions as well as regulated financial intermediaries and other professionals in Luxembourg, including law firms, consultancies, auditors, market infrastructures, e-money and payment institutions. The ABBL counts over 220 members, who represent the financial center as a whole and in all its diversity, which is key to shape the financial sector future and speak with one voice. The ABBL is organised around Clusters, Committees, Forums and Working Groups, which channel common issues and challenges of each domain and focus on the most strategic priorities for the members, our Clusters represent the main business lines of the financial sector: Corporate & Investment Banking, Depositary Banking, Payments, Private Banking and Retail Banking.

PwC’s Financial Services Consulting Team

PwC’s Financial Services (FS) Consulting team works hand in hand with its clients – from top management to Operations – to help them solve their toughest challenges and most important problems, to attain and sustain competitive advantages in an increasingly fast-changing environment, to raise efficiencies in existing processes and departments or to seize entirely new business opportunities, to implement new regulations in their operations or to define their long-term strategic orientation. The team consists of consultants with profound technical knowledge and strong industry expertise which enables them to support some of the world’s largest banks and asset managers from strategy to execution. Additionally, the team constantly challenges the status quo and seeks to reveal undiscovered business potential in Luxembourg – as e.g. through the Corporate Banking Study – thus contributing to the development of the marketplace.

PwC’s Market Research Centre

PwC’s Market Research Centre is composed of a team of research analysts whose role is to help their clients gain market insights, develop strategies and make informed decisions. The team delivers mainly to clients within the financial services sector (asset managers, banks, financial services industry organisations and regulators).With stakeholder survey and statistical analysis being one of their primary specialisations, the team helps clients to define the scope of surveys, design questionnaires, determine sampling methods, collect and analyse data. They also conduct interviews to glean additional insights and provide further clarity to clients on their business positioning relative to their operational markets and their stated objectives.

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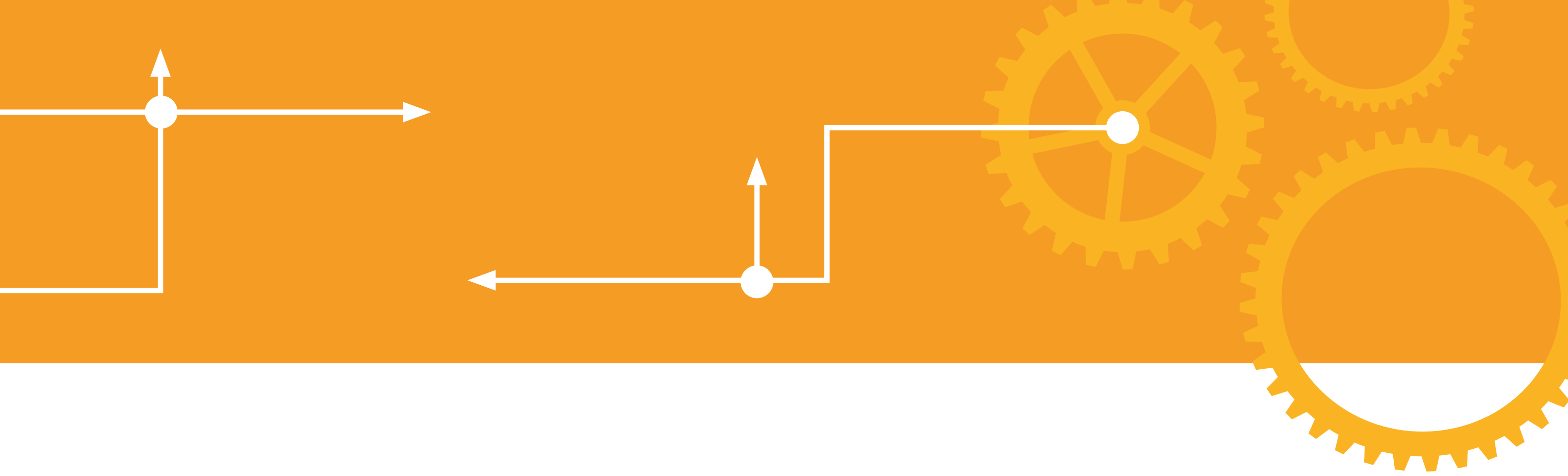
Luxembourg's Corporate Banking sector: A strong and profitable sector

Corporate banking has been around for as long as banks themselves, evolving with the times and shaping up – as of 2022 – for the opportunities that are emerging for the future. As with any other sector with economic significance, the sector's development has been anything but linear or sudden. The story surrounding the growth of Luxembourg's banking sector began in the late 1960s with the rise of international corporate banks. At that time, German banks wishing to enter the euro markets began setting up subsidiaries in Luxembourg. This first wave of internationalisation can be attributed to two factors, the first being the introduction of the U.S.- American "Regulation Q". This led to the formation of the Eurodollar and Eurobond markets as interest rates rose; a development which saw the issuance of the first Eurobond by Autostrade in 1963 and its listing on the LuxSE. The second factor was the minimum reserve requirement mandated by the Bundesbank for German banks carrying obligations denominated in foreign currencies. The absence of such a prerequisite in Luxembourg was an obvious regulatory concession that led to the expansion of the country's corporate banking sector at a remarkably fast pace.

This growth was significantly bolstered in the 1970s by the arrival of Scandinavian banks looking to increase their participation in lending activities, while the 1980s also saw Swiss and U.S-banks increasing their private banking activities as well as cash flow services to corporate clients. The 1990s proved to be truly pivotal as the single EU-wide banking authorisation established by the Second EU Banking Directive induced banks from third-party countries to locate branches in Luxembourg, further increasing the rate and pace of corporate banking activities. Currently, the whole banking sector represents half of Luxembourg's financial services market and, with a 94% rate, boasts the highest degree of internationalisation in Europe's banking industry. The strong, stable market and diversified ecosystem have greatly facilitated the arrival of new banks, and with the country especially positioned as a post-Brexit hub, it is no wonder that banks such as China Everbright Bank, Citibank, Credit Suisse, JP Morgan, and Lloyd's Bank have plans to move or have already moved some of their London operations to the Grand Duchy.

Besides its rich network of industry actors, the banking sector in Luxembourg has undergone considerable changes in recent times in terms of figures. Between 2010 and 2020, the number of banks operating in Luxembourg decreased from 147 to 128, regardless of the post-Brexit effect. This translated into a decline in net results from EUR 3.8mn to EUR 3.0mn, and a converse increase in balance sheet totals from EUR 762.3mn to EUR 863.3mn. A look at the corporate banking sector, however, paints a different picture, with an increase in value from EUR 1.3bn in 2011 to EUR 3.4bn in 2018 – according to LFF. The segment also ranks second in terms of revenue and margins among banking segments in the Grand-Duchy, surpassed only by private banking. Nevertheless, while the sheer scale and significance of corporate banking in Luxembourg have grown steadily, it has taken more than 50 years for the industry to acknowledge the dearth of information about what is considered one of its most important segments. In these recent moments of changes, challenges, and opportunities, this information gap has become all the more prominent.



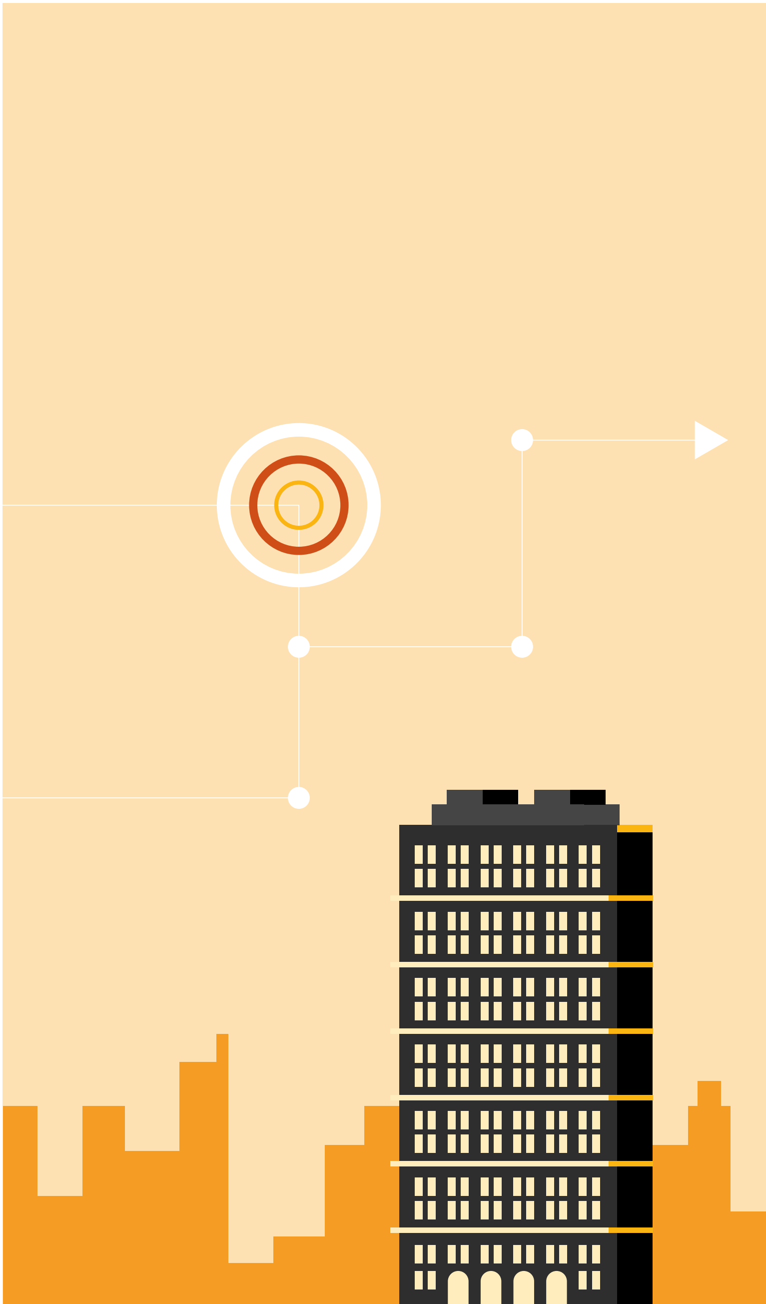
Owing primarily to the persistently low-interest-rate environment and the COVID-19 crisis, pending issues have become more compelling while new ones have also emerged – particularly those related to the resilience of banks’ existing business models, the future viability of current product offerings, the recalibration of banks’ overall digital strategy and the shift towards sustainability to meet customers’ interests and needs. As it stands, the Grand Duchy is striving to leverage its unique strengths in innovative financial technologies to reinforce its global leadership position in sustainable finance and create open and transparent dialogues between private, public, and regulatory market participants. Amid these efforts, the message is plain and simple: Transformation is the key to survival – in every area of interest.

1.1 Evolution of the Luxembourg Corporate Banking sector

Corporate Banks in Luxembourg racked up approximately 3.0bn in revenues as of end-2020, with financing products and interest-based business being the major contributors to growth. Multinational companies remain core to banks’ business, and non-financial institutions represent a key client segment.

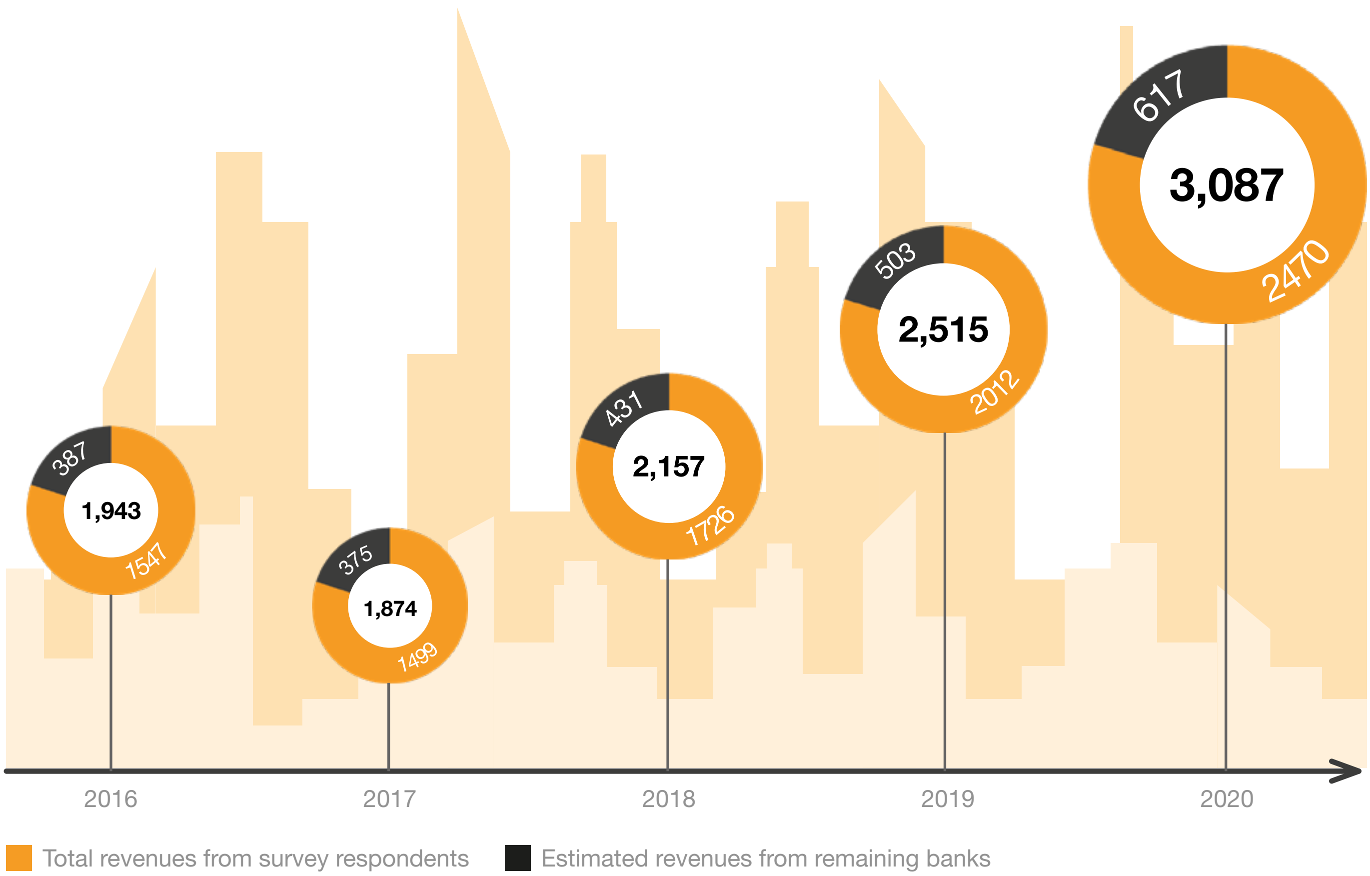
Corporate Banks’ revenues hit approximately EUR 3.0bn and show a positive trend

Total corporate banking revenues from survey respondents hit almost EUR 2.5bn as of end-2020. Given that our respondents represent about 80% of the entire corporate banking market in Luxembourg, we extrapolated total revenues for the entire corporate banking sector to be approximately EUR 3.0bn - 58.8% more than in 2016 (c.f. exhibit 1). This figure constitutes 27.0% of total revenues for Luxembourg’s overall banking sector, which reached 11.1bn in the same period, and outpaced the private banking sector revenues, which stood at EUR 2.2bn[2] in 2020.



2 Figures were obtained from the presentation of total results by the CSSF (https://www.cssf.lu/en/2021/10/presentation-of-total-results/). For this report however, only Net fee income and Net fee and commission income were considered in calculating total revenues for the banking sector.

Exhibit 1: Estimated Corporate Banking Revenues 2016-2020 (EUR mn)

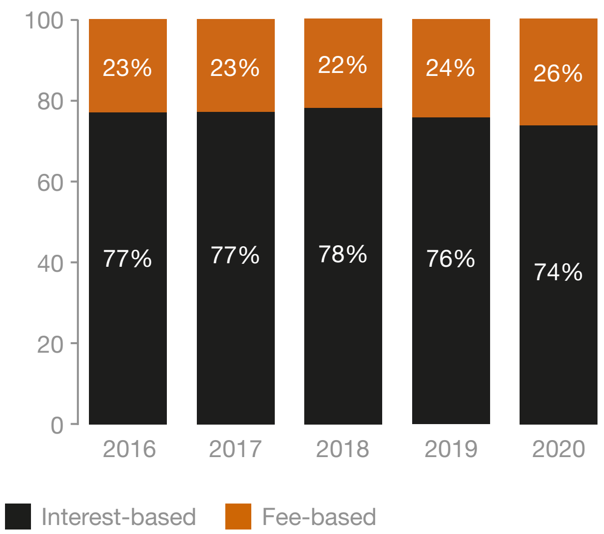


Source: ABBL Corporate Banking Survey Results

In terms of profit margins, we see a similar growth trajectory, with corporate banking profits growing from EUR 832.4mn 2016 to hit EUR 1.1bn in 2020 – a 36.7% increase. Given the typically large scale of corporate banking activities, it is clear that this segment easily passes as a key contributor not only to banks' overall earnings but also to the country's economic growth and employment rates.

A significant portion of annual revenues and profits for corporate banks was seen to be related to their interest-based business (c.f. exhibit 2). But while growth from fee-based businesses remains less than their interest-based counterparts, the former has been growing at a faster rate. This growth in fee-based services, which largely cuts across all banking segments, is not surprising as declining interest rates in recent times have resulted in banks having to prioritise non-interest sources of income.

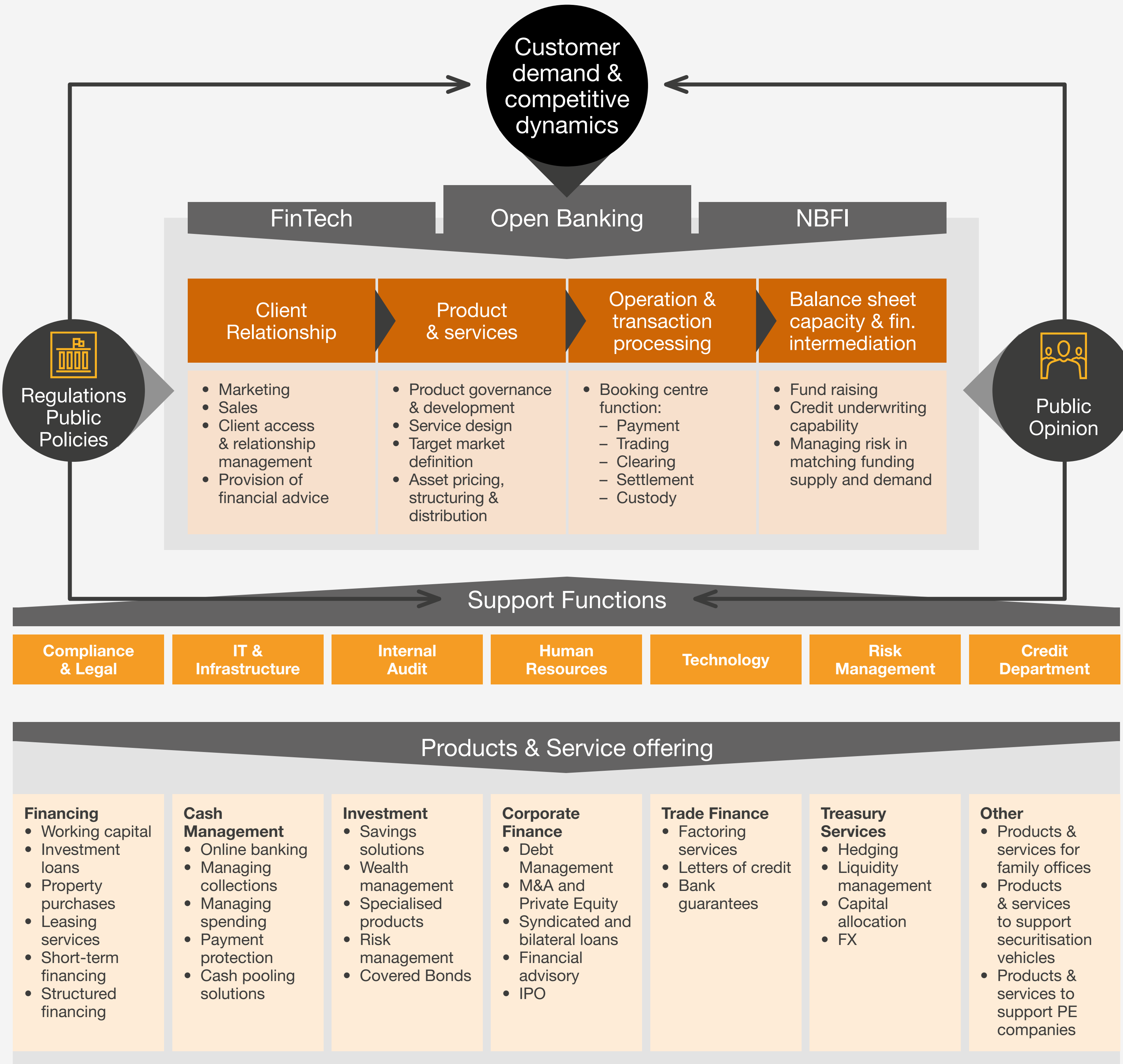
Exhibit 2: Share of interest-based and fee-based revenue



Source: ABBL Corporate Banking Survey Results

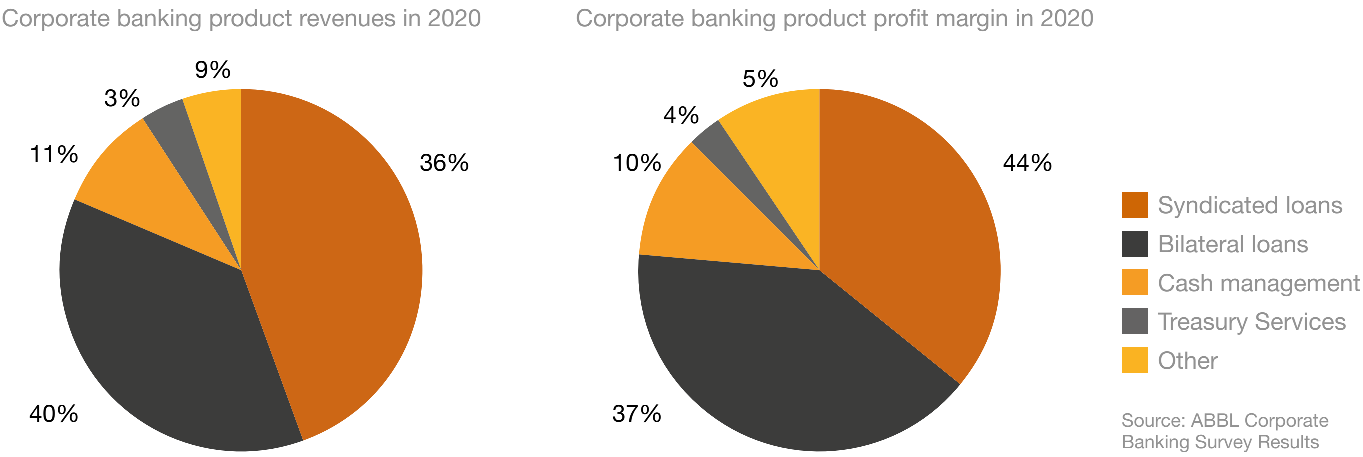
Bilateral and syndicated loans remain the predominant growth drivers for corporate banks' revenues

Corporate banking services in Luxembourg typically range from the provision of financing (bilateral and syndicated) and treasury services to cash flow management and trade finance solutions. These products typically constitute the core business focus of an equally diverse set of service providers, who collaborate with other market participants – all performing various functions in a dynamic but challenging environment. Based on the observed relationship between products, functions, and service providers, PwC has demonstrated how these moving parts collectively contribute to the efficiency of the Luxembourg corporate banking landscape.



Financing solutions, in the form of bilateral loans and syndicated loans, were seen to be the most predominant products offered by corporate banks in Luxembourg, collectively accounting for approximately 76% of revenues for the corporate banks surveyed, and 81% of total corporate banking profits (c.f. exhibit 3). This significant share of financing solutions is not unique to Luxembourg alone. In fact, in many other countries, financing significantly drives banks' overall income growth. Our analysis further showed that the share of Financing in banks' total revenues has remained relatively stable over the review period. Cash management was also seen to account for the second largest proportion of revenue – besides financing products – with revenues for the product segment growing by 42% to reach EUR 207.8mn in 2020.

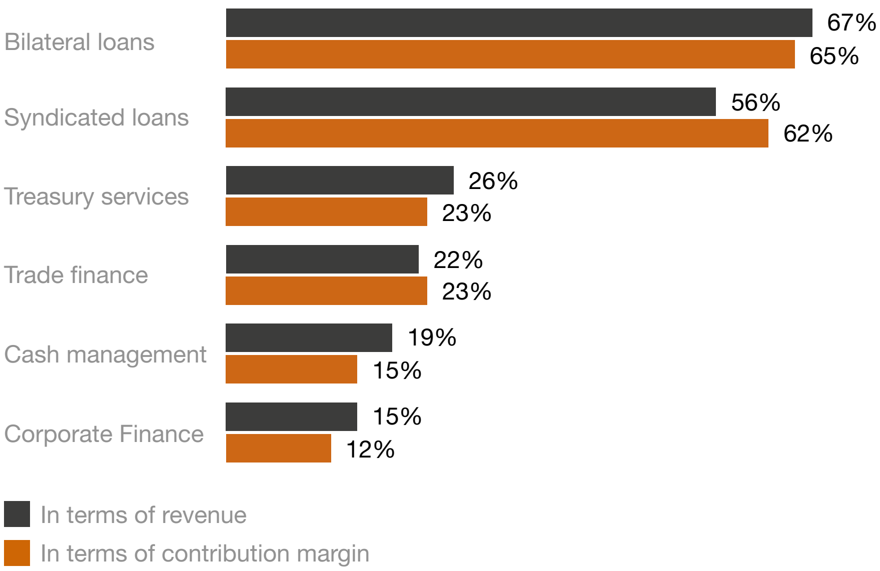
Exhibit 3: Corporate Banking revenues and profit margin split



Source: ABBL Corporate Banking Survey Results

In the coming years, financing products are expected to continue playing a key role in the performance of corporate banks, with the majority of respondents believing that they will continue to drive both revenue growth and profitability (c.f. exhibit 4). Apart from financing solutions, treasury services and trade finance also offer strong potential as revenue and profit margin drivers – particularly among Non-EU banks. Not only that, but the share of cash management is also likely to grow even further – especially as SMEs, large corporations, and alternative managers (private equity and real estate funds) continue to demand for these services.

Exhibit 4: What are the top 3 products that will drive growth until 2025? *



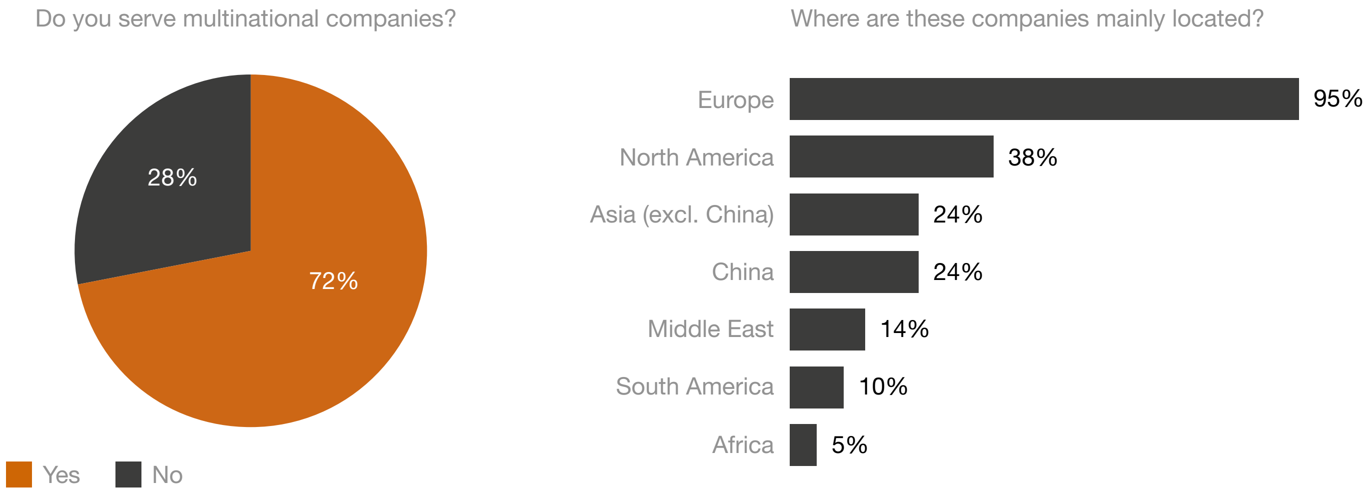
Source: ABBL Corporate Banking Survey Results

*Ranked by the number of respondents who selected 1 to 3 for each product

Multinationals, non-banking financial institutions and non-financial institutions are banks' primary clients

Corporate Banks in Luxembourg essentially serve a diverse client base, with multinational companies representing a core segment of this client base. In fact, our survey showed that almost three out of four corporate banks (72%) serve multinational clients (c.f. exhibit 5), while all the banks whose corporate banking activities represent more than 50% of their business reported having multinational companies as part of their client portfolio. These results illustrate the strong attractiveness of Luxembourg for international corporations. At the same time, they also indicate a heavy focus on European clients, with 95% of respondents stating that their multinational clients are based in Europe.

Exhibit 5: Corporate Banks' business with multinational corporations



Source: ABBL Corporate Banking Survey Results

In terms of sectors, corporate banks in Luxembourg were seen to mainly serve non-financial institutions and non-bank financial institutions, with both client segments collectively contributing 85% of corporate banks' revenues in 2020. Indeed, this distribution underscores Luxembourg's capacity to leverage its European banking nexus to not only meet the needs of the financial sector, but to also service non-financial multinational corporations in their businesses across Europe.

In their future outlook, banks expect this client distribution and increased business interactions with the non-financial sector to persist, with 89% believing that non-financial institutions will steer growth in the coming years. The role of the financial sector is, however, not discounted in this context, as 59%, 30%, and 22% of Luxembourg's corporate banks foresee NBFIs, the funds' sector, and banks respectively driving future growth (c.f. exhibit 6).

Exhibit 6: Clients that will drive growth in Corporate Banking activities in the next 5 years

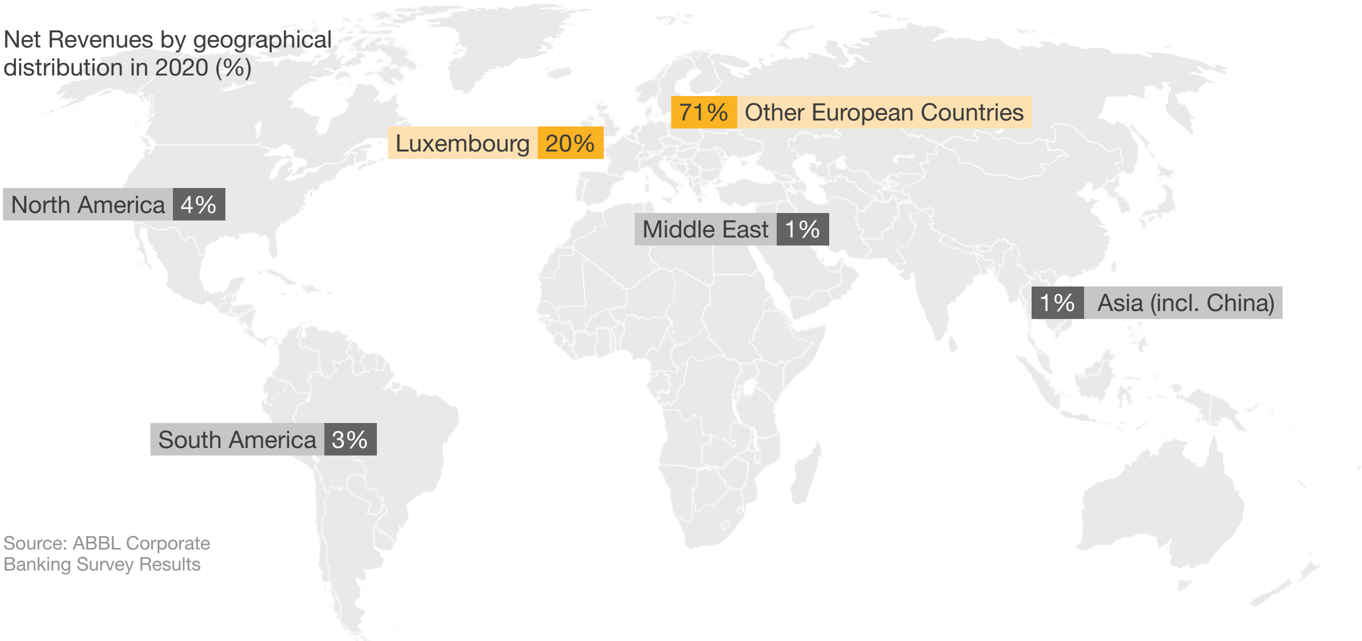
89%	59%	30%	22%	15%
Non financial institution	Non bank financial institutions	Funds	Banks	Public Sector

Source: ABBL Corporate Banking Survey Results

Europe represents banks' primary market, but other regions hold massive opportunities

The significance of the European market to Luxembourg's corporate banks is illustrated by the fact that Europe generates 71% of total corporate banking revenues, while Luxembourg accounts for 20% (c.f. exhibit 7). This centrality of the European market is attributable to the predominance of European multinational corporations among banks' clients – as mentioned previously. Indeed, compared to Europe, we saw only a marginal focus on other regions, with only 38% and 24% of respondents serving multinationals in North America and Asia excl. China respectively. We strongly believe that Luxembourg has an opportunity here to leverage the significant number of corporate banks of non-EU origins to expand their client base globally.

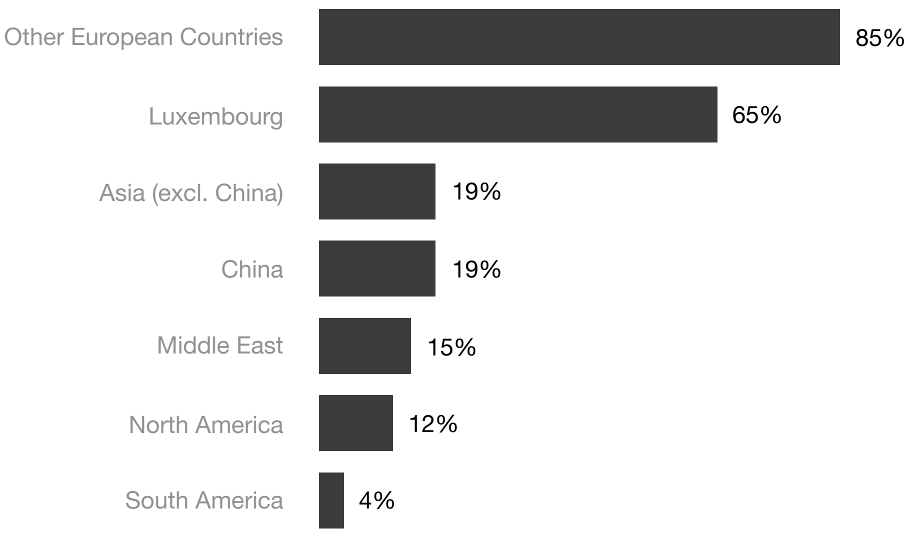
Exhibit 7: Corporate Banking revenues by geographical distribution



Source: ABBL Corporate Banking Survey Results

Looking ahead, 85% and 65% of all our respondents expect growth to come from other EU countries and Luxembourg respectively (c.f. exhibit 8). The growing presence of Chinese banks also shows potential for developing business opportunities in Asia and China. Meanwhile, only a few opportunities have been identified in the Middle East and America, further illustrating the limited global focus of corporate banks in Luxembourg and highlighting the window of opportunity that remains to be explored.

Exhibit 8: Regions that will drive growth in the Corporate Banking revenues in the next 5 years

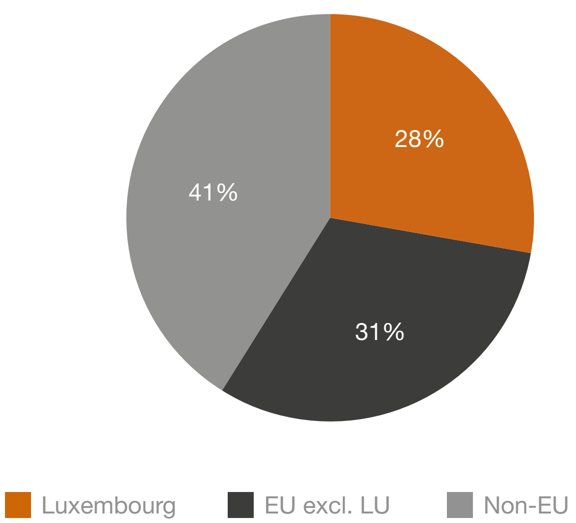


Source: ABBL Corporate Banking Survey Results

1.2 A tale of three segments

The vast differences in corporate banks' business models, products and clients in Luxembourg make it difficult to achieve any sort of classification. For the purpose of our analysis, however, we have broadly classified corporate banks in Luxembourg under three main segments. Our classification is mainly based on the geographical origins of the banks (c.f. exhibit 9) – a criterion that happens to align with the high level of homogeneity in their business focus –, as well as the geographical location of their primary clients. Consequently, it is safe to say that there is almost little to no competition among the three segments due to their very distinct focus. In this context we have the following:

Exhibit 9: Distribution of Corporate Banks by geographical origin

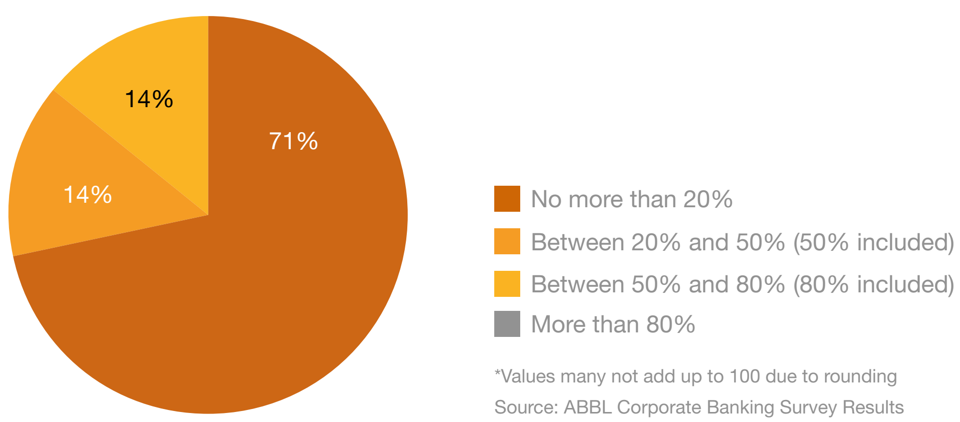


Source: ABBL Corporate Banking Survey Results

Local Banks

These are the well-established banks of Luxembourg origin that typically provide universal banking services, including corporate banking services. Since these banks do not specifically focus on corporate banking, the segment only contributes marginally to their overall banking revenues. In fact, according to our survey, banks in this segment contributed 32% of total corporate banking revenue in 2020, and only 14% of these banks have corporate banking representing over 50% of their overall revenues (c.f. exhibit 10). Further, they constitute 28% of Luxembourg's corporate banking sector and also have a smaller number of employees dedicated to corporate banking: 41, excluding employees in other departments such as IT, HR, etc.

Exhibit 10: Share of Corporate Banking in total gross income (local banks)*



*Values many not add up to 100 due to rounding
Source: ABBL Corporate Banking Survey Results

The client focus for banks in this segment is very distinct. Firstly, they mostly serve Luxembourg clients while the EU and non-EU banks primarily focus on European clients. The Luxembourg clients whose needs are met by banks in this segment include SMEs and mid-to-large corporations across various industries that the other banks do not serve. In the coming years, Luxembourg is expected to remain the top growth driver for banks in this segment while for the other two segments, growth will depend on the rest of Europe.

A second distinguishing factor for local banks – in terms of client focus – is the fact that they serve multinational companies to a lesser extent than EU and non-EU banks (only 50% of them serve multinationals compared to 89% for EU banks and 75% for non-EU banks). Also, services to their multinational clients are typically related to the operations of these companies within the territory, unlike the EU and non-EU banks who mainly serve the operational needs of their multinational clients outside Luxembourg. With this relatively strong focus on a wider range of client sectors, local banks are less reliant on the financial sector. It is therefore not surprising that 88% of them expect future growth to be mainly driven by non-financial institutions. That being said, funds companies also hold opportunities for the local banks, and 63% of them expect funds to equally drive future growth.

In terms of products, financing currently represents 47% of local banks' total revenues, and it is expected to drive future growth – especially bilateral loans. This is followed by Cash management, which represents 35% of revenues – a figure that is significantly higher than the share of the product within the other segments. Given the marginal focus on multinationals and their operations outside Luxembourg, trade finance represents less than 3% of revenues for local banks and is not a key growth driver, while it remains key for non-EU banks and to a lesser extent, for EU banks.

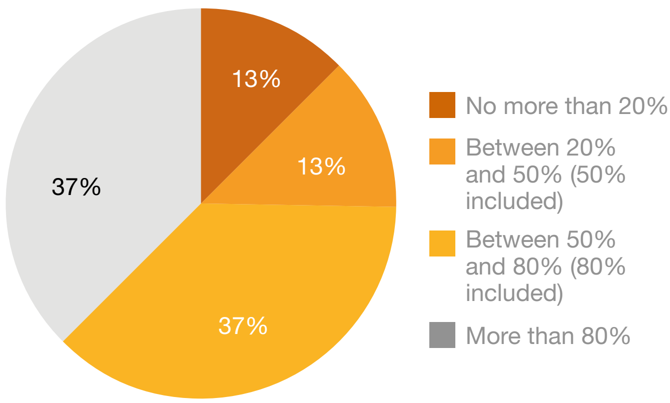
Local Banks

Description	• Originate fron Luxembourg and typically provide universal banking services, including corporate banking, but are not solely focused on this segment • Provides limited services to multinational corporations related to their businesses in Luxembourg only
Market size	• Represents 28% of corporate banking sector and makes up 32% of total corporate banking revenues as of 2020 • For 14% of banks in this segment, corporate banking constitutes more than 50% of revenues • Employs approximately 41 people
Main products	• Syndicated loans • Bilateral loans • Cash management
Main clients (sector)	• Non-financial institutions (Small and Medium sized enterprises, Mid-to-large corporations) • Funds • Non-bank financial institutions
Main clients (geographical focus)	• Luxembourg

EU Banks

Banks in this segment are headquartered in other EU countries – or at least originate from other EU countries outside of Luxembourg – and have either branches or subsidiaries in Luxembourg. The segment makes up 31% of Luxembourg's corporate banking sector and employs 67 workers on average. For the banks in this segment operating in Luxembourg, **corporate banking represented more than 50% of total banking revenues for 74% of them in 2020, and furthermore – made up more than 80% of revenues for 37%** (c.f. exhibit 11). Moreover, they also represent 43% of Luxembourg's total corporate banking revenues for 2020. These figures indicate the significance of corporate banking in terms of revenues and employees for EU banks.

Exhibit 11: Share of Corporate Banking in total gross income (EU banks) *



*Values may exceed 100% due to rounding
Source: ABBL Corporate Banking Survey Results

Now, while EU banks are generally characterised by a high degree of corporate banking specialisation, they still have distinct product offerings (financing vs trade finance vs cash management). Moreover, **they typically serve the needs of corporate clients coming from their home countries,** which makes it even more relevant to look at sub-segments such as the German banks which specialise in high margin syndicated and structured products, the French banks which offer hybrid products and services to large corporations and some funds, the Italian banks which provide trade and structured finance products and services, and the Swiss banks which mainly serve private banking clients. This diversification also explains the limited level of competition among banks in this segment.

Despite their differences, it is possible to highlight many common characteristics among banks in this segment. For one, they all serve multinational corporations who mainly come from Europe, even though a few of them have managed to establish business links with Asia, Africa, Middle East, and North America – but this is still only a minority. Secondly, in sectoral terms, this segment is quite homogenous in that most EU banks mainly cater to non-bank financial institutions and non-financial institutions. Nevertheless, our analysis also showed that EU banks have a greater focus on the financial sector than local banks, albeit to a lesser extent than non-EU banks. Particularly, these EU banks serve the AWM industry – especially alternative funds, and multinationals with financing needs outside Europe. When it comes to products and services, they mainly concentrate on a small range of corporate products, namely bilateral and syndicated loans – which collectively accounted for 92% of their revenues in 2020. While some also focus on cash management, treasury services and trade finance, these remain very marginal – representing less than 5% of their total revenues.

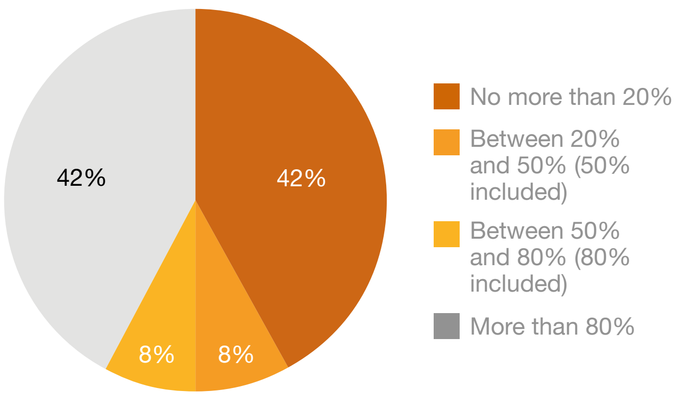
EU Banks

	Description	• Have branches/subsidiaries in Luxembourg and mainly serve European multinational corporations • Highly distinct products/specialisations which accounts for limited competition among players
	Market size	• Represents 31% of corporate banking sector and makes up 43% of total corporate banking revenues as of 2020 • For 76% of banks in this segment, corporate banking constitutes more than 50% of revenues • Employs approximately 67 people
	Main products	• Syndicated loans • Bilateral loans
	Main clients (sector)	• Non-bank financial institutions • Non-financial institutions
	Main clients (geographical focus)	• Europe

Non-EU Banks

Banks in this segment originate from outside the EU and have typically chosen Luxembourg either as their EU headquarters or as their primary EU base. They represent 41% of Luxembourg's corporate banking sector and constitute about 25% to total corporate banking revenues as of 2020. Further, about 50% of them earn more than 50% of their total banking revenues from corporate banking (c.f. exhibit 12). For some of these banks, Luxembourg's double tax treaty system makes it an attractive and viable location to base their EU operations while still serving the interests of their national companies with international operations. This last segment is quite heterogeneous because it includes Chinese banks that have set up shop in Luxembourg to serve the interests of Chinese corporations operating in Europe; as well as American and other non-European banks that either serve financial institutions with a presence in Luxembourg or multinationals with similar geographical origins.

Exhibit 12: Share of Corporate Banking in total gross income (Non-EU Banks) *



*Values may exceed 100% due to rounding
Source: ABBL Corporate Banking Survey Results

That being said, banks in this segment still share some characteristics such as the limited number of employees – 14 on average. This relatively small number of employees is explained by the fact that while most of these banks have their front offices in Luxembourg they also rely on back offices outside the country, eliminating the need for many employees. Moreover, while like the other segments, non-EU banks mainly focus on financing solutions – which constituted 60% of their revenue in 2020 – and treasury services, trade finance is also increasingly becoming a viable opportunity for them compared to the local and EU banks, with 45% of respondents in this segment expecting trade finance to be a major growth driver in the coming years.

Non-EU banks also demonstrate a more diverse geographical focus than the other segments, with business relationships spanning the USA, South America and China – which highlights a real opportunity for corporate banks to extend their global footprint. Besides, while Luxembourg and other European countries equally represent a viable market for banks in this segment, China is increasingly becoming attractive, with 36% of banks in this segment considering it to be a top market. This growing focus on attracting more global clients is even more relevant in the post-Brexit environment, with Luxembourg being strongly positioned to serve as the natural EU financial location of choice for non-EU corporations.

Non-EU Banks

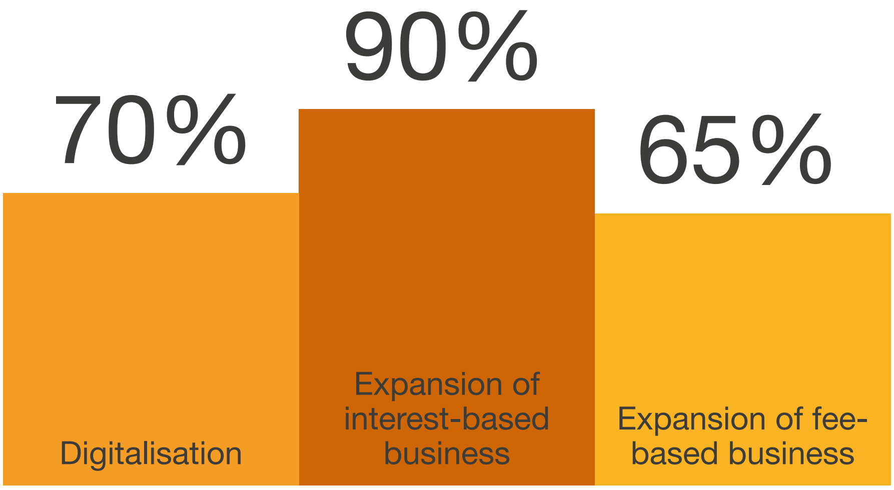
Description	• Originate from and are headquartered outside the EU • Have selecged Luxembourg as EU headquarters/primary EU base • Set up to serve the interests of non-EU multinational corporations operating in Europe
Market size	• Represents 41% of corporate banking sector and makes up 25% of total corporate banking revenues as of 2020 • For 50% of banks in this segment, corporate banking contributes more than 50% of revenues • Employs approximately 14 people
Main products	• Syndicated loans • Bilateral loans • Treasury services • Trade finance
Main clients (sector)	• Non-bank financial institutions • Non-financial institutions • Banks
Main clients (geographical focus)	• Europe • North America • China • Asia excl. China

Our classification not only highlights the unique multidimensionality of Luxembourg's corporate banking landscape – with a vast array of specialisations, products, and services – but also points to the strength of the financial and legal ecosystem to support such diversity and internationalisation. It also suggests that by taking active measures to explore emerging opportunities and curb imminent threats, Luxembourg has a real chance to grow its corporate banking segment to behemoth status.

1.3 Corporate Banks are optimistic about the future

Our survey results generally indicated an increasingly optimistic outlook by corporate banks in Luxembourg. Having secured consistent revenue and profit growth in the past – mainly through their financing solutions – banks are getting ready to lock in further future gains and would rely heavily on their financing products. In line with this focus, 90% and 65% of our respondents are looking to expand their interest and fee-based businesses respectively (c.f. exhibit 13). This course of action is also buttressed by recent inflationary pressures, which allow banks to increase both their interest and fee-based businesses.

Exhibit 13: Corporate Banks' priorities for the coming three years



Source: ABBL Corporate Banking Survey Results

Apart from their strong growth prospects, banks' optimism is also underscored by widespread recognition of the possible opportunities available through increased innovation. While the COVID-19 crisis undoubtedly played a role in accelerating this paradigm shift, it also reflects banks' willingness to keep pace with the changes required to adapt to consumers' evolving needs. Accordingly, more and more banks are planning to enhance innovation within their businesses, with 81% of them prioritising it as a greater means to achieve competitive advantages than cost structuring (46%) in the coming years (c.f. exhibit 14). As it stands, the majority of banks' plan to focus their innovative efforts on their capital markets and lending business (71%), given the importance of financing products in their corporate banking business. Moreover, given that increased innovation is inherently linked to technological advances, 70% of corporate banks also plan to double down on their digitalisation efforts.

Exhibit 14: Corporate Banks' strategy for achieving competitive advantage

How do you plan to achieve competitive advantage?

81%	Innovation
46%	Cost restructuring
8%	Other

What will be the main area of focus for your innovation strategy?*

Captial markets and lending activities	71%
Sustainable finance	67%
Customer experience	57%

*This is a multiple-choice question, hence, respondents are allowed to choose more than one answer
Source: ABBL Corporate Banking Survey Results

It is now clearer than before that there is a need for banks to embark on a journey of true and total transformation, without which it would be impossible to reap all the aforementioned benefits that undergird their future outlook.

2

Setting out banks' transformation journey

Corporate Banks are increasingly showing immense drive towards innovation, anticipating challenges to their efforts and taking steps to mitigate them. In this context, they have identified certain key themes to be pivotal to their transformation journey in the coming years. Specifically, sustainable finance, technology and attracting the right talent have been deemed by corporate banks to play a key role in their continuous innovation efforts and organisational development.

2.1 Sustainable Finance is on the rise

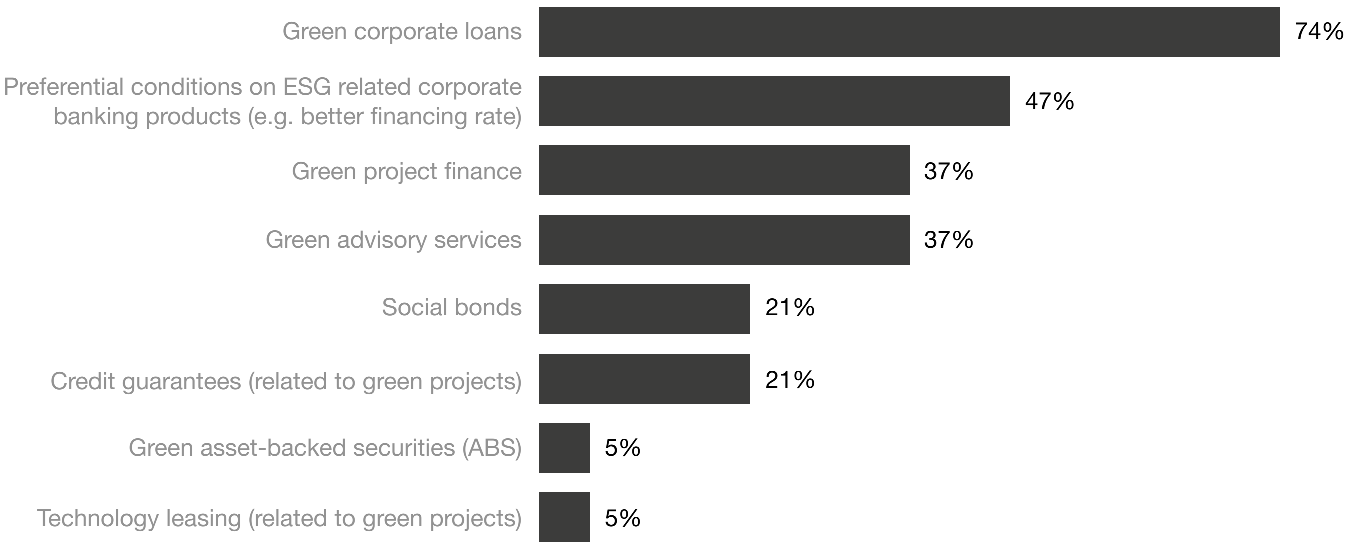
Sustainable Finance is increasingly becoming well entrenched within the corporate banking landscape. Already, Luxembourg has been making inroads within the sustainable finance realm through its Luxembourg Green Exchange, which boasts almost half of global listed green bonds and more than half of sustainability and social bonds, as well as its Sustainable Finance Roadmap which was initiated in 2018 to contribute towards the Agenda 2030 and the goals of the Paris Agreement. In more recent times, the country has also introduced reduced subscription tax rates (Taxe d'abonnement) for investments in sustainable activities and – in line with its Integrated National Energy and Climate Plan – carbon tax was raised from EUR 20 to EUR 25 in January 2022 and could increase further up to EUR 30 in 2023[3]. The country's leadership role in the realm of sustainable finance also accounts for the significant role it played in the COP26, contributing immensely to various discussions on how to further the mobilisation of private capital to fight climate change[4].

Apart from these government and regulatory initiatives, recent societal shifts and market evolutions have also seen a massive pick-up in sustainable finance solutions that is expected to accelerate further, driven largely by increased client demand and regulation. This increased demand underpins corporate banks' response, both in financing clients' sustainability initiatives, and ensuring that funds are committed towards meeting the sustainability objectives agreed on.

With financing being a key part of corporate banks' activities, it is not surprising that green corporate loans, green project finance, and social bonds ranked as part of the top products and services offered by 74%, 37%, and 21% of our respondents respectively (c.f. exhibit 15). As the momentum for sustainability and ESG ramps up across Europe and various corporates' demand for sustainable financing surges, these figures are expected to soar – and corporate banks have a unique role to play in this transition. In this context, they would have to adapt their product and service offerings, as well as strategies for financing and additional funding, to meet the needs of corporations who are increasingly moving towards a more sustainable way of doing business and who are keen on playing key roles in the low carbon transition agenda of the EU. Luxembourg's range of sustainable finance initiatives already positions it strongly in this respect, enabling its corporate banks to cope with the ever-changing demands of their clients.

3 https://today.rtl.lu/news/luxembourg/a/1815526.html
4 https://washington.mae.lu/en/actualites/2021/COP26.html

Exhibit 15: Types of ESG products and services offered to clients

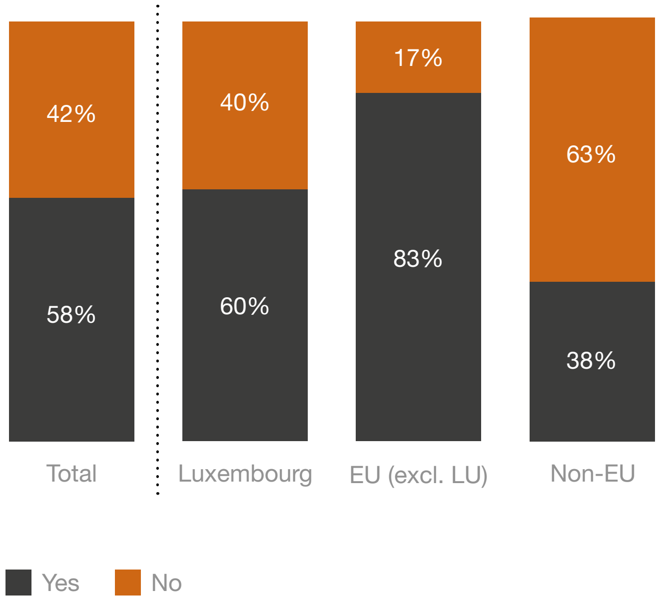


Source: ABBL Corporate Banking Survey Results

The efforts of corporate banks in the sustainable finance realm have not been solely limited to product roll-outs. To further boost the redirection of capital flows into sustainable projects, 53% of the banks also offer preferential conditions such as more favourable rates on sustainability linked loans, and 37% are committed to extending sustainability and ESG awareness among corporate clients by providing green advisory services. In the coming years, we are likely to see an expanded range of sustainable products and services, given that 67% of the corporate banks in our survey expressed their commitment to improving and further integrating sustainability within their strategy.

That being said, while corporate banks seem to be making extensive progress in terms of products and services, there is still room for improvement in other areas. At the moment, only 58% of corporate banks apply any sustainability criteria to their lending processes. EU banks account for 83% of this figure – which is not surprising given the growing sustainability momentum in the EU – while non-EU banks account for only 38% (c.f. exhibit 16).

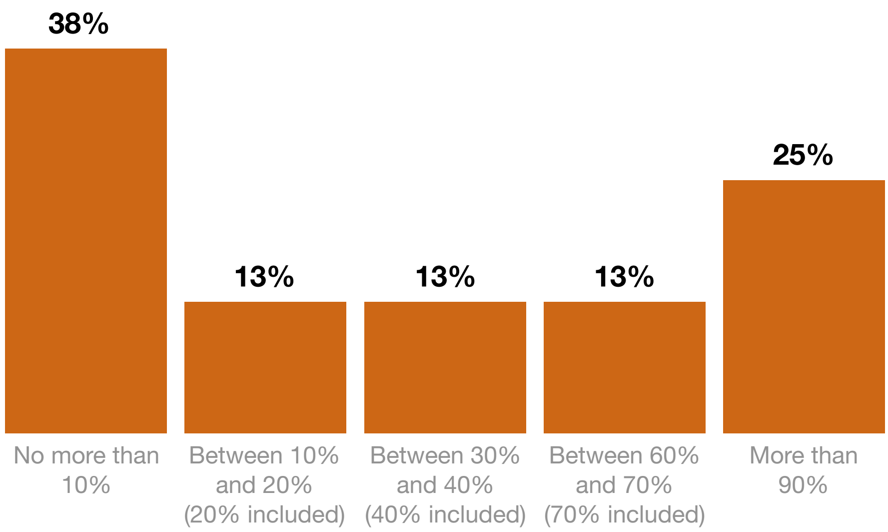
Exhibit 16: Does your institution apply any ESG criteria to its lending process?



Source: ABBL Corporate Banking Survey Results

Similarly, the incorporation of sustainability/ESG criteria in new lending/investment assets has not been prioritised by many banks. 51% of our survey respondents stated that they apply sustainability criteria to less than 20% of their new lending/investment assets, with local banks, in particular, doing so for less than 10% of their assets (c.f. exhibit 17). For those – predominantly EU banks – that apply sustainability criteria to more than 50% of their assets, the figure stands at a meagre 38%. Meanwhile, among non-EU banks, this internal sustainability focus on lending processes is almost non-existent or extremely limited.

Exhibit 17: What percentage of your institution's total new lending/ investment assets do you apply ESG criteria?



Source: ABBL Corporate Banking Survey Results

These disparities clearly indicate that total ESG integration for corporate banks in Luxembourg is still a long way ahead and may be partly attributable to the lack of a harmonised ESG criteria, as well as the related regulatory costs which still constitute a formidable challenge. Apart from this, the lack of awareness by some banks of existing criteria – in the first place – and how they can even apply them, also accounts for this, impacting their capacity to advise clients who demand these services.

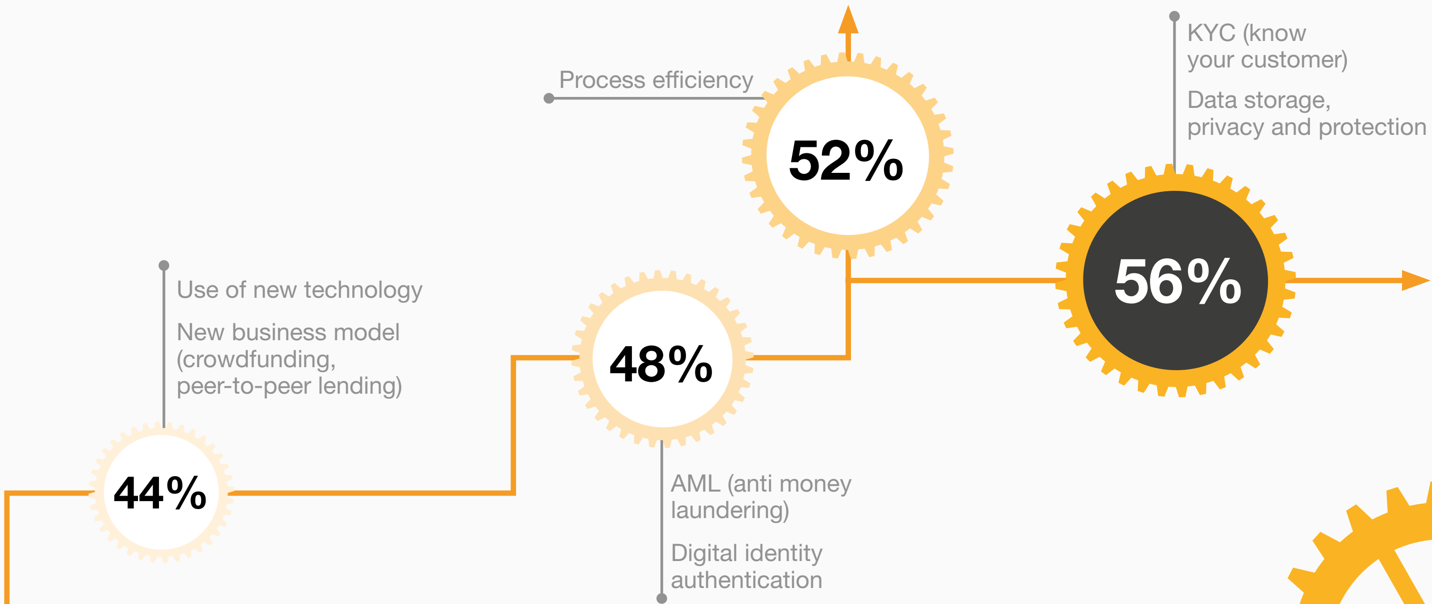
The lack of harmonisation in existing sustainability/ ESG criteria could also possibly explain why for the banks that do apply any sustainability criteria to their lending processes, 67% apply internally developed criteria while only 33% apply the EU Taxonomy. In this context, innovative efforts to improve the uniformity and accessibility of ESG data would be vital to increasing wider adoption of the EU taxonomy, for instance, and could help to materially boost corporate banks' share of sustainable investment assets.

2.2 Embracing technology is key to improving client's experience

Among other things, the COVID-19 crisis has highlighted the transformational power of technology both in terms of banks' operations and customer engagement. These technological changes have seen an increase in bank clients' demand for efficient and tailor-made corporate banking services that best serve their interests.

Consequently, banks are increasingly realising the need to focus on technology that can transform their clients' overall experience, striving for real-time monitoring of cash-flows or enhanced flexibility in response to changes within the landscape. According to our respondents, KYC (56%), process efficiency (56%), data storage privacy (52%), and AML (48%), are the areas that will be mainly impacted by technologies (c.f. exhibit 18). A deeper dive also showed that the impact of new business models (63%) and digital identity authentication (63%) also hold significant relevance for local banks, while EU banks are more concerned about KYC(63%) data storage (63%), and Anti-Money Laundering (63%). For non-EU banks, in addition to KYC (73%) and data storage (64%), process efficiency was also top-of-mind (73%).

Exhibit 18: Areas in which technology will have the strongest impact



Source: ABBL Corporate Banking Survey Results

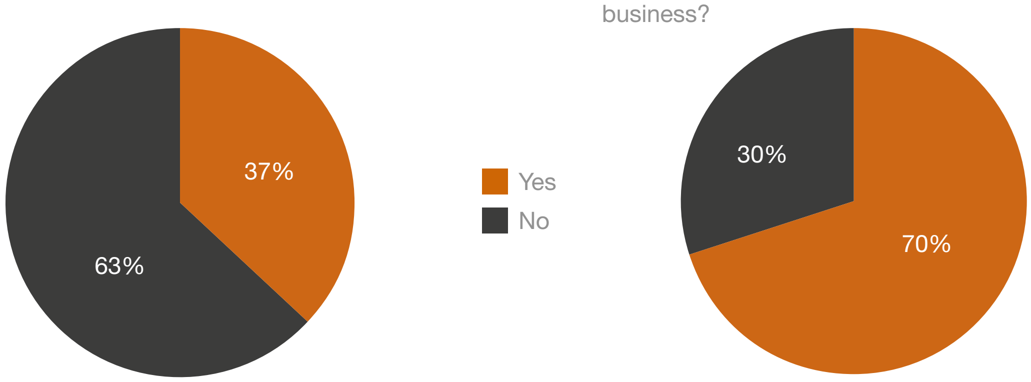
These responses are reflective of banks' growing awareness of the implementation and compliance cost advantages that stand to be gained from the use of technology in these highly regulated areas. Further, for areas like KYC that are heavily data-driven, a broader adoption of technological tools becomes imperative for efficient data processing and analysis, and emerging technologies like blockchain and Distributed Ledger Technology (DLT) offer immense benefits in enhancing process efficiency, data storage and AML. In fact, according to PwC's 2020 BlockChain report "Time for Trust"[5], blockchain could be useful in streamlining and automating processes while reducing the probability of human error and oversight.

Even with this broad consensus on the necessity of technological transformation, there still appears to be a huge disconnect in banks' acceptance and use of fintech. This disparity cuts across all the three banking segments, and is highlighted by the fact that while 70% of banks believe that collaborating with FinTech companies would be a future requirement for corporate banking businesses, only 37% collaborate with a FinTech company – despite the perceived benefits of such partnerships (c.f. exhibit 19).

Exhibit 19: To what extent do Corporate Banks use and/or collaborate with Fintech companies

Do you own or collaborate with a Fintech company?

Do you believe that acquiring or collaboration with a Fintech will become a future requirement for corporate banking business?



Source: ABBL Corporate Banking Survey Results

As banks continuously look for ways to innovate, they would have to place a stronger focus on the impact of technological evolution, and deeper connections with experts in the field would be key to bank's ability to harness technology to better serve the ever changing needs of their clients. Increased collaboration with Fintech companies would have to transcend the group level, where it exists at the moment for some EU and non-EU corporate banks, to the branch and even subsidiary levels that operate within Luxembourg. In this context, the emergence of a thriving network of fintech, regtech, and other innovative companies that are linked to financial services could certainly support Luxembourg's corporate banks. In order for this to materialise, however, banks also need to address the low willingness of fintech firms to partner with them for fear of potential acquisitions. They would need to be more proactive in offering mutually beneficial partnerships with such firms in order to increase their attractiveness. By capitalising on their willingness to innovate and their growing optimism about the future, banks could then leverage such collaborations to increase their value-add exponentially.

5 https://www.pwc.lu/en/ceo-agenda/ceosurvey-lux-2021.html

2.3 A new type of corporate banker is needed

The digital and societal shifts that have impacted the banking sector have all made it clear that a new type of corporate banker is needed as the sector evolves – one that is not only technically skilled but also digitally savvy. Specifically, our respondents identified Regulatory skills (56%), Conceptual skills (56%) and Digital thinking skills (48%) as the most urgent skills needed to enhance Luxembourg's corporate banking competitiveness (c.f. exhibit 20).

Exhibit 20: Essential Skills/Competencies to remain competitive in Corporate Banking

56%	Regulatory skills
56%	Conceptual skills - Problem solving skills
48%	Digital thinking skills
30%	Sales skills
22%	Data science skills
19%	Entrepreneurial skills
19%	Agility skills
11%	Communication skills

Source: ABBL Corporate Banking Survey Results

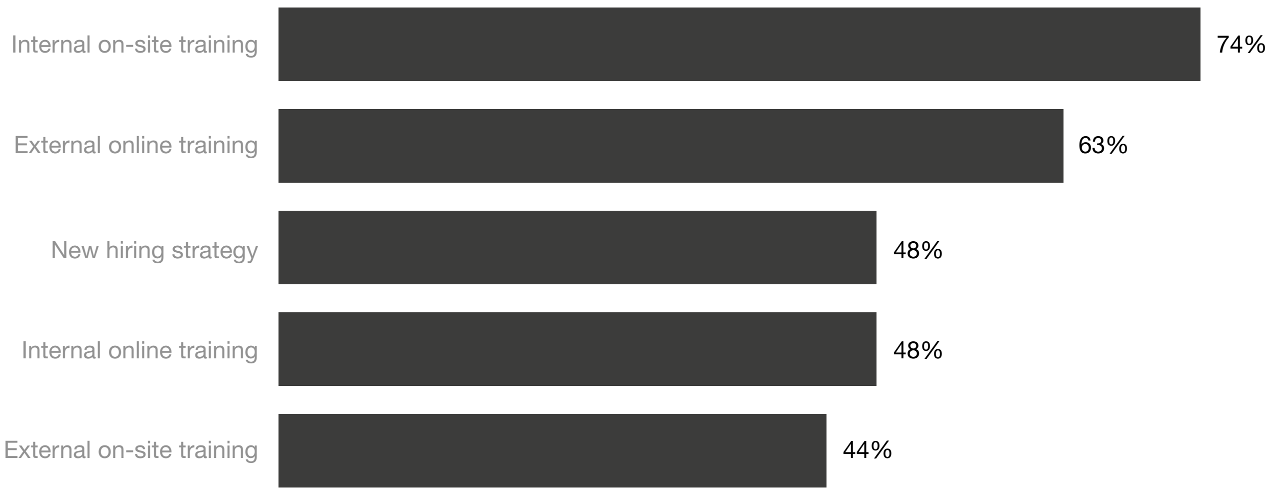
EU banks particularly deemed regulatory skills to be most relevant (63%) – which comes as no surprise given the increasingly stringent regulatory environment in the EU – while local banks gave equal consideration to regulatory (50%) and conceptual skills (50%). Non-EU banks, on the other hand, placed greater weight on conceptual skills (64%) and digital thinking skills (55%), and less focus on the regulatory environment, which is possibly due to the fact that they deal mainly with multinational corporations and firms that are not heavily impacted by or directly subject to EU regulations.

As data breaches become prevalent and privacy concerns intensify, regulatory and compliance requirements are becoming more restrictive as a result, and upcoming ESG regulations are introducing a further layer of complexity. Thus, familiarity with regulatory requirements would ensure that bankers are up to date in their operations and management, in terms of compliance.

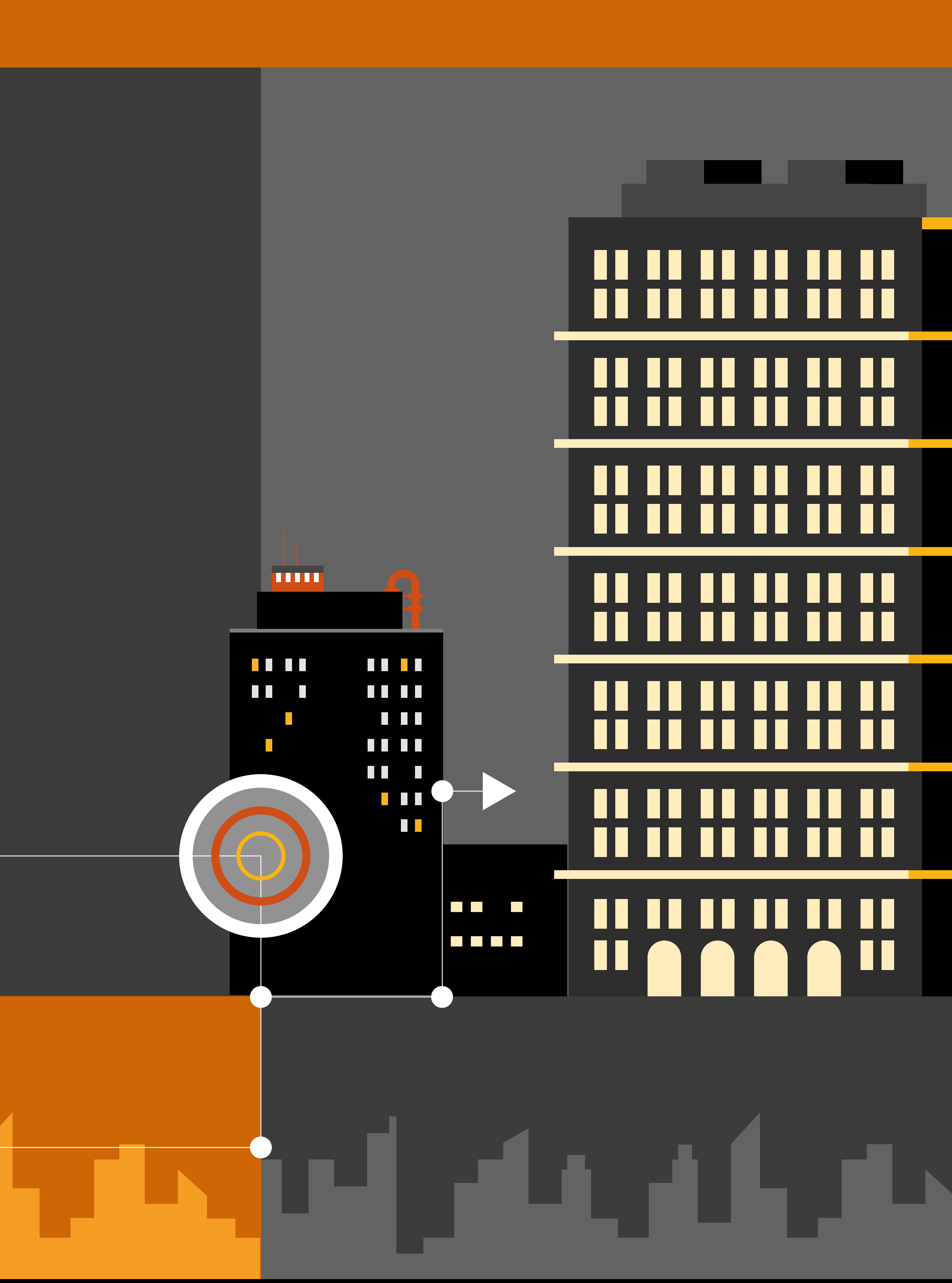
Digital thinking skills would also help corporate bankers better understand their business in the context of accelerated technological development. It is important to mention, however, that this new landscape does not necessarily require banks to suddenly become technological experts at the expense of their core business of banking. Rather, it calls for increased recruitment of or partnerships with technological experts who would act as market enablers, allowing corporate banks to focus on their core business activities while simultaneously ramping up the technological capacities that facilitate their operations. For non-EU banks especially, this would be necessary to better navigate their more inter-regional business approach.

Banks also recognise the severe dearth of talents that the sector currently needs to maintain competitiveness in the emerging landscape, and almost all of them are already on the path to remodeling the definition of corporate banking and unveiling the new corporate banker. Through a mix of internal and external training both on-site and online, corporate banks are taking measures to upskill current employees. In fact, approximately three-quarters of banks in all three segments were seen to prioritise internal on-site training, while 91% of non-EU banks also find real value in external online training. Banks' confidence in the adaptability of their staff to technological changes may be an underlying factor for this initiative, with 74% of respondents believing that their employees are willing to embrace digitalisation. Non-EU banks (82%) demonstrated the highest level of confidence – which possibly underscores their focus on digital thinking skills, followed by local banks (75%) and then EU banks (63%). When it comes to hiring practises, 48% of corporate banks are increasingly realising the need to adopt new ones if they are to acquire and retain already digitally skilled talent (c.f. exhibit 21). Local banks are at the forefront of this shift in recruitment strategy, accounting for half of this figure.

Exhibit 21: What human capital strategy have you implemented to acquire/retain skilled employees?



Source: ABBL Corporate Banking Survey Results



3

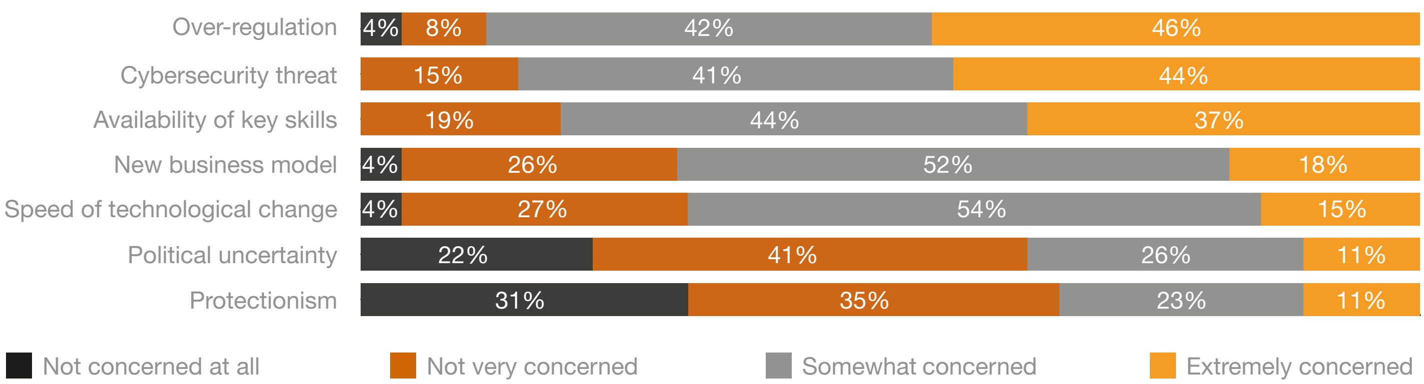
Building a bright future for Corporate Banks

Despite their immense growth prospects and a relatively clear assessment of what is needed to strongly position the sector at both regional and global levels, a number of structural challenges still hinder corporate banks in Luxembourg and pose a barrier to the country's attractiveness to other EU and non-EU banks. In this section, we identify these challenges and point out some initiatives that could not only help banks to address them, but also foster a greater influx of global players in the coming years.

3.1 Overregulation poses the greatest challenge to banks' growth and innovation…

As anticipated, over-regulation was cited as the most common threat to corporate banks, with 88% of our respondents voicing concerns about it (c.f. exhibit 22). In some instances, the inadequacy of harmonised EU-level regulations also added on to this challenge, as it resulted in banks having to navigate additional layers of local regulations with cost increasing impacts. EU banks were the most concerned (100%) – given the direct impact of the insufficient bloc-wide regulations on their business, followed by local banks (86%) and non-EU banks (82%)[6]. This concern about the restrictive impacts of overregulation is not unique to corporate banks. In fact, according to PwC's 2021 CEO survey[7], 63% of Luxembourg's CEOs across various economic sectors believe overregulation to be the greatest threat to the growth of their organisation.

Exhibit 22: Main areas of concern for Corporate Banks



Source: ABBL Corporate Banking Survey Results

6 Answers for this question were ranked by the sum of "Somewhat concerned" and "Extremely concerned". Respondents were also allowed to choose multiple answers.
7 https://www.pwc.lu/en/ceo-agenda/ceosurvey-lux-2021.html

That being said, for corporate banks, over-regulation is a two-sided coin that presents both challenges and opportunities. On one hand, the increase in compliance, restructuring, and implementation costs – all of which are knock-on effects of over-regulation – are taking a toll on profitability, especially since the fallout from externalising these costs to clients is often greater. Moreover, with the emergence of fintech and non-bank start-ups as viable alternatives to traditional financial services, overregulation is decreasing banks' competitiveness with these companies by acting as a barrier to potential banking innovation. Further, it is also reducing banks' attractiveness to new talent and in some cases, clients, who are in search of more dynamic business environments. This makes it imperative for regulators to consider not only immediate impacts but also the long-term effects of excess regulation on the internal workings of the sector.

On the other hand, some of the regulations that are enacted at an EU-level provide opportunities that banks can explore in order to be more efficient in implementation. A good example would be the EU Securitisation Regulation of 2017, which set out a framework for simple, transparent and standardised securitisation within the EU. This regulation allows banks to transfer part of their risk exposure to institutional investors, thereby freeing up part of their capital to generate new lending[8]. In this context, corporate banks in Luxembourg largely agree that implementing the EU directive has been too slow. Nevertheless, the Draft Law voted in February 2022 modernizing the 2004 securitisation law has been very welcome by the industry, allowing active management of securitisation vehicles, introducing more flexibility for refinancing of transactions, and enlarging the options of legal forms among the key modifications[9].

Luxembourg can thus establish itself as a "global hub" by finding a delicate balance when it comes to regulations. This balance would ensure that banks' clients are fully protected, and this is a vital element that makes Luxembourg attractive for the clients; without totally pushing the cost limits of the banks. Moreover, by considering the connection between regulations and product innovation, further developments to streamline certain administrative regulations could be undertaken.

3.2 …followed by cybersecurity threats and the availability of key skills

If digitalisation is at the core of Luxembourg's strategy for maintaining economic competitiveness, cybersecurity is its cornerstone. In fact, the country is strongly placed at the forefront of Europe's cybersecurity efforts, ranking 13th in the 2020 Global Cybersecurity Index[10]. Despite this, the increasing number of cyber-attacks, especially in the financial sector, has reasonably given rise to concerns about cybersecurity. Estimates by a major insurance company show[11] that cyber-attacks in the financial sector have increased by 238% since the onset of the COVID-19 pandemic, largely due to the increase in remote working and electronic trading. It comes as no surprise then, that besides over-regulation, cybersecurity was also highlighted as a key concern by 85% of respondents, with local (88%) and EU banks (88%) expressing the strongest sentiments on this issue.

8 https://ec.europa.eu/commission/presscorner/detail/es/MEMO_15_5733
9 https://www.pwc.lu/en/newsletter/2022/new-luxembourg-securitisation-law.html
10 https://www.tradeandinvest.lu/news/5-things-to-know-about-cybersecurity-in-luxembourg/
11 https://www.agcs.allianz.com/news-and-insights/expert-risk-articles/financial-services-risk-cyber.html

These high figures strongly suggest that despite the progress by the Grand Duchy in this area – in terms of cybersecurity infrastructure and the presence of a thriving ecosystem that leverages collaboration between public and private bodies to provide customised cybersecurity solutions – much ground remains to be covered within the financial sector especially. Enhanced collaboration between banks and tech/cybersecurity firms could help to bridge this coverage gap.

Similar to cybersecurity, 88% of both local and EU banks expressed difficulties with recruiting people with the right skills, while overall, the issue ranked as a key concern for 81% of respondents. This sentiment is re-echoed by the fact that only 19% of our respondents considered Luxembourg's human capital to be of any strategic advantage to the financial centre. Given the differences in the business focus of corporate banks in Luxembourg, many of these difficulties are linked to the costs of finding and retaining the people with the right skill sets to meet this demand for specialised competencies. In this context, banks need to take a closer look at their current hiring, training and upskilling policies in order to find out which aspects can be improved or expanded. Further, they should consider integrating these policies within the core of their workforce strategy. By taking active measures to address what banks themselves describe as a "scarcity of talent", they would be able to re-invent themselves and overall, enhance the Grand Duchy's value proposition as a centre of excellence for corporate banking. Nevertheless, banks are not the only ones with a role to play in this respect, policymakers would also have to look at ways to foster an attractive environment for talents in the corporate banking sector. This would involve a reassessment of the key skills that are needed, costs of labour in Luxembourg, the relative attractiveness of the financial services sector compared to other sectors, and the overall image of the country.

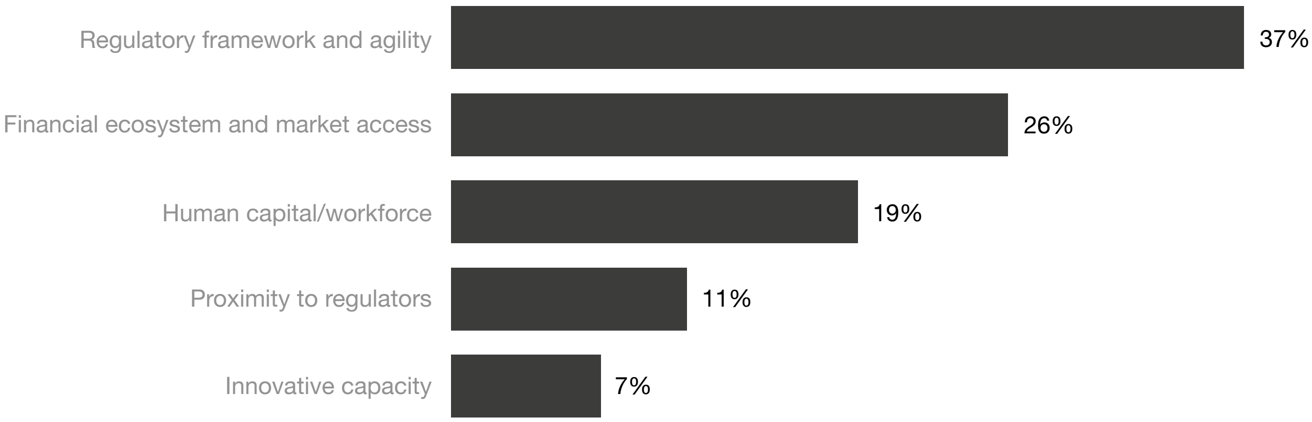
3.3 Uncovering the Jewel of Luxembourg's Financial Centre

After assessing the growth prospects, strengths, and challenges of Luxembourg's corporate banking sector, it becomes imperative to outline the areas in which the country is doing well as well as those where improvements are required. In order to continuously make progress, it would require not only the efforts of the banks but also those of the government and other regulatory bodies. This would ultimately boost the attractiveness of Luxembourg, enhancing its ranking on the competitiveness scale and drawing the attention of the largest and the best industry players.

Luxembourg's regulatory structure stands out ...

37% of the corporate banks in our survey believe that Luxembourg's strategic advantage lies in its regulatory framework and agility (c.f. exhibit 23). This was particularly the case for the non-EU segment, which made up 55% of this figure, providing further evidence that non-EU banks do not necessarily consider regulation as cause for concern to the extent that local and EU banks do. Meanwhile, EU banks appear to be more drawn by Luxembourg's thriving financial ecosystem and market access, with the segment making up 38% of the respondents who considered this to be the country's USP in terms of corporate banking (26%).

Exhibit 23: Luxembourg's most important USPs in terms of Corporate Banking



Source: ABBL Corporate Banking Survey Results

As a global financial centre, Luxembourg's favourable business environment is widely acknowledged. Further evidence of this is provided by the 2021 Global Financial Centres Index, which ranked Luxembourg as the 4th dominant financial centre in the world based on its economic, regulatory, political and legal metrics[12]. These factors have accounted for and continue to account for the high level of internationalisation of Luxembourg's financial centre.

Most of the respondents also agreed that the proximity to the regulator was beneficial in terms of fostering engagements and reducing bottlenecks in decision making – even though only 11% considered it to be a formidable feature of the Luxembourg financial centre. A few, however, expressed concerns about the risk of regulatory interference in day-to-day operations posed by this closeness to the regulator. This calls for a delicate balancing act on the part of the regulator, ensuring that the system remains as robust and efficient as possible while adopting a more supervisory approach to their oversight responsibilities and less direct involvement in firms' decision making.

12 https://www.tradeandinvest.lu/news/luxembourg-among-the-top-10-financial-centres-in-the-world/

…but innovation holds strong competitive merits for the future of corporate banking

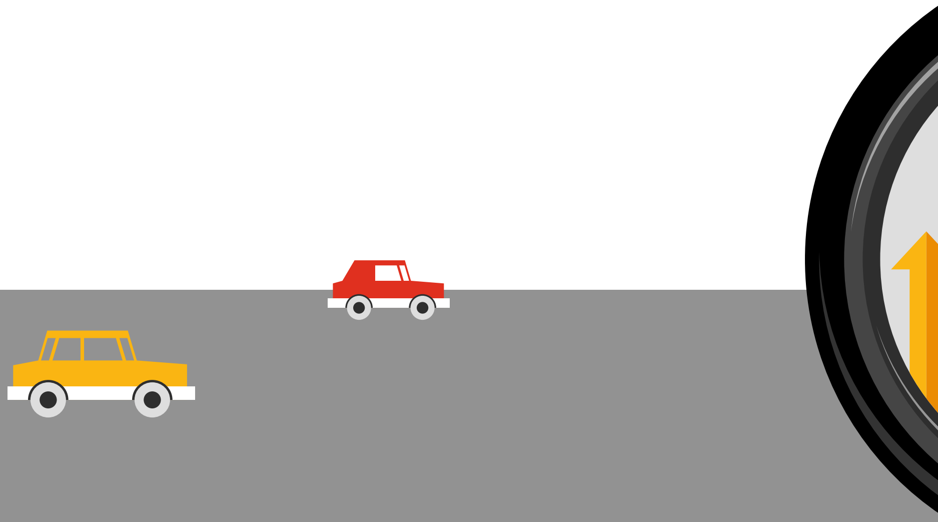
When it comes to innovation, only 7% of corporate banks in Luxembourg believe it has any role to play in attracting more industry players. Local banks believe this more than others, representing 25% of banks who share this view, while Non-EU and EU banks represent 18% and 13% respectively. Overall, these low figures significantly reinforce the gap between banks' acknowledgement of the need for increased innovation and the actual efforts to boost innovation in the sector.

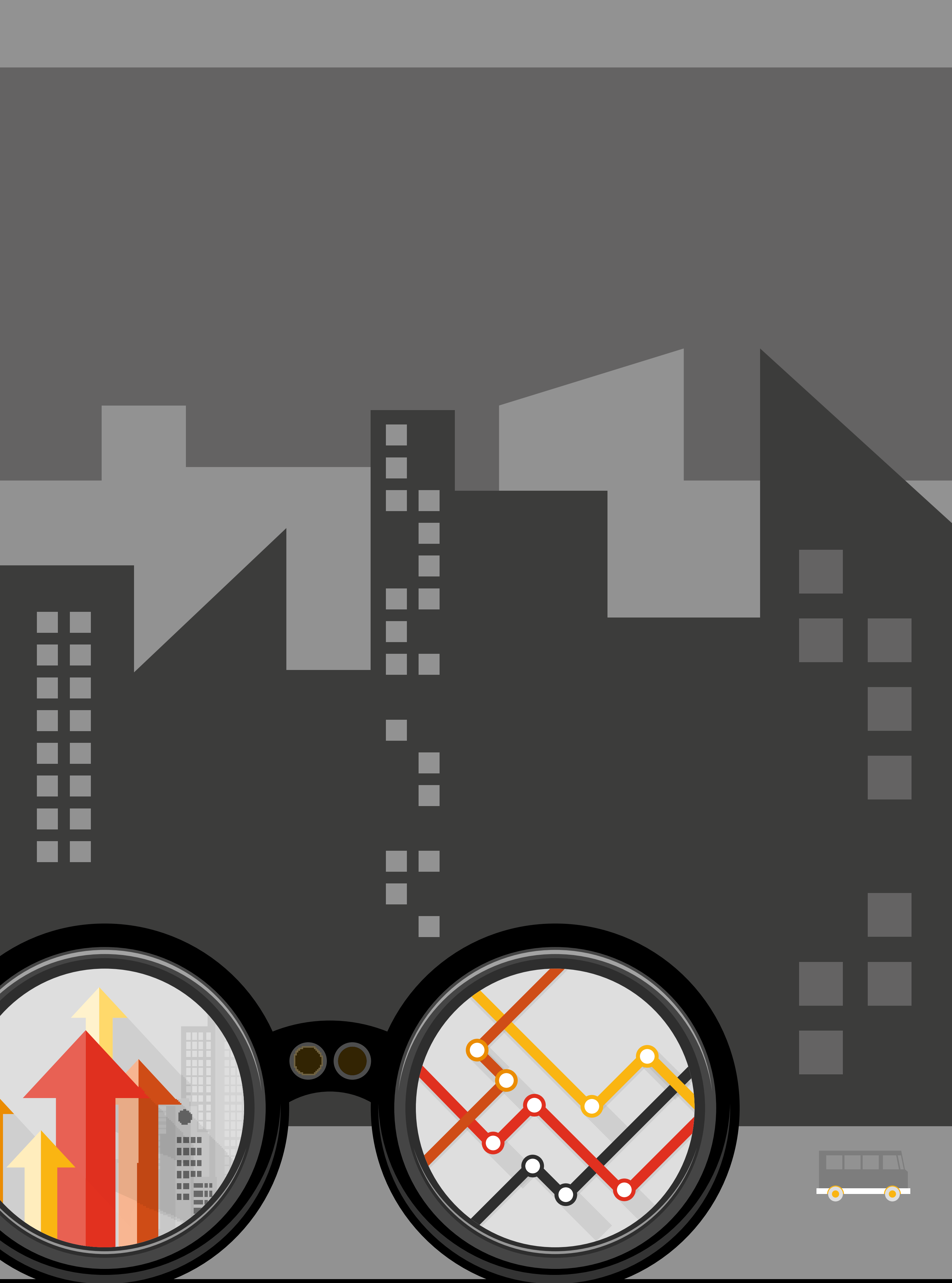
The urgency to address this ever-widening innovation gap is underscored by the fact that innovation is atop banks' priorities in the coming years, with 81% of corporate banks stating that innovation will be a greater means than cost restructuring (46%) to achieve competitive advantage. This is a strong indicator and, more than anything, represents banks' willingness to spare no resources in enhancing their competitiveness instead of taking a more prudent/conservative approach. We thus expect to see expansive innovation in capital market activities and sustainable finance especially, while other areas such as improved customer experience, AI and payment solutions will allow banks to better serve the changing needs of their customers amid the challenges of the environment.

Already, Luxembourg is favourably placed in some of these areas, as they represent the core business of most of its corporate banks, but increased investments will help to strengthen this position. Further and greater collaboration with fintech firms would also be beneficial in this respect, as it would allow banks to draw on fintech expertise to effectively assess and determine how best emerging technologies can serve them.

There are also advantages to be gained from increased public-private partnerships in boosting innovation in the corporate banking segment. Given the cost burdens and, in some cases, the difficulties associated with gaining access to the right partners, government-initiated alliances could play a key role in this context; matching corporate banks' needs with the appropriate fintech companies. Ultimately, increased innovation does not only stand to enhance banks' operational efficiency but could lead to several new products and services, translating into a larger influx of multinational clients looking to Luxembourg to meet their corporate banking needs.

The Luxembourg hub is undoubtedly fit for purpose in many segments of the financial services industry – which is why it has thus far managed to attract both regional and global players to its dynamic financial ecosystem. However, if the Grand Duchy is to rise to the pinnacle of success as a corporate banking hub, it would have to shift from merely being responsive to the challenges of the day to actively anticipating and confronting potential changes even before they arise. Then and only then can the jewel of the Luxembourg financial centre become entirely uncovered to reveal the full extent of the immense value it holds for banks and the financial services sector overall.





Conclusion

The ABBL Corporate Banking Survey 2022, which the ABBL initiated and conducted in collaboration with PwC and support from the CSSF and LFF, aimed to collate answers from CEOs and CFOs of corporate banks in Luxembourg. The objective was to assess the sector, identify current and future challenges and opportunities, as well as map out a clear path for enhancing Luxembourg's competitiveness in this banking segment.

The **ABBL Corporate Banking Survey 2022** aptly showed that Luxembourg indeed boasts a truly international corporate banking landscape. Compared to other countries where corporate banks only serve domestic businesses, what we see in the Grand-Duchy is a unique network of corporate banks from various countries, serving both local and – to a large extent – international companies in both the financial and non-financial sectors. Indeed, Luxembourg appears to be an EU hub, albeit limited in its global footprint.

Amid the plethora of banks and business models that were surveyed, three distinct segments were identified namely: the local banks which mainly serve a diverse set of local companies in financing and cash management services, EU banks which provide financing solutions to European NBFIs and multinational corporations, and non-EU banks which meet the financing and trade finance needs of non-EU companies for their operations across Europe. Collectively, these banks generate almost EUR 2.5bn in revenues and contribute significantly to overall employment in the banking sector – with 37 workers on average dedicated to corporate banking activities.

This survey unveiled the growing optimism in the corporate banking segment, as well as the wide and increasing recognition of the significance of innovation and digital transformation. Consequently, we are seeing many banks on the brink of a total transformation journey, marked by a focus on sustainability, digitalisation, and acquiring the right talent. Another key finding is the fact that while Luxembourg's regulatory ecosystem strongly positions it as a global hub, issues with over-regulation and cybersecurity remain to be addressed if the country is to continue to attract and maintain more global players in corporate banking.

Finally, the results emphasise the need for greater innovation, and highlight how not only banks, but government and regulatory bodies can help to drive this paradigm shift within the corporate banking landscape. The materialisation of this scenario could not only lead to increased operational efficiency, new products and services, but is set to boost Luxembourg's overall competitiveness as a global hub for one of the most profitable banking segments.

Methodology

In order to uncover the Jewel of Luxembourg's banking industry, the ABBL, in cooperation with the CSSF, LFF and PwC Luxembourg, conducted the ABBL Corporate Banking Survey 2022. The ABBL Corporate Banking Survey was an invitation-only survey comprising an online qualitative questionnaire for CEOs and a set of quantitative questions addressed to CFOs of the banks. In addition, a series of virtual or field interviews were organised with those banks.

PwC Luxembourg used statistical software to run a granular analysis based on 29 usable responses and to deep dive into the 3 segments of corporate banks classified by their geographical origin. In this way, we are able to identify the status quo as well as the challenges and opportunities for banks and their customers. We were also able to discover the most relevant trends for corporate banking in Luxembourg and highlight the "USPs" of Luxembourg as a financial centre

A Note on the sample

While the CSSF initially addressed the survey to all banks in Luxembourg, the responses led to the identification of 44 banks actively engaged in corporate banking activities – out of which 29 participated, resulting in a response rate of 66%.

Luxembourg banks represented 28% of all our respondents, while EU and non-EU banks represented 31% and 41% respectively – a distribution which attests strongly to Luxembourg as an attractive financial centre for banks all over the world.

The diverse backgrounds of the survey respondents provide a holistic depiction of Luxembourg's corporate banking landscape and allow us to draw more representative conclusions about the local market.

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