Banking in Luxembourg

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Yves Maas
Chairman of The Luxembourg
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The banking and financial world has experienced major changes over the past 10 years. An ongoing tide of new regulation has had a deep impact on banks' structure and operating models, customer relationships and employment in the sector.

What is evident is that the European banking landscape is no longer the same as before the crisis. The banking market has consolidated and continues to do so. Challenges remain such as the impact of the monetary policy compressing interest margins and significantly lowering revenues. Pressure on costs is still obliging banks to review their business models and adapt to tighter budgets. In response, many institutions have simplified their structure, created a central European hub and brought key skills and the management of certain businesses together within centres of expertise that serve European or global networks.

This trend of constant change is far from over. Today, technological change and the emergence of new players will play a greater role in shaking up the financial world. With the entry into force of the second Payment Services Directive, providers of innovative products and services will come in to disrupt the banking and financial environment as it exists today.

To remain in the financial centre's Champion League, banks must continue to constantly develop and axe their strategy on innovation, transformation and investments in digital solutions. Members of the country's financial ecosystem need to maintain and extend their efforts of adaptation to a new technological environment in continuous evolution if the sector is to survive and thrive in the long term.

Our employees are key in this process of change. We need to adapt their skills to match today's new reality with the need to resolve new challenges, imagine innovative solutions, work in internal as well as external teams. The capacity to learn new topics will be essential.

We banks must plan ahead and take decisions that are sometimes painful. The ABBL will continue to encourage this process and help its members tackle the challenges and seize the opportunities.

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Foreword

Roxane Haas
Banking Leader

The Luxembourg financial centre has established its reputation as an international banking place since the 1960s and has been able to remain at the top among all financial centres across the world thanks to its resilience and ability to rapidly comply with new regulations.

However, for a few years now, the global financial industry has been facing drastic changes and Luxembourg has definitely not been spared by this revolution. New technologies leading to evolving and fast changing customer behaviours as well as the arrival of new market entrants attracted by this favourable environment have turned the Luxembourg banking landscape upside down. Traditional banks are forced to rethink the way they interact with their customers, which is leading to a new generation of service offerings.

The need to keep control over costs and compliance matters has never been so crucial. Defining new target operating models, adapting to a new operating environment or revamping existing procedures or processes, as well as reconsidering IT infrastructure, systems and applications are permanent challenges for banks operating in Luxembourg. The questions and issues encountered during such exercises are multidimensional and wide ranging.

Throughout this publication, we will explain how FinTech, Blockchain and Cryptocurrencies, as well as Robotics and Artificial Intelligence are reshaping the banking industry. Regulatory pressure - partially - linked to these new players or tools is higher than ever before; GDPR and PSD2 among others will have a tremendous impact on banks in Luxembourg. Data and security are definitively as well at the heart of all current concerns.

This dynamic environment is profitable for all players within financial services. On the one hand, FinTechs represent a real pool of disruption; they put pressure on banks to deploy better and faster products and services and then accelerate the pace of innovation but also provide a source of inspiration and capabilities through partnerships and acquisitions. On the other hand, the deployment of externalisation of some services represents an opportunity for banks to better invest in their product offerings and develop new activities.

At the same time, in a world shaped by technology and digitisation there is a crucial need to find the right people armed with the relevant skills to address all these topics. Today, Banks need to recruit profiles who did not even exist a few years ago and simultaneously consider a requalification in new areas of expertise for part of their workforce in order to support their own digital transformation.

Time has come now to embrace all these new challenges in order to transform them into business opportunities. At PwC, we are looking forward to supporting you through your transformation.

1 Luxembourg: a competitive financial centre

Luxembourg's financial services centre is unique. With its exceptional range of services, world-class financial infrastructure and expertise, the country's banking industry is competitive.

A fast growing and competitive economy

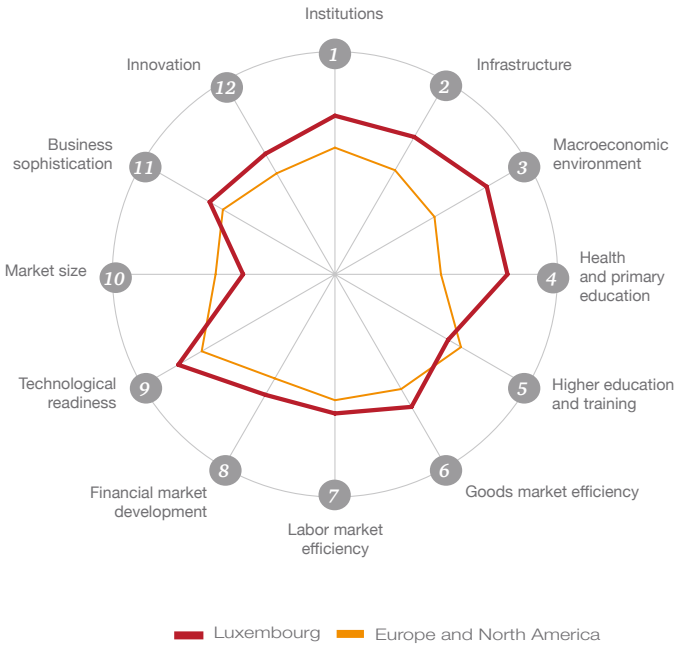
On top of a stable political environment and sound public finances, Luxembourg's main strength lies in its ability to adapt its economic strategies quickly. As the first EU country to adopt UCITS legislation into national law, in 1988, Luxembourg achieved a turning point in its history by becoming a major centre for investment funds in Europe and in the world. The Grand Duchy made the most of its expertise in the financial services, and quickly became a hub for banks.

Nowadays, the financial sector is the strongest component of the Luxembourg economy. Nevertheless, the country continues to diversify its economy by investing in niche markets, such as infrastructure and debt funds, logistics business, as well as technology through ICT (Information and Communications Technologies), data centers and also by supporting the local implementation of GAFAs.

Whereas the size of the Luxembourg workforce has almost doubled in 20 years, it has only increased by 20% over the same period in the rest of the EU.

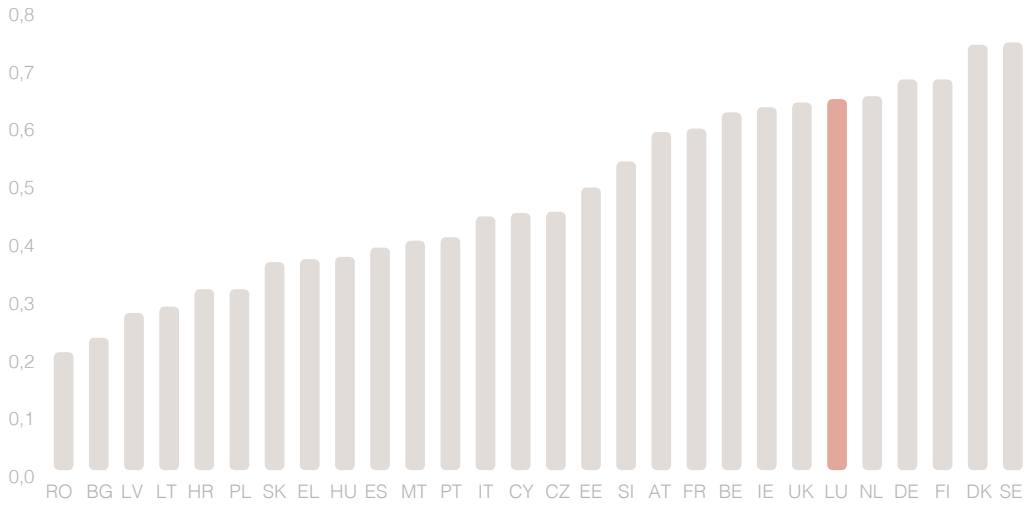
In the same vein, Luxembourg's GDP has more than tripled over the past 25 years, while the Euro zone GDP merely doubled.

Figure 1: *Competitiveness map in Luxembourg vs. Europe/North America*



Source: The Global Competitiveness Report 2017-2018, World Economic Forum

Figure 2: *EU member states' innovation performance*



Source: Innovation Union Scoreboard 2017

Luxembourg is continuing to attract major multinational groups, and encouraging them in developing their activities in the country.

"The Global Competitiveness Report 2017-2018" from the World Economic Forum confirms its competitiveness as Luxembourg is ranked 19th out of 137 countries again this year, 9th among European countries.

Luxembourg – a favourable business environment

1 Located at the crossroads of Europe
Luxembourg is ideally located within driving distance of the continent's major business centres.
An estimated 60% of the European Union's wealth is concentrated within a 700 km radius of Luxembourg.

2 An international and productive workforce
About 45%[1] of Luxembourg's workers are foreigners - most of them speak two or more languages.
Labour productivity in Luxembourg has been ranked in the Top 3 of European countries (EU28) for more than 10 years, according to Eurostat.

3 Healthy public finances and a stable political environment
Luxembourg has the second lowest debt to GDP ratio[2] in Europe (after Estonia) with 20%, and benefits from a AAA credit rating.
Luxembourg's political environment has been very stable for decades – ensuring continuity for business actors.

4 Expertise in managing cross-border operations and international distribution
40%[3] of European FDI headed for a destination outside of the EU passed through Luxembourg between 2013 and 2015.
Luxembourg offers a comprehensive range of wealth management solutions and structures.

5 Favourable taxation and regulatory frameworks
Luxembourg has over 81 double tax treaties with its international partners (and 16 under negociation).
Luxembourg also offers one of the lowest total tax rates[4] in Western Europe, according to the World Bank.

6 A state-of-the art ICT infrastructure
Luxembourg offers the latest technology in communication. 25% of all European Tier IV certified data centers (highest reliability level of data centers) are located in Luxembourg, ranking it in first position in terms of Tier IV density in Europe. The country is also ranked 1st for Technological Readiness worldwide by the World Economic Forum.

[1] Source: Statec
[2] Source: IMF
[3] Source: Eurostat
[4] Source: Paying Taxes 2018, PwC in conjunction with the World Bank

2 The financial marketplace: a global hub

With its unparalleled range of services, financial infrastructure and expertise, Luxembourg is a financial global hub. Despite the credit and liquidity crunch hitting global financial markets combined with an increasingly complex regulatory context, the local financial sector is still resilient, competitive and growing.

Luxembourg market dynamics

Luxembourg offers a wide range of financial products and services, combined with a constant innovation in financial solutions, including pension funds, hedge funds, real estate vehicles, securitisation vehicles and private equity, structures such as the "Société d'Investissement à Capital Risque"(SICAR) as well as Reserved Alternative Investment Fund (RAIF). All form the basis for a comprehensive 'toolbox' used by institutional investors as well as wealth managers.

The Luxembourg financial market place has always known how to deal and adapt itself with market trends, one of the last indicator being the rise of the FinTech industry, making of Luxembourg a new technological hub for the finance industry in Europe.

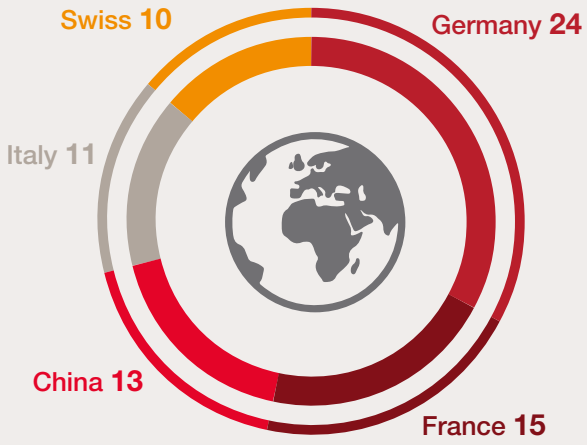
The country is also well positioned to make the most of the increase in cross-border activities, in terms of both investment and distribution. It has the key attributes to become the leading global AIF platform - as it did with UCITS - and to help alternative fund managers and institutional investors turn alternative investment fund regulations into an opportunity.

The Banking Industry

At end of 2017, the Luxembourg banking sector comprised 139 credit institutions from 28 different countries. In 2017, the number of Chinese banks increased by the arrival of two more banks. These new market entrants confirm the geographical diversification of the banking landscape which already started a few years ago.

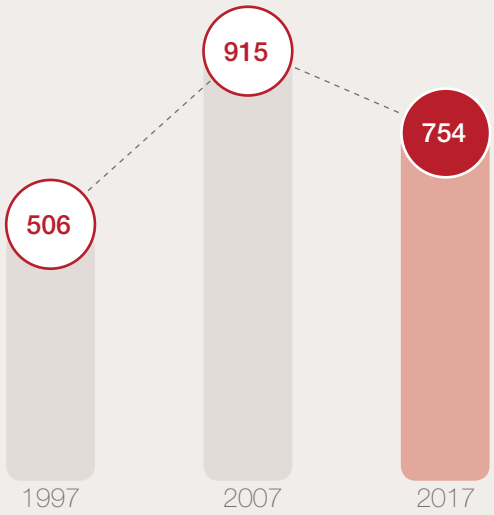
The banking sector's balance sheet reached a total of EUR 754 billion during the third quarter of 2017. For the first six months of 2017, the CSSF estimated result before provisions at EUR 4,207 billion (in comparison EUR 4,450 at same period in 2016).

Figure 3: *Top 5 by country of origin*



Source: CSSF, situation at 31 December 2017

Figure 4: *Evolution in the total balance sheet of credit institutions (in EUR bn)*[5]



Source: CSSF, situation at the end of September 2017

[5] Figures reported before December 2007 are based on Luxembourg GAAP accounting standards while figures reported after January 2008 are based on IFRS. This change in accounting standards implies technical variations in the figures presented, which mitigate or magnify, as the case may be, the development of banking activities as shown above.

The Private Banking Industry

Luxembourg has been a centre of excellence in Wealth Management and Private Banking services for more than 40 years and is ranked among the first countries in the world for cross border Private Banking's assets under management (AuM) and the first within the Eurozone.

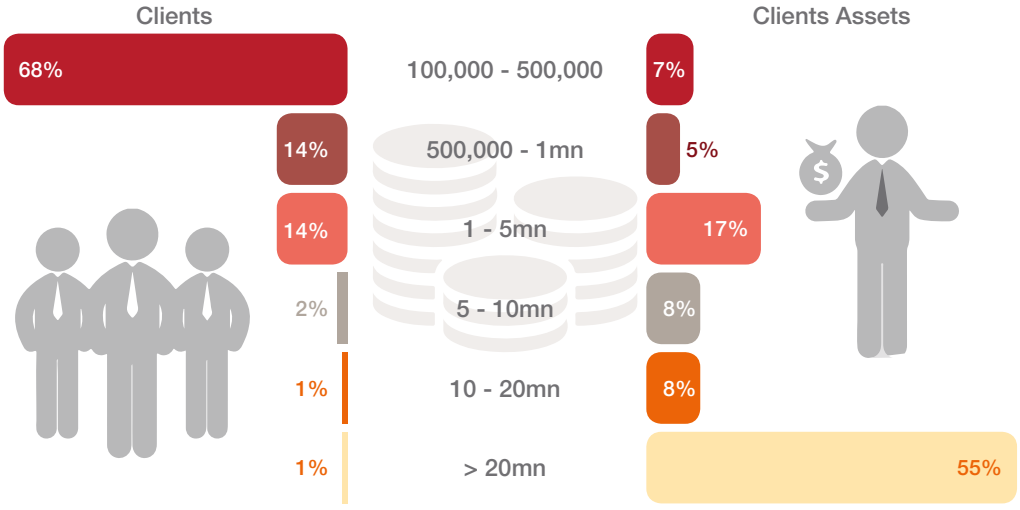
Private Banking is a key industry within the Luxembourgish financial sector; AuM held by banks involved in Private Banking amount to EUR 360,7 billion, an increase of nearly 3% compared to the end of 2016[6].

The Private Banking industry contributes to the development of the Luxembourg financial sector through its own activity, and it also represents an important source of revenues for the Undertakings for Collective Investment (UCI) and insurance industries, since it is a distribution platform for investment funds and life insurance products.

Luxembourg offers a comprehensive range of products and personalised services, from traditional, classic savings products, to sophisticated solutions for creating, maintaining, maximising and transmitting wealth. Luxembourg has developed solid financial engineering capabilities and know-how in cross-border wealth engineering, asset structuring, fund constitution, and product structuring by providing pass-portable solutions of UCITS, AIF and non-regulated fund or financial participation structures.

Finally, Luxembourg benefits from a large double taxation treaty network, stimulating Private Banking activities.

Figure 5: *Client segments in Private Banking Luxembourg*



Source: CSSF / ABBL Private Banking Survey 2017 – figures as of end of 2016

[6] CSSF/ABBL Private Banking Survey 2017 - figures as of end of 2016

Corporate Banking activities

The central location of Luxembourg and its privileged access to the European market of more than 500 million of inhabitants, its high quality of life and recognised level of services reinforce the attractiveness of the Grand Duchy, encouraging businesses to set up their headquarters in the country.

Moreover, Luxembourg's authorities have developed adequate incentives to motivate the emergence and development of new activities such as e-commerce, health sciences, new technologies, private equity, real estate, securitisation or factoring.

Therefore, the Luxembourg corporate banking market is thriving, providing a broad range of services to both already established and new companies in Luxembourg, as well as foreign companies and groups.

Some corporate groups also acquire a banking licence to operate financing activities out of Luxembourg. Examples include:

- A specialised platform for electronic payments between professionals and individuals at the European level
- A leading producer of agricultural equipment whose primary activity in Luxembourg is the provision of financing to clients who want to purchase its equipment
- Others are looking to settle in Luxembourg to benefit from the EU passport and for operating activities throughout Europe

Categories of credit institutions

In the Luxembourg law, two types of licences are possible for the credit institutions:

- Universal Banking Licence
- Mortgage Bonds Banking Licence

Credit institutions operating out of the Grand Duchy are granted an operating licence by the Ministry of Finance.

Among the 139 authorised banks, 135 have a universal banking licence while 4 have a mortgage-bond banking licence.

Luxembourg is Europe's largest investment fund centre and the world's second largest after the US

More than

EUR ***4.1 trillion****

Assets under Management

* 30 November 2017

Cross-border distribution leader

Source: GFD Poster, PwC Luxembourg

Figure 6: *Credit Institutions by type*

Source: CSSF, situation at 31 December 2017

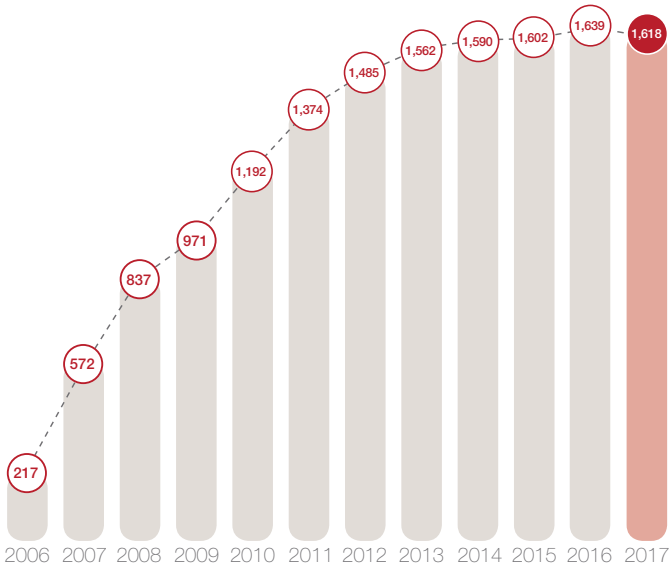
Welcome to the largest investment fund centre in Europe

Luxembourg place is, since the implementation of the first UCITS Directive into local law in 1988, a key domicile for internationally distributed funds. Since that time, Luxembourg has experienced a steady growth in both assets and fund numbers with an impressive surge in the turn of the century reflecting the undoubtable attractiveness of the Luxembourg financial place as a hub for mainstream and alternative global fund products.

Historically, Luxembourg's success has been fuelled by its ability to offer an attractive platform for retail funds distributed in Europe and globally. Also, recent 'domestic' innovations such as the Reserved Alternative Investment Fund (RAIF) form the basis for a comprehensive 'toolbox' used by institutional investors as well as wealth managers.

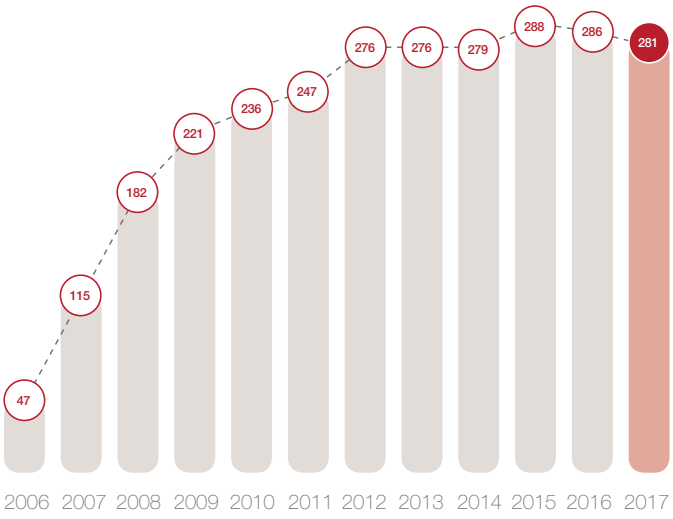
At PwC Luxembourg, we are confident that the expertise of the fund community in Luxembourg, together with the business minded environment and the long standing tradition of being a safe fund centre will allow the Grand Duchy to face the regulatory storm.

Figure 7: *Evolution of SIFs 2005-2016*



Source: LPEA and ALFI

Figure 8: *Evolution of SICAR 2005-2016*



Source: LPEA and ALFI

Electronic money institutions and payment institutions

Electronic money institutions

An Electronic Money Institutions is a legal person that has been granted authorisation to issue electronic money as per article 24-2 (non-EU undertakings) of the Law of 10 November 2009 as amended by the Law of 20 May 2011. EU Electronic Money issuers duly authorised in their home member state and acting through a branch, an agent or free provision of services, do not need formal authorisation from Luxembourg authorities as they benefit from EU rules on freedom of provision of services (article 24-15 of the law).

Authorisation requires a fully subscribed and paid-in capital of EUR 350,000.

Electronic Money Issuer means one of the following entities :

- Credit Institutions;
- Electronic Money Institutions;
- Post office giro institutions;
- European and National Central Banks;
- Member state or regional authorities.

Payment institutions

These institutions provide and execute payment services in accordance with article 7 (Luxembourg undertaking) or 22 (non-EU undertakings) of the Law of 10 November 2009 (as amended by the Law of 20 May 2011) and may grant credits under certain conditions if linked to the payment services. They are not allowed to receive deposits from the public and may not issue electronic money.

Authorisation requires a fully subscribed and paid-in capital of EUR 20,000 or EUR 50,000 or EUR 125,000 depending on the services provided as described within the law of 10 November 2009 as amended.

51 Electronic money institutions

91 Payment institutions

Source: CSSF at 31 December 2017

Digitisation of the financial industry

1

Luxembourg ranked 1st for technological readiness worldwide
(Global Competitiveness Report. The World Economic Forum 2017)

For a few years now, the financial industry has been facing drastic changes. The impact of new technologies, changing customer behaviors and the arrival of new market players directly competing with the traditional banks forced them to challenge existing operating models and to rethink the way they interact with their customers.

Digitisation will remain one of the main priorities for the financial center over the next five years, in what is likely to be the start of a new era in financial services. Luxembourg aims to position its financial industry as a leader in digital financial services. Business models are changing faster than ever and the need to keep control over costs and compliance matters has never been so crucial. Defining new target operating models, adapting to a new operating environment or revamping existing procedures or processes, as well as reconsidering IT infrastructure, systems and applications are permanent challenges for banks operating in Luxembourg. The questions and issues encountered during such exercises are multidimensional and wide ranging.

Figure 9: *How concerned are CEOs about the following potential threats to their organisation's growth prospects?*

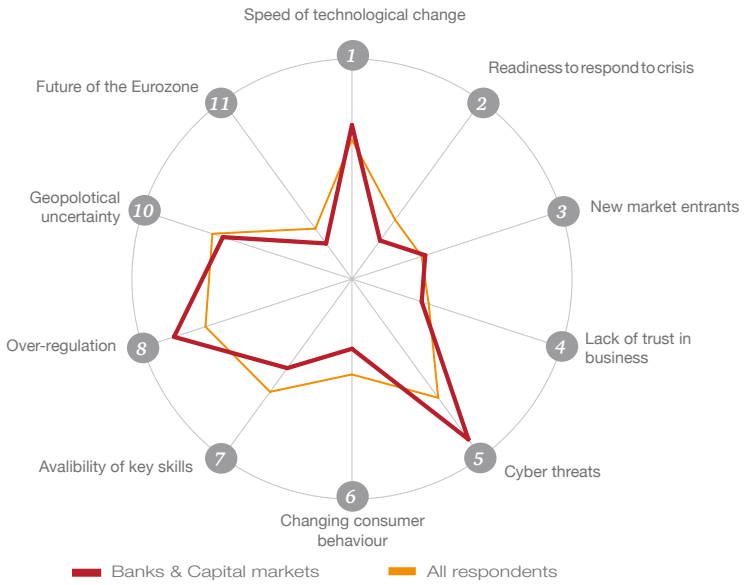


Chart shows percentage of respondents answering 'Extremely concerned'
Source: 21st PwC CEO Survey (base: all respondents 1,293)

In 2018, the first concerns shared by Banks and Capital markets' CEO worldwide are, by far, "Cyber threats" (54%) and "over-regulation" (51%). Whereas these concerns also figure in the top matters for all respondents, they are much more noticeable in the banking field and quite faithfully reflect the mind-set of the sector's executives in Luxembourg. "Cyber threats" is one interesting figure to highlight: it only represented less than 25% in 2017 and was far from being one of the CEO's main concerns. The rise of electronic transactions and the surge of cyber-attacks suddenly revealed the weak point of the increasing dependency to technology to put it in first position of CEO's worries.

Understandably, speed of technological change comes in third position with 42% of the banks and capital markets respondents (38% for all respondents), as the digital transformation quickens and competition is getting stronger in technological innovation with new markets players such as FinTech or BigTech companies.

A new generation of business models and service offerings

Challenges

Cybersecurity

Banks handle some of the most sensitive information, from account and credit-card data to personal identification. Cybersecurity is essential for banking institutions with the financial health of both individuals and business at stake. Unfortunately, it is also under attack more than ever before. Cyber-related incidents represent a growing threat to the reputation and economic stability of financial institutions. The initial question is no longer "if", but "when" a cyberattack will occur. Finally, the question is "how much" it will cost the bank (both directly and indirectly).

Figure 10: *Cyber threats*

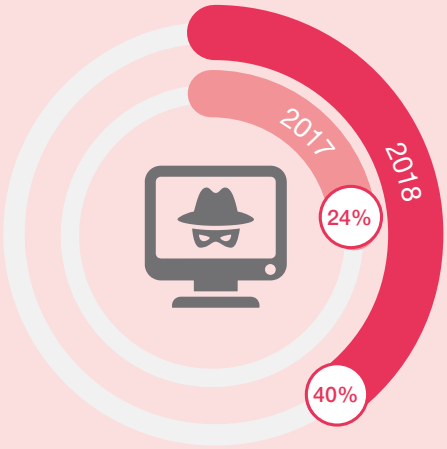


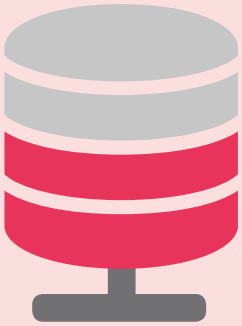
Chart shows percentage of respondents answering 'Extremely concerned'
Source: PwC, 21st and 20th Annual Global CEO Surveys

Regulations

The Banking environment is evolving more than ever before due to changing client behaviour, new technologies, new entrants and regulations more in line with this new landscape. Several regulations have been voted and/or implemented to give a framework for the use of new technologies in financial services and to protect the consumers from possible abuse. To name a few, GDPR, MiFID II and PSD2 will have a tremendous impact on the banking industry. For more information, please refer to chapters 8 and 9 of this Banking in Luxembourg brochure.

From this new challenge faced by all organisations of the industry, RegTech companies were born among the financial institutions to address their growing need of regulatory monitoring, compliance and reporting.

Regulations trigger disruption and innovation



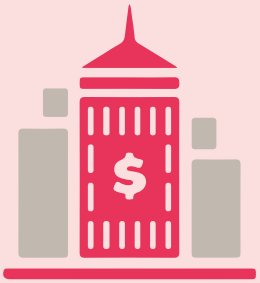
54% of incumbents see data storage, privacy, and protection as the main regulatory barrier to innovation

Source: PwC Global FinTech Survey 2017

FinTech

The CSSF adopted a proactive position regarding the FinTech development to ensure a proper regulation. Thanks to a supportive environment, many start-ups and technology companies (including, among others: Amazon, eBay, PayPal) have chosen Luxembourg to develop solutions around a wide range of FinTech activities: from compliance and risk-management, through blockchain and cryptocurrency, security and authentication, automated investment services, Big Data analytics, to mobile and e-payments.

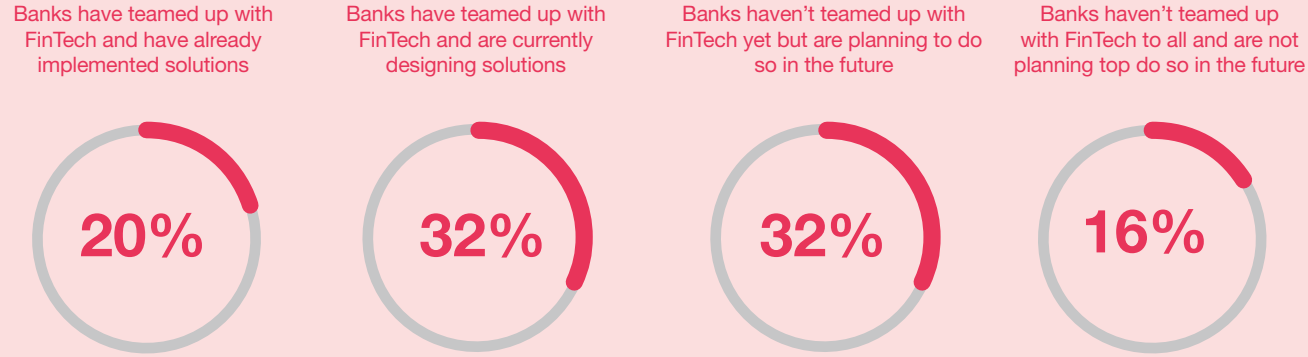
Financial Institutions are embracing the disruptive nature of FinTech



77% of Financial Institutions will increase internal efforts to innovate

Source: PwC Global FinTech Survey 2017

Figure 11: *Competition between banks and new entrants may give way to direct collaboration across the FinTech ecosystem*



Source: PwC Luxembourg Banking Day 2017

This dynamic environment is profitable for both financial institutions and new players. On the one hand, FinTechs represent a real pool of disruption in financial services; they put pressure on banks to deploy better and faster products and services and then accelerate the pace of innovation but also provide a source of inspiration and capabilities through partnerships and acquisitions. On the other hand, the deployment of externalisation represents an opportunity for banks to deploy their offerings and develop new activities.

Blockchain & Cryptocurrencies

Blockchain is emerging as a worldwide money exchange platform. It is the technology that underlies the use of cryptocurrency, and seen by many specialists as a positive shift in the capital markets.

Blockchain is attracting enormous attention from the financial industry and the wider market. It is designed to cryptographically safeguard, distribute and securely transmit data and value.

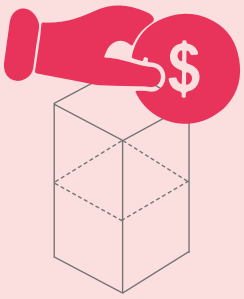
It is viewed as the most transformative technology innovation since the coming of the internet.

For the banking industry, Blockchain will allow processes to be more efficient and dramatically reduce costs. Additionally, offering cryptocurrencies or cryptocurrency funds could boost new client acquisitions, generate new revenues and push the brand.

These perspectives are new avenues for banks, but there are still a lot to build, both at protocol and application levels, in terms of scalability, functionality, privacy and confidentiality.

77% expect to adopt Blockchain as part of an in-production system or process by 2020.

Source: PwC Global FinTech Survey 2017



A survey from the European Banking Federation ran in 2017 highlighted that European banks are already massively investing in financial technologies

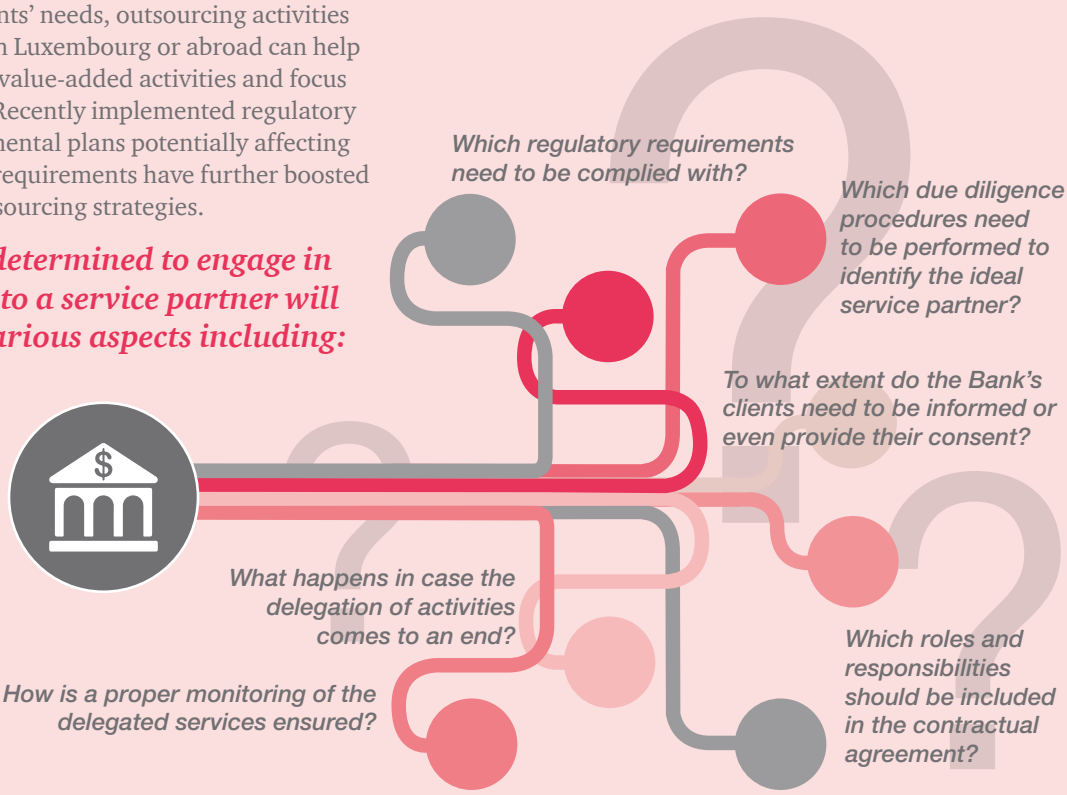
92% of the respondents answered that they invest in blockchain.

Source: 2017 EBF Facts & Figures

Outsourcing

In a complex and changing regulatory environment led by global competition, cost reduction and flexibility required to serve clients' needs, outsourcing activities to service providers in Luxembourg or abroad can help a bank decrease non-value-added activities and focus on its core business. Recently implemented regulatory changes and governmental plans potentially affecting professional secrecy requirements have further boosted the attractiveness of sourcing strategies.

Banks who are determined to engage in such delegation to a service partner will need to tackle various aspects including:



Robotics / Artificial intelligence

Operational efficiency is a major challenge for Banks. In their search for service quality enhancement and operational costs reduction, Banks have usually had the choice between system developments, outsourcing or offshoring.

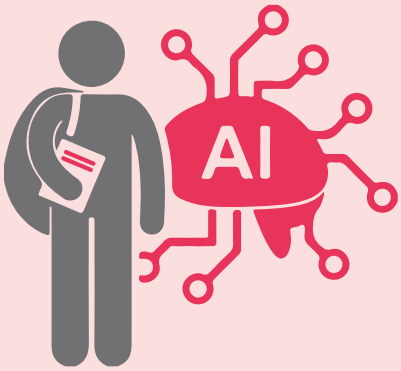
However, the recent evolutions of technologies have brought a new option that is solid, cheap and very easy to deploy: Robotics Process Automation (RPA).

Robotics Process Automation is an agile solution operating on top of your current systems and applications landscape without changing it. RPA's distinctive ability to operate across systems allows it to be implemented across departments including Back Office, Finance & Accounting, HR, IT and Customer Service among others enabling banks to improve efficiency and to reduce costs.

Powerful intelligent process automation and robotic process automation bring Artificial Intelligence (AI) into production modus. AI has become a tool that enable humans making smarter decisions, introducing «augmented intelligence». It reshapes the financial services industry and the digital skills required, necessitating everyone inside an organisation to upskill.

For banks, AI plays an important role in improved risk management, as it has great potential on fraud detection and prevention. Personalised recommendations or customer onboarding thanks to personalised insights require AI leveraging and improve customer's experience.

Investment in enabling technologies will help narrow the gap



30% of large Financial Institutions are investing in Artificial Intelligence (AI)

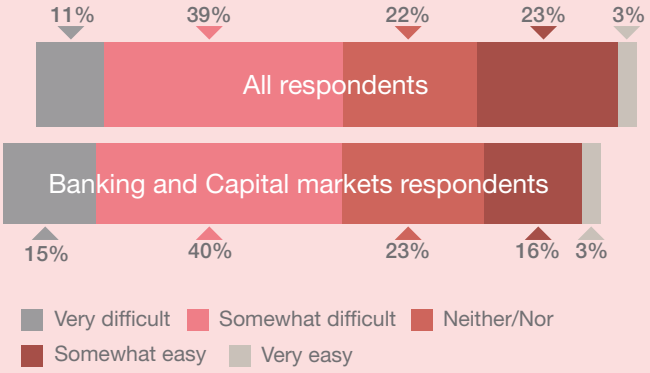
Source: : PwC Global FinTech Survey 2017

Workforce of the future

We are in the midst of one of the most important periods of change in the workplace: we all know that our world will be shaped by technology and we can imagine that individuals will have to be creative and innovative to make companies succeed. To face this shift in society and be ready for the next generation's set of skills, banks will need to reshape and remodel their current workforce and operate a cultural transition to support digital transformation.

In recent studies led by PwC, over half of the responders considered that STEM skills (Science, Technology, Engineering and Maths) will be essentials for the future workforce. On the other hand, CEO named soft skills as of increasing importance to them: problem-solving, creativity and innovation, leadership and adaptability were identified as today's skills battleground.

Figure 12: *Overall, how easy or difficult is it for CEOs to attract digital talent?*



Source: PwC's 21st CEO Survey. Base: All respondents (1,293).

Workforce of the future : Key messages for leaders

Act now

This isn't about some 'far future' of work – change is already happening, and accelerating.

No regrets and bets

Plan for a dynamic, rather than a static future. Make «no regrets» moves that work for most scenarios – but you'll need to do some bets too.

Make a bigger leap

Don't be constrained by your starting point. You may need a more radical change rather than a small step away from where you are today.

Own the automation debate

A depth and understanding and keen insight into the changing technology landscape is a must.

People not jobs

Organisations can't protect jobs that are made redundant for technology – but have a responsibility with their people. Nurture agility, adaptability, and re-skilling.

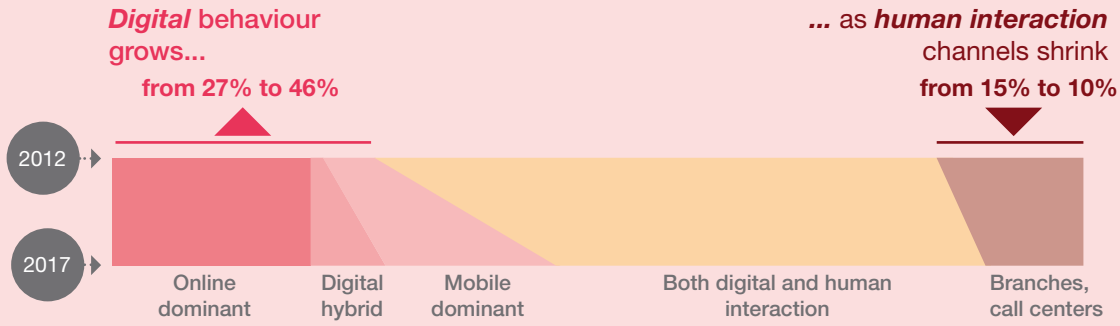
Build a clear narrative

Anxiety kills confidence and the willingness to innovate. Start a murture conversation about automation in the future.

Customer Experience

Every experience in our lives gains a digital element and customer banking-journey is no exception. With the increasing use of connected mobile devices, adopting a customer-centric digital strategy is essential to overcome the challenges posed by the digitisation of the financial sector. Digital Bank, Mobile Banking, Banking platform... In these times of immediate gratification, organisations are under a heightened sense of urgency to create solutions faster, rise above market expectations and stand out if they want to keep their customers. Banks are forced, among traditional players, to reconsider their role and anticipate the evolution of demand by investing in customer driven innovations and disruptive products and services. Understanding the evolution in customers' needs and behaviours is a priority to address generational shifts and rapid adoption of technology.

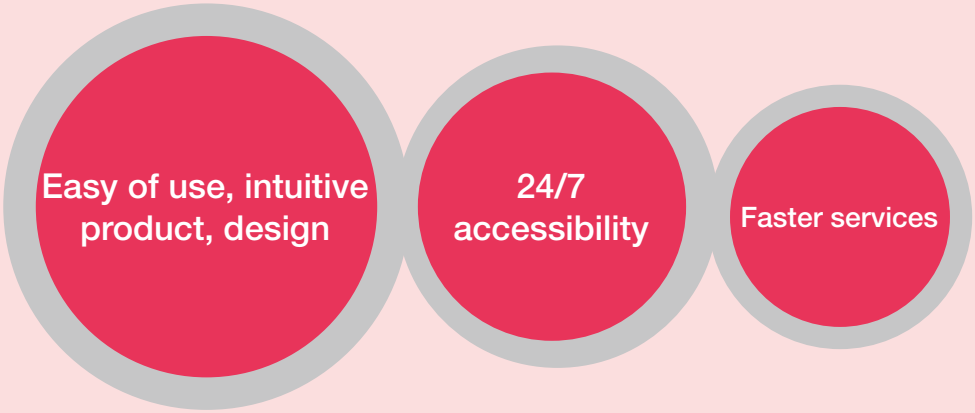
Figure 13: *Customers expect a digital experience from financial services providers*



Source: PwC's 2017 Digital Banking Consumer Survey

Most important areas to address customer retention for Banks accorting to Financial executives

(Panel = 1,300 senior financial services and FinTech executives from 71 different countries)



Source: PwC Global FinTech Survey 2017

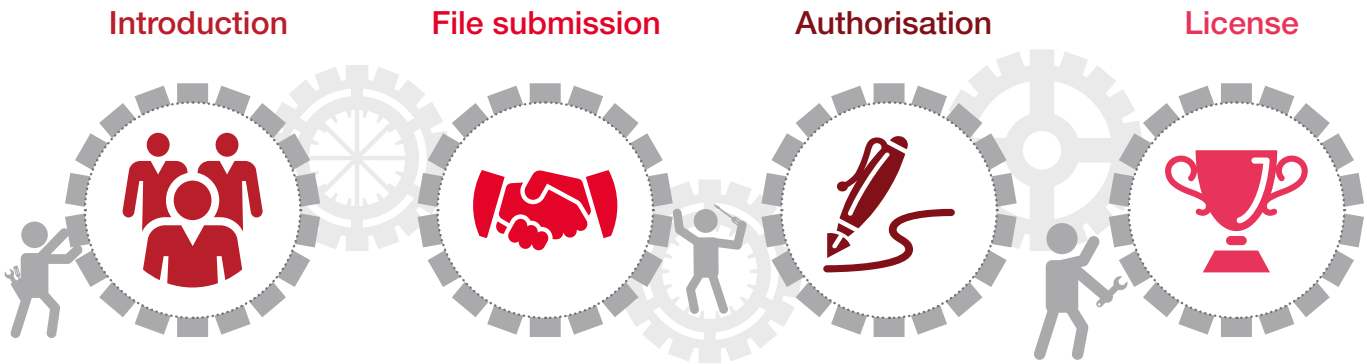
New business opportunities

In this changing world, finding new business opportunities and differentiating from competition become critical elements that banks must tackle in order to stay relevant in front of FinTechs or BigTechs (non-financial companies such as Google, Apple, etc.). The Open Banking landscape brought by PSD2 will offer new opportunities for Banks to act as service providers for other Banks, as well as data aggregators for their clients, making technology and data two of the most important development areas for financial institutions. It is crucial for Banks to identify those new business opportunities early on and benefit from a first mover position in order to capture and retain clients, who will be more than ever before at the core of upcoming innovations.

3 Setting up a credit institution in Luxembourg

Banking activity in Luxembourg can either take the form of a branch or of a legal entity in the country (e.g. subsidiary of a foreign credit institution). The shareholders of the legal entity can be institutional or private investors. Several foreign credit institutions operate in Luxembourg as a branch or a subsidiary.

Figure 14: *Licensing Authorisation Process*



* for subsidiary (S.A.) set-up only

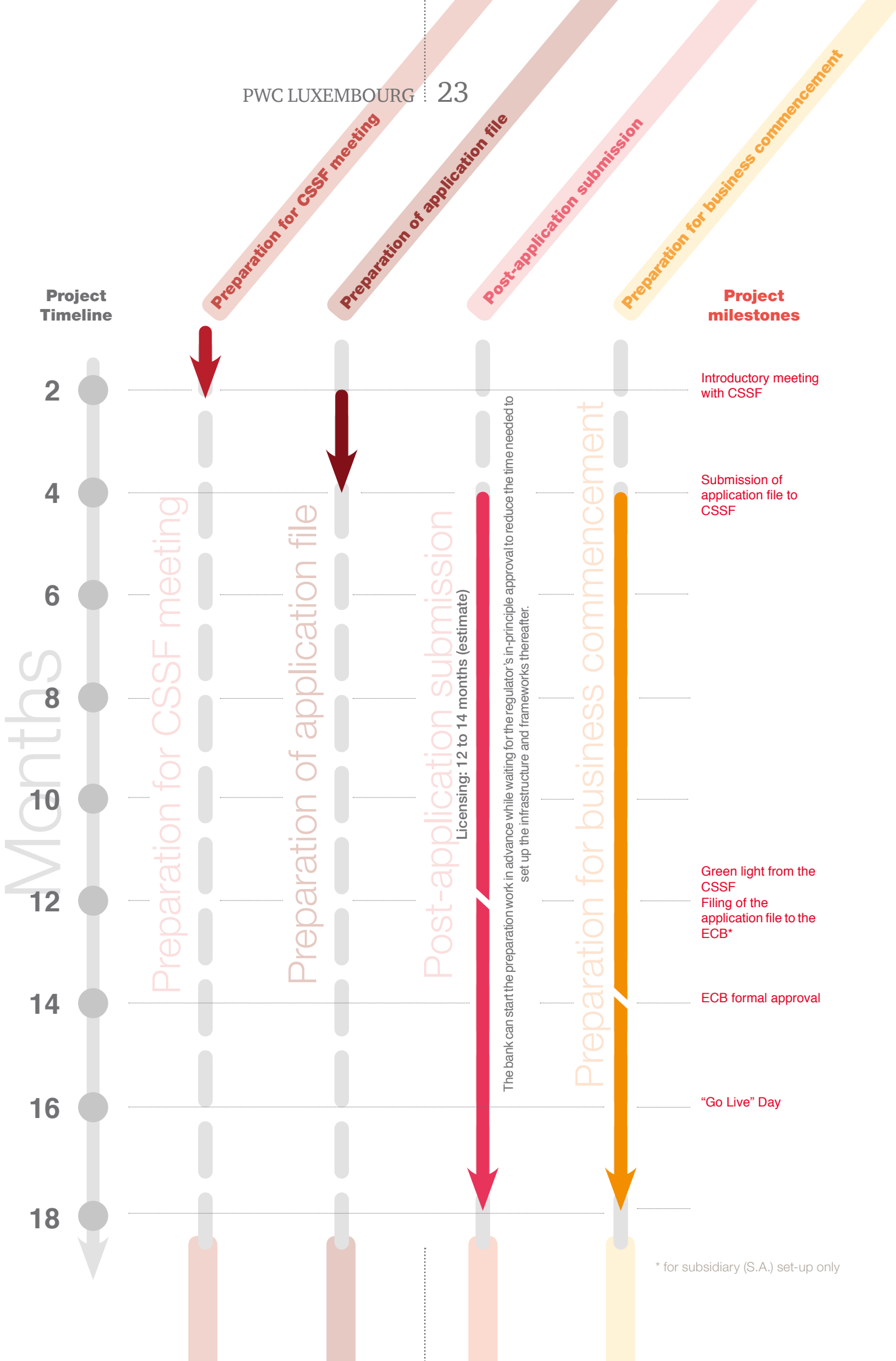
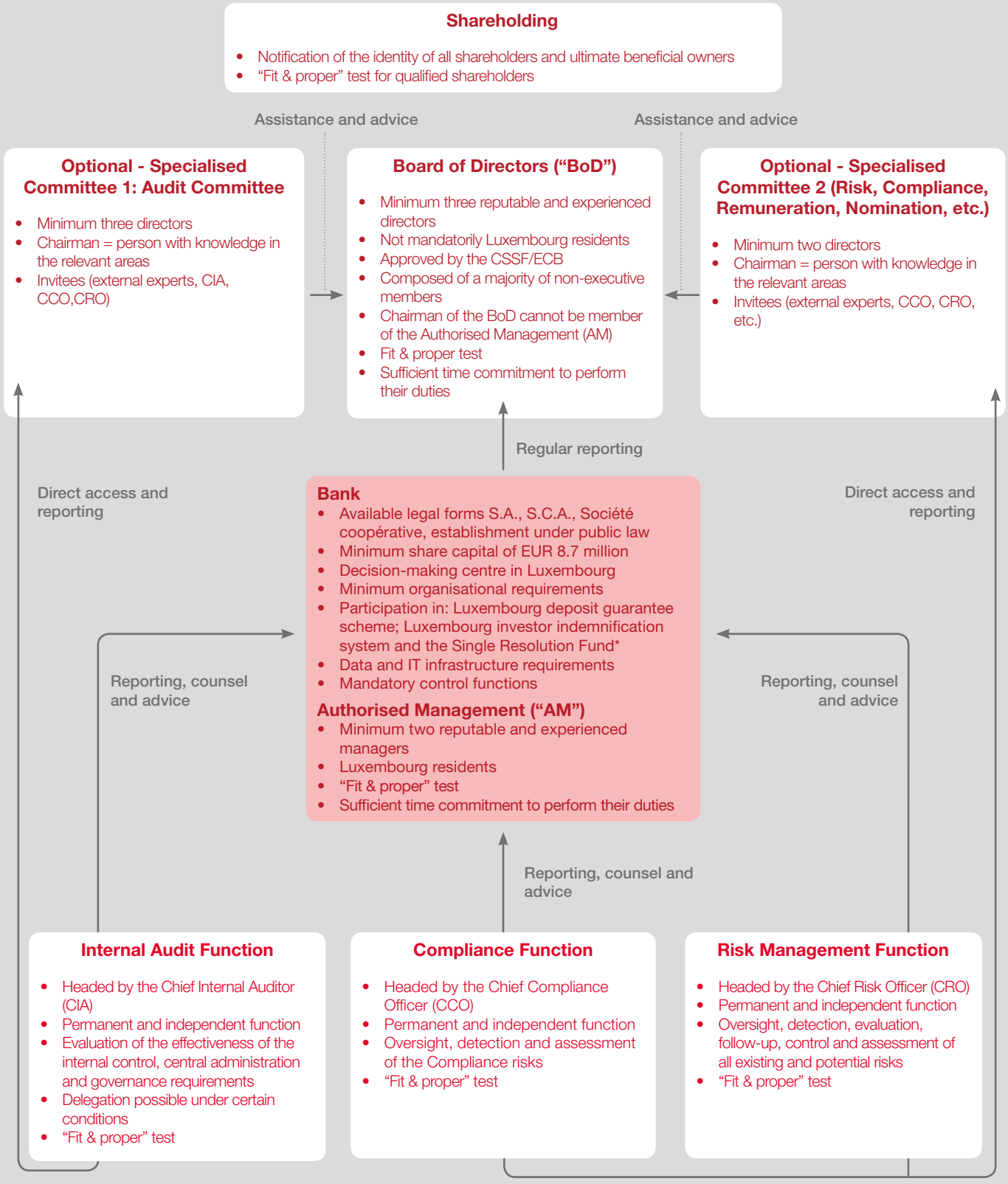

Preparation for CSSF meeting
Preparation of application file
Post-application submission
Preparation for business commencement
Project Timeline
Project milestones
Months
2
4
6
8
10
12
14
16
18
Preparation for CSSF meeting
Preparation of application file
Post-application submission
Licensing: 12 to 14 months (estimate)
The bank can start the preparation work in advance while waiting for the regulator's in-principle approval to reduce the time needed to set up the infrastructure and frameworks thereafter.
Preparation for business commencement
Introductory meeting with CSSF
Submission of application file to CSSF
Green light from the CSSF
Filing of the application file to the ECB*
ECB formal approval
"Go Live" Day
* for subsidiary (S.A.) set-up only

Figure 15: *Internal Governance Requirements*



*Luxembourg branches of non-EU banks contribute to the Luxembourg Resolution Fund

European Passport

Possibility for a Luxembourg incorporated bank to provide banking services to European Union residents, either by the establishment of a branch, or by way of free provision of services, in each EU country via a notification procedure summarised below.

- **Filing of a specific questionnaire ("notification file") related to the future bank/branch's programme of operations in the host EU country, list of investment services, financial instruments, internal organisation, etc.**
- **Communication by the CSSF of the required information to the foreign competent authority.**
- **The bank/branch may start providing its services in the host EU country.**

4 Supervision and control of credit institutions

Since the entry into force of the Single Supervisory Mechanism on 4 November 2014, credit institutions are subject to the control of the European Central Bank, either directly or indirectly through the CSSF. The supervision by the ECB/CSSF extends equally to activities performed by these undertakings in another Member State of the EU, whether by means of the establishment of a branch or by free provision of services.

Overview of banking supervision

National level

Supervision

Commission de Surveillance du Secteur Financier (CSSF)

The CSSF, as National Competent Authority (NCA) for Luxembourg, is responsible for the supervision of **less significant institutions** under the oversight of the ECB. Regarding significant banks, the CSSF assists and supports ECB in the exercise of its supervisory powers.

The CSSF's prudential supervision of financial institutions aims at:

- Promoting prudent business policy
- Protecting the financial stability of the financial sector
- Supervising the quality of internal control systems
- Strengthening the quality of risk management

The CSSF acts in the public interest, ensuring that the laws and regulations related to the financial sector are both enforced and observed.

To this purpose, the CSSF examines various sources of information, such as:

- Periodic reporting (financial data transmitted by entities on a regular basis, e.g. FINREP/COREP)
- Financial transactions reporting
- Internal control functions reports (Internal Audit, Compliance, Risk Management)
- External auditor reports
- On-site visits and inspections

In case of non-compliance, the CSSF has a wide range of supervisory powers that include injunctions, fines, temporary or definitive prohibition measures.

The CSSF, as National Resolution Authority (NRA) for Luxembourg, is responsible for the resolution of less significant institutions under the oversight of the SRB. It also implements resolution plans decided by the SRB for significant entities.

The CSSF's main responsibilities in relation with Single Resolution Mechanism (SRM) are:

- Preparing and adopting resolution plans for less significant entities
- Executing resolution plans
- Appointing a special manager in the institution
- Removing obstacles to resolvability
- Executing instructions issued by the SRB

The CSSF is also present, at European level, within the SRB, the colleges of resolution authorities and the EBA Resolution Committee.

Economic policy

Banque centrale du Luxembourg (BcL)

The BcL is in charge of all monetary and financial competencies dealing with the national central banks within the European System of Central Banks (ESCB).

Main missions to be carried out by the BcL include:

- The definition and implementation of the monetary policy of the Eurosystem
- The management of foreign exchange reserves
- The contribution to the financial stability of the Luxembourg Financial Centre
- The oversight of payment and securities settlement systems

The BcL has an important role in the collection, analysis and diffusion of economic and financial information.
It collects, analyses and publishes statistical information, especially in the monetary and balance of payments fields.

These statistics are essential for the preparation of European monetary policy, and also for good economic governance.
Besides managing its own reserves, the BcL also manages part of the exchange reserves of the Eurosystem.

EU level

Supervision

Single Supervisory Mechanism (SSM)

The European Banking Union
Supervisory tasks

European Central Bank (ECB)

A key objective of the SSM is to establish a single, multi-layered supervisory mechanism. The SSM bestows direct supervisory powers on the ECB over "**significant**" Eurozone banks and indirect supervisory powers on remaining banks considered as "less significant".

The assessment of whether or not a bank is "significant" is based on:

- **Size** (total value of assets >EUR 30 billion)
- **Importance for the local** economy (total value of assets >20% national GDP)
- **Significance of cross-border activities**
- **Direct public financial assistance from the European Stability Mechanism** (ESM)

A minimum ECB supervision period of three consecutive years is triggered as soon as an entity meets one of the above criteria.

The supervision by the ECB extends equally to activities exercised by these undertakings in another Member State of the EU (by establishment of a branch or by free provision of services).

Branches of non-EU banks are not subject to SSM provisions and remain directly supervised by the CSSF.

Single Resolution Board (SRB)

If a bank subject to the SSM faces serious difficulties, the resolution of such can be managed efficiently with minimal costs to taxpayers and to the real economy through SRM. Mirroring the SSM organisation, the SRB is directly responsible for resolution of significant banks and monitors indirectly resolution of less significant entities.

The SRM works as follows:

- The ECB signals when a supervised bank is failing or likely to fail.
- A Single Resolution Board (SRB) prepares the resolution plan for the bank and determines the resolution tools to be used.
- The European Commission and the Council may validate or object to the resolution planning.
- Under the supervision of the SRB, national resolution authorities are in charge of the execution of the resolution plan.
- The SRB oversees the resolution and its good execution at national level by the national resolution authorities. If it is not the case, executive orders are directly addressed to the bank.
- A Single Resolution Fund has been set up to ensure the availability of medium-term funding support to restructure the failing bank. It will be funded by contributions from the banking sector.

Economic policy

Single Resolution Mechanism (SRM)

European System of Central Banks
Economic and monetary policy

European Central Bank (ECB)

The ECB's primary objectives, set out by the Treaty on the Functioning of the European Union are to:

- Maintain price stability
- Support the general economic policies in the Union

To achieve these objectives the ECB, together with National Central Banks, perform the following tasks:

- Definition and implementation of monetary policy for the euro area
- Conduct of foreign exchange operations
- Holding and management of the official foreign reserves of the euro area
- Promotion of the smooth operation of payment systems
- Collection of statistical information

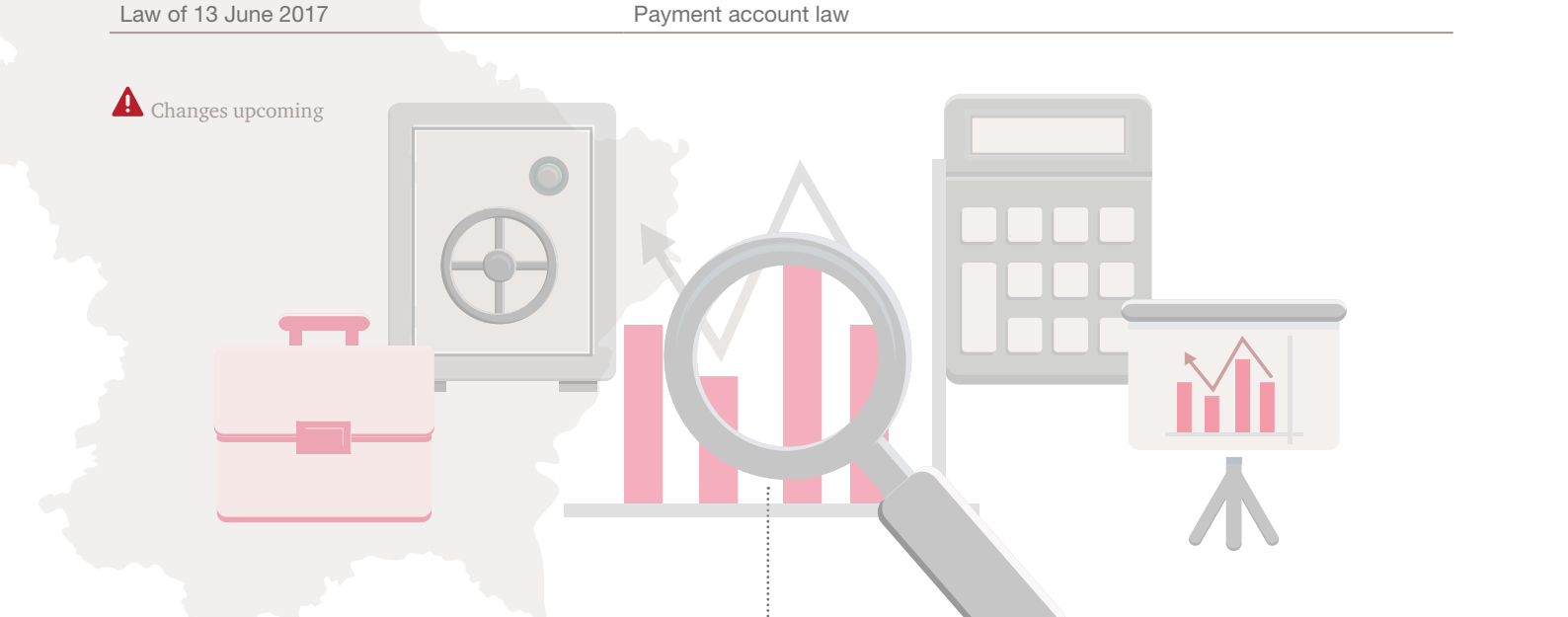
5 Regulatory provisions

The financial sector becomes increasingly regulated by European regulations and directives, in addition to national laws. Credit institutions need to comply with many requirements.

Main Luxembourg laws

Legal reference	Content
⚠ Law of 5 April 1993 on the Financial Sector, as amended (includes the provisions of the MiFID law of 13 July 2007)	• The access to professional activities in the financial sector (Part I); • The professional duties, prudential rules and rules of conduct in the financial sector (Part II); • The prudential supervision of the financial sector (Part III); • The prudential rules and obligations in relation to recovery planning, intra-group financial support and early intervention (Part IV); • The penalties (Part V); and • The amendments, repeals and transitional provisions (Part VI).
Law of 17 June 1992, as amended	Preparation and publication of accounts of credit institutions
Law of 31 May 1999	Domiciliation of companies
⚠ Law of 12 November 2004, as amended	Fight against money laundering and terrorist financing
⚠ Law 23 December 2016, as amended	Market abuse
⚠ Grand-ducal Regulation of 13 July 2007	Organisational requirements and rules of conduct in the financial sector
⚠ Law of 10 November 2009	Payment services
Law of 21 December 2012	Family Office activity
Law of 23 July 2015	Transposition of CRD IV Directive
Law of 18 December 2015	Resolution, reorganisation and winding-up measures of credit institutions and certain investment firms Deposit guarantee and investor compensation schemes
Law of 13 June 2017	Payment account law

⚠ Changes upcoming



Main EU Regulations and Directives

EU Directive or Regulation #	Content
Single Euro Payments Area Regulation (SEPA) Regulation (EU) N° 260/2012	Technical and business requirements for credit transfers and direct debits in euro
European Market Infrastructure Regulation (EMIR) Regulation (EU) N° 648/2012	Requirements for over-the-counter (OTC) derivatives, central counterparties and trade repositories
Capital Requirements Directive (CRD IV) Directive 2013/36/EU	Activity and prudential supervision of credit institutions
Capital Requirements Regulation (CRR) Regulation (EU) N° 575/2013	Prudential requirements for credit institutions (own funds, capital requirements, liquidity, disclosures)
Single Supervisory Mechanism Regulation (SSMR) Regulation (EU) N° 1024/2013	Confers specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions
Single Supervisory Mechanism Framework Regulation (SSMFR) Regulation (EU) N° 468/2014	Establishes the framework for cooperation within the Single Supervisory Mechanism between the European Central Bank and national competent authorities, as well as with national designated authorities
Market Abuse Directive (MAD) Directive 2014/57/EU	Criminal sanctions for market abuse
Market Abuse Regulation (MAR) Regulation (EU) N° 596/2014	Regulates market abuse
Single Resolution Mechanism Regulation (SRMR) Regulation (EU) N° 806/2014	Establishes uniform rules and a uniform procedure for the resolution of credit institutions in the framework of a Single Resolution Mechanism and a Single Resolution Fund
Bank Recovery and Resolution Directive (BRRD) Directive 2014/59/EU	Harmonisation of the tools for dealing with bank crises across the EU
Alternative Investment Fund Managers Directive (AIFMD) Directive 2011/61/EU	Creates a new pan-European regulatory approach for European AIFMs and non-EU AIFMs which manage or market funds in Europe and harmonises roles and responsibilities of AIF depositaries
Undertakings for Collective Investment in Transferable Securities Directive (UCITS V) Directive 2014/91/EU	Amends UCITS IV Directive as regards depositary functions (i.e. alignment with depositary rules), remuneration policies and sanctions
Markets in Financial Instruments Directive (MiFID 2) Directive 2014/65/EU	Creates a more robust and efficient single market focusing on technological developments, transparency and investors protection
Markets in Financial Instruments Regulation (MiFIR) Regulation (EU) 600/2014	Establishing a new framework with uniform requirements for the transparency of transactions in markets for financial instruments
AnaCredit Regulation Regulation (EU) N° 2016/867	Collection of granular credit and credit risk data applicable as at 31 December 2017
Central Securities Depositaries Regulation Regulation (EU) N° 909/2014	Obligation of dematerialisation for most securities, harmonisation of settlement periods for most transactions in such securities, settlement discipline measures and common rules for central securities depositories
4th Anti-Money Laundering Directive (AML IV) Directive (EU) N° 2015/849	4th AML directive on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing
Payment Services Directive (PSD2) Directive (EU) N° 2015/2366	Updates the EU payment services market framework: standardisation of rules for banks and new payment service providers developed with digitalisation, cutting down entry barriers, contributing to enforce system safety and ensuring a transparent competition for consumers
General Data Protection Regulation (GDPR) Regulation (EU) 2016/679	Unifying and enhancing the data protection regime across the EU Member States, replaces the current EU Data Protection Directive

The main CSSF Regulations and Circulars applicable to credit institutions

	Circular or Regulation #	Content
Organisation and control environment	**Circ. 93/101 Circ. 95/119**	Organisation and internal control of the dealing activities of credit institutions Risk Management related to derivatives
	CSSF Regulation 16-07, Circ. 17/671	Customers complaints
	Circ. 07/326 (as amended)	Branches of Luxembourg credit institutions in the EU
	Circ. 17/669	Acquisition and increases in holdings in the financial sector
	Circ. 11/505, Circ. 14/585, Circ. 15/620, Circ. 15/622, Circ. 17/658	Remuneration policies
	Circ. 12/552 (as amended)	Central administration, internal governance and risk management
	Circ. 16/644	UCITS depositary activities
	Circ. 01/28, Circ. 01/29, Circ. 01/47, Circ. 02/65	Company administration services (“domiciliation”)
	Circ. 15/631	Dormant or inactive accounts
	Circ. 17/654, Circ. 17/657	IT outsourcing / Cloud outsourcing
Prevention of money laundering and financing of terrorism	**CSSF Regulation 12-02, Circ. 17/660** ⚠	Measures to combat money laundering and financing terrorism
	Circ. 11/519, Circ. 17/661 ⚠	Risk analysis regarding the fight against money laundering and terrorist financing
	Circ. 15/609, Circ. 17/650 ⚠	Developments in automatic exchange of tax information and anti-money laundering in tax matters
Financial Markets	**Circ. 16/646, Circ. 17/648, Circ. 17/653**	Market abuse
	Circ. 07/307 (as amended), Circ. 15/615, Circ. 17/665, Circ. 17/668, Circ. 17/670, Circ. 17/674 ⚠	Markets in Financial Instruments Directive (MiFID)
	Circ. 17/674	Transaction reporting (TAF reporting)
Single Supervisory Mechanism	**CSSF Regulation 15-02**	Supervisory review and evaluation process (SREP)
Single and Luxembourg Resolution Fund	**Circ. CSSF-Coderes 17-05**	Information request for the calculation of the 2018 contribution to the Single Resolution Fund
	CSSF Regulation 16-06	Information on ex-ante contributions to pay to the Luxembourg Resolution Fund
Luxembourg deposit guarantee scheme	**Circ. CSSF-CPDI 17-05 to 17-10**	Collect of information for 2017 ex-ante contributions
Compliance with limits and ratios	**CSSF Regulation 15-02, CSSF Regulation 15-01, Circ. 15/620, Circ. 18/676**	Capital adequacy, large exposures, leverage and liquidity ratios
Supervision on a consolidated basis	**Circ. 96/125**	Supervision on a consolidated basis by the CSSF
	Circ. 06/268, Circ. 16/641	Supplementary supervision of financial conglomerates
Prudential reporting and disclosure requirements	**Circ. 08/344 (as amended), Circ. 14/593 (as amended), Circ. 14/599, Circ. 16/640, Circ. 18/678**	Prudential reporting
	Circ. 11/504	Reporting of frauds and incidents due to external computer attacks
	Circ. 17/673	Disclosure requirements related to Part 8 of the Regulation (EU) 575/2013
External audit requirements	**Circ. 01/27 (as amended)**	Long Form Report of credit institutions

⚠ Changes upcoming

6 Accounting, regulatory reporting and audit requirements

Generally accepted accounting principles applying to credit institutions are set down by the modified Law of 17 June 1992 relating to the preparation and publishing of the annual and consolidated accounts of Luxembourg credit institutions, as well as the publishing of the accounts of branches of foreign credit institutions. This law is based on the EU Directives 86/635/EU and 89/117/EU.

The internal audit function and the external audit are two mandatory requirements applicable to Luxembourg banks.
The internal audit function is defined in Circular CSSF 12/552, as amended. The purpose of the internal audit function is to perform a critical assessment of the adequacy and effectiveness of the central administration, internal governance and business and Risk Management of the credit institution as a whole. The internal audit function assists the Board of Directors and Authorised Management of the credit institution to enable them to better control their activities and the risks related thereto, and thus to protect their organisation and reputation.
The external auditor issues an audit opinion on the annual accounts and ensures that internal processes are compliant with the regulatory provisions. His role is detailed in Circular CSSF 01/27 as amended.

Figure 16: *Accounting and regulatory reporting*

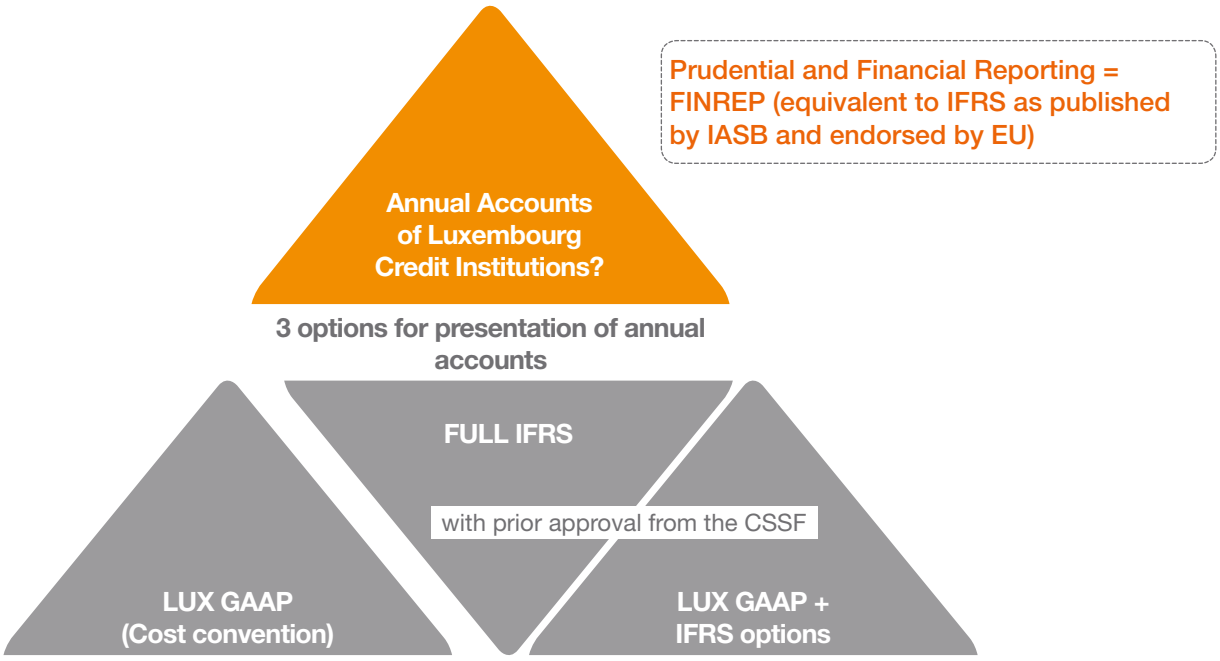
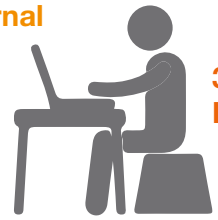


Figure 17: *Audit requirements*

Internal Audit

Chief Internal Auditor



3-Year Audit Plan

Adequacy & Effectiveness

01 Central Administration

02 Internal Governance

03 Risk Management

The internal audit should cover all the activities of the bank, in principle over a three-year period.

External Audit

Report on annual / consolidated accounts (in accordance with ISA as adopted by the CSSF)

Annual / consolidated Long Form Audit Report (organisation and administration of the credit institution, internal control environment, operations, banking risks)

The amended Law of 5 April 1993 gives the CSSF the right to request an external auditor to review one or several aspects of the activity and operations of a credit institution.

7 Taxation in Luxembourg

The fight against tax shortfalls and tax evasion continues to be a priority for all the governments around the world reflected by reporting and tax transparency requirements.

Indeed, following FATCA/QI and CRS regulations, OECD BEPS recommendations continue to impact domestic legislations directly or through EU directives such as Country-by-Country Reporting requirements already into place as well as the upcoming EU Anti Tax Avoidance Directive (ATAD).

Dealing with CFC rules, hybrid mismatches, exit tax, limit on interest deduction, and anti-abuse regulations, this EU Directive will have to be transposed into a Luxembourg draft of law in 2018 as it is the case for each EU Member State.

Transfer pricing rules introduced since 2015 continue to evolve through the introduction of new tax legislation, strengthening the basic arm's length principles.

Tax fraud being since 1 January 2017 a criminal offence for money laundering, banks are required to update their procedures, controls and processes.

This will be enhanced by the Directive on Administratrive Cooperation 5 (DAC 5) on access to information collected by Anti Money Laundering (AML) by tax authorities as well as DAC 6 on transparency rules for intermediaries.

Thanks to the pro-active and constant business-minded approach taken by the Luxembourg government in turning international political intentions into reality for more transparency and tax compliance, Luxembourg is fully compliant with the new OECD rules, which set global standards to ensure the balance between transparency, compliance and the client's needs for a high level of privacy protection.

%

TAX

Lowest VAT rate in the EU

- General VAT rate of 17%
- 14% applicable for management/safekeeping of securities
- Various exemptions and reliefs in respect of certain financial services transactions
- Management of a collective investment fund generally VAT exempt (note: the VAT exemption for investment fund management is widely drawn in Luxembourg)
- Exemptions lead to a restriction on the recovery of VAT on costs
- Special partial exemption methods for input tax recovery can be agreed

Low effective personal tax/personal social security contributions

- Progressive personal tax rates from 0-45.78% (including surcharge for unemployment fund)
- Employer social charges amounting to roughly 15% of gross salary, calculated on a basis capped at approx. EUR 120,000 per year

Attractive corporate tax framework

- 26.01% corporate tax rate in Luxembourg City
- 0.5% - 0.05% Annual wealth tax (may be reduced)
- Withholding tax on dividends: 15%, reduced or exempt under Double Tax Treaties (DTTs) and EU Parent/Subsidiary Directive
- 0% withholding tax on interest and royalties
- 20% withholding tax on directors fees
- Advance Tax Clearances may be obtained
- 81 DTTs in force

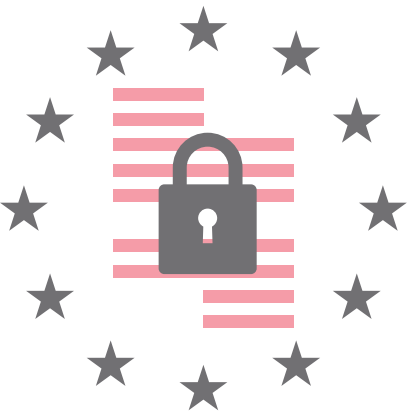
Favorable tax regime for impatriates and efficient remuneration tools

- Beneficial tax regime for qualifying international employees transferred to or recruited in Luxembourg, including the partial or full exemption of allowances/ refund of expenses paid by the employer (housing cost, tax equalisation, cost of living allowance, tuition fees, etc.)
- Upfront taxation at 20% for employer's contributions to occupational pension plans (to be borne by the employer). Tax free exit in the form of capital payment
- Payment of bonuses in the form of options: the granting of unconditional, freely tradeable options may be taxed based on a lump-sum valuation method
- If certain conditions are met, the gain at exit of a long term incentive plan may be treated as a capital gain, potentially tax free
- Qualifying carried interest gains may benefit from a reduced tax rate (¼ of the ordinary tax rate, i.e. approximately 10 to 11% effective tax rate) subject to some specific conditions

Other attractive measures

- Luxembourg has transfer pricing rules and follows OECD principles. Advanced pricing agreements may be obtained
- 13% Investment tax credits, 8% on acquisition of softwares
- No Bank levy, no Financial Transaction Tax, no stamp duty
- Functional currency allowed in case of non EUR-denominated accounts
- Incentives for transactions having impact on the economic development, including interest subsidies and tax credits including interest subsidies and tax credits

8 General Data Protection Regulation



The General Data Protection Regulation will come into effect on the 25th of May 2018, in an attempt to harmonise legislative frameworks of protection of personal data across the EU. GDPR has been discussed and formalised throughout more than 4 years. The main principles of the GDPR are the same as in the previous legislation, but the differences are in the application and enforcement of the regulation.

Jan 2012
European Commission publishes GDPR legislative proposal

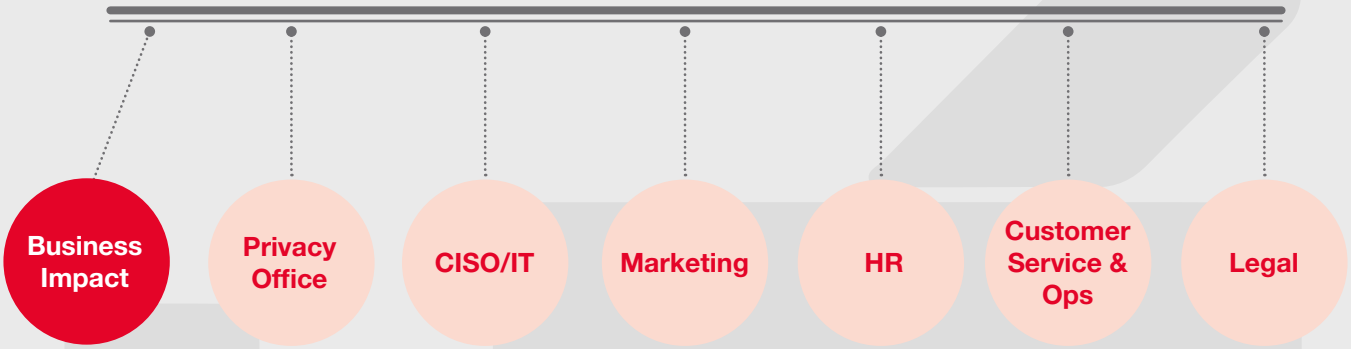
Apr. 2016
GDPR formally adopted by EU

Dec 2015
GDPR approval reached

25 May 2018
GDPR in effect, enforcement actions begin

GDPR impacts many stakeholders

The requirements imposed by GDPR are not industry specific, and have an impact over many areas of an organisation.



Privacy Office
- Considering a Data Privacy Officer
- Enhancing notice & transparency
- Enforcing Privacy by Design and by Default
- Conducting Privacy Impact Assessments

CISO/IT
- Promoting security throughout the data lifecycle
- Enabling data portability
- Ensuring rights of access, authentication
- Managing consent indicators and logs
- Driving incident response process
- Enabling rights of access & rectification
- Permitting the right to be forgotten

Marketing
- Respecting consent
- Automating decision-making processes
- Limiting access to data

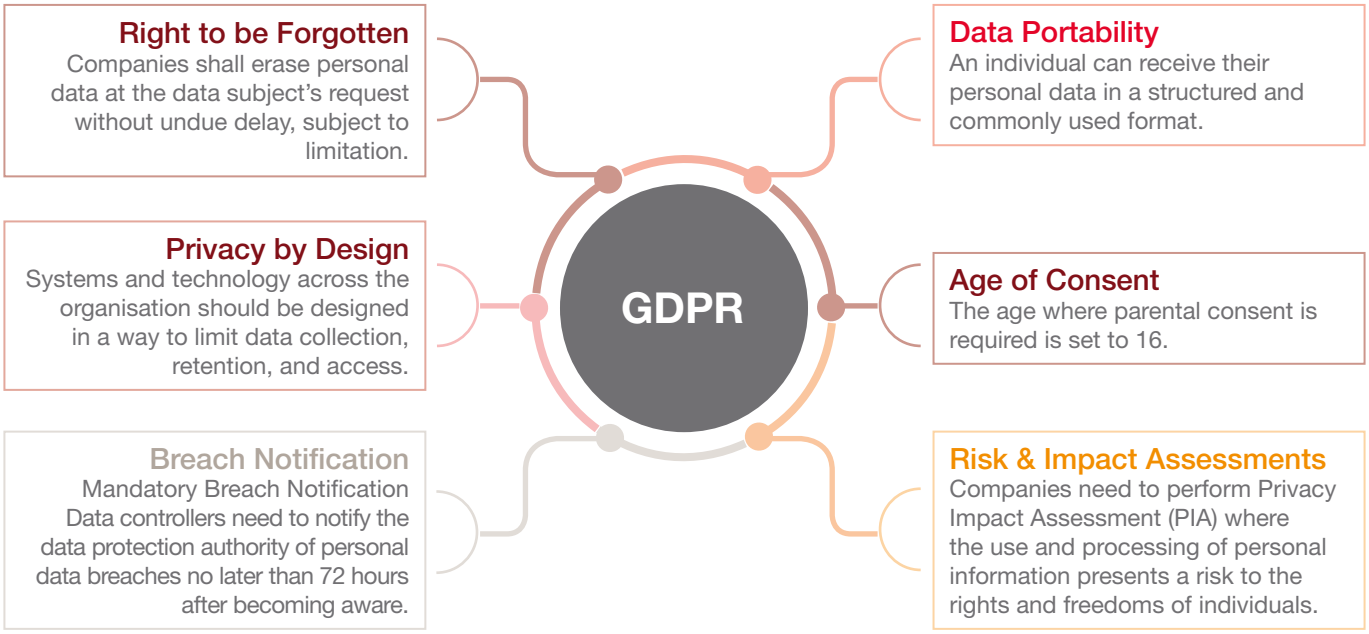
HR
- Training and awareness on privacy matters
- Implementing data subjects rights of employees

Customer Service & Ops
- Ensuring rights of access & remediation
- Permitting the right to be forgotten
- Fielding questions, inquiries, concerns

Legal
- Enacting data transfer mechanisms
- Defining data controllers & processors
- Managing contract process and clauses
- Driving data breach notification

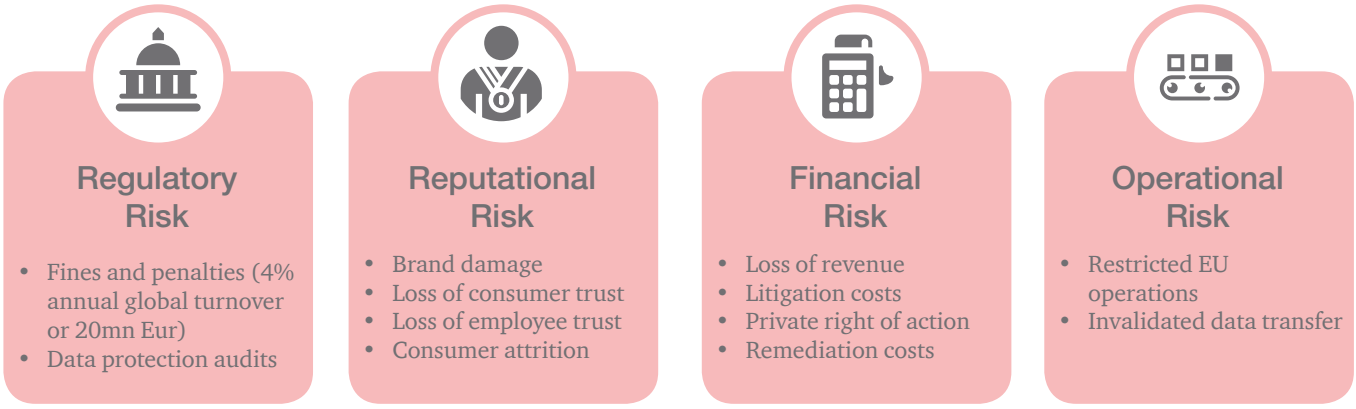
Some enhanced/new requirements

The GDPR contain news regulatory requirements and heightened requirements. Some key requirements are outlined below.

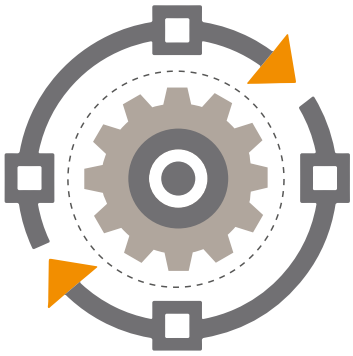


What's the risk of non-compliance?

The biggest risk of non-compliance with regards to GDPR is financial: CNPD or another data protection authority in the EU could issue fines as high as 4% of the annual global turnover of a company or 20million euro, whichever comes higher. One other type of risks are operational, consisting in the restriction of processing of personal data.



9 Payments Services Directive 2



The revised Payments Services Directive (PSD2) entered into force in Europe in January 2018, but few banks are ready. By law they will need to make customer data available in a secure manner, and eventually to give third-parties access to their customer's accounts. But equally important to these compliance efforts are the strategic implications for banks. How will they organise themselves and operate in a world of "open banking"?

The context in which PSD2 enters into force: payments market and trends

Global non-cash transactions broke a decade-long record for growth in 2014-2015 with volumes exceeding 11% growth to reach +433 billion. According to World Payment Report 2017, global non-cash transaction volumes will record a Compound Annual Growth Rate of 10.9% during 2015–2020.

The increasing digitisation was favoured mainly by three areas:

1. a greater propensity of users, from all population groups, in using tech devices
2. a change in consumer habits, who find these paying methods more efficient
3. an evolution of the market offered by players that adopt marketing strategies aimed at increasing the use of electronic tools and collecting information on customers' behaviour.

Furthermore, the emergence of new players is increasing the level of competition, the over-the-top players, e.g. Google, Amazon, and Apple and new TTP -third party providers, e.g. Sofort and Trustly, are changing the traditional context of the banking services, creating new business models for banks to deal with.

In Europe, new competitors are gaining market share. Case in point: In Germany, Sofort has become leader in e-commerce payments with over 2 million transactions per month and 35,000 merchants in less than 10 years.

In this context, the new Directive PSD2 takes care of encouraging the use of innovative digital tools and, at the same time, of regulating services and payment practices already in force, such as apps which aggregate the balances of several bank accounts or send money via social networks.

A lack of readiness

The world is going to change radically for banks in 2018. That is the year when the revised Payments Services Directive (PSD2) goes into effect in the European Union. The date when banks' monopoly over customer account information and payment services will cease. As from September 2019, banks should have the legal, operational and technological systems in place for strong customer authentication (SCA) so they can make customer data available in a secure manner. This will give third-parties access to customers' bank accounts (XS2A), providing a definite end to banks' gatekeeper role of customer payment data.

PSD2 Timeline

RTS on SCA will enter into force

13 Jan 2016
PSD2
The directive comes into force 2015/2366/EU, known as PSD2

Feb 2017
Final Draft RTS
RTS publication on Strong Customer Authentication and Secure Communication

Nov 2017
Instant payment
Instant payment transactions in the SEPA area

13 Jan 2018
PSD2
PSD2 transposition by Member States and PSD repeal

Sept 2019 (estimate)
The RTS will be applied 18 months after the adoption date by the European Parliament and the European Council

So the clock is ticking, with far reaching consequences. Not surprisingly, 94% of banks are currently working in some manner on PSD2, according to PwC survey Waiting Until the Eleventh Hour conducted in 18 European countries in the first half of 2017. However, 38% of banks are still in the early stages of assessing the impact of this Directive.

A new PwC survey shows that few banks seem to be ready for it. In June 2017, 38% were still in the early stages of assessing its impact, while only 9% were in the implementation stage of the new PSD2 requirements.

PSD2 interdependency with other regulations

Another striking element of PSD2 lies in the interdependencies with other regulations. The General Data Protection Regulation (GDPR) promises a complex implementation with multiple stakeholders. For many banks, compliance by 2018 will be a challenge. But mere compliance – though challenging in itself – cannot be banks' only concern. As of today, few banks have experienced granting third parties access to customer data or payment functionality via application programming interfaces, so-called APIs. According to PwC survey, such data and functionality sharing, commonly referred to as "open banking", is currently pursued by only 47% of banks.

That is understandable given the competitive risks associated with opening data to third parties. Banks need a proper strategic response to avoid becoming disintermediated by more customer-oriented third-party offerings. Furthermore, real revenues are at stake. We can mention the lucrative card business, since third-party providers could offer low-cost "payment initiation services" to compete for that business.

The bottom line is that it is time for banks to move beyond talk and analysis to take decisive steps.

New business models

Encouragingly, two out of three banks in PwC study say they want to use PSD2 to change their strategic positioning. Doing so, banks will need to analyse the emerging payments landscape bearing in mind their main strengths as well as FinTech players'. They can then begin to identify new revenue opportunities for services. This can include AISPs (Account Information Service Providers) or PISPs (Payment Initiation Service Providers, and consider new business models.

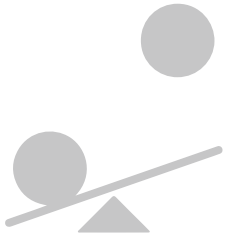
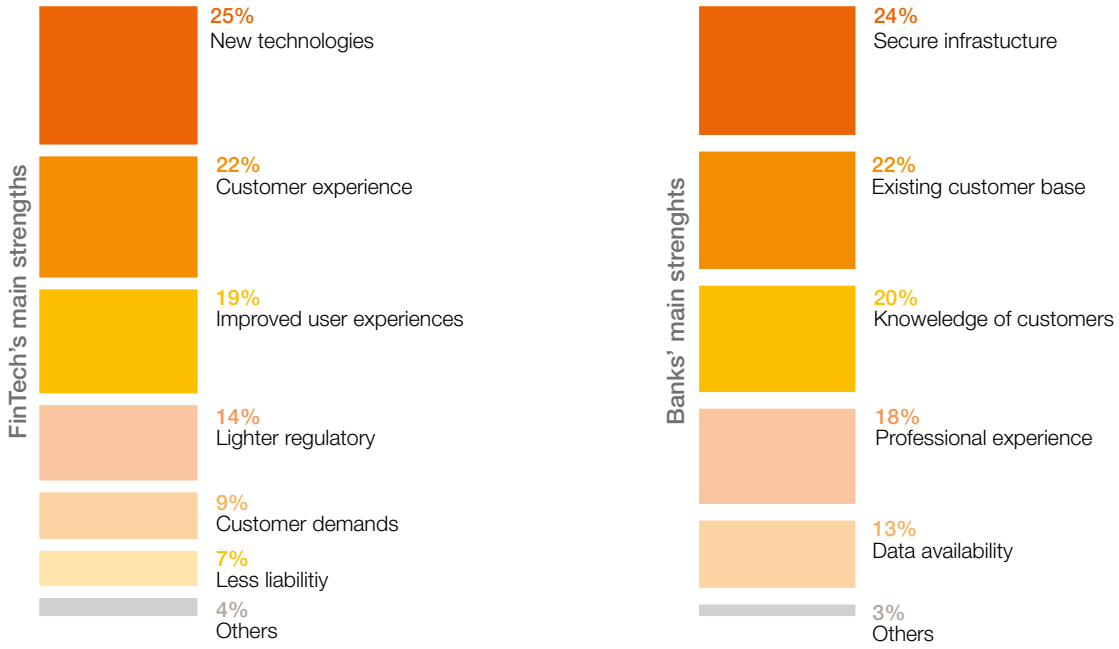


Figure 18: *European banks' reaction to PSD2*

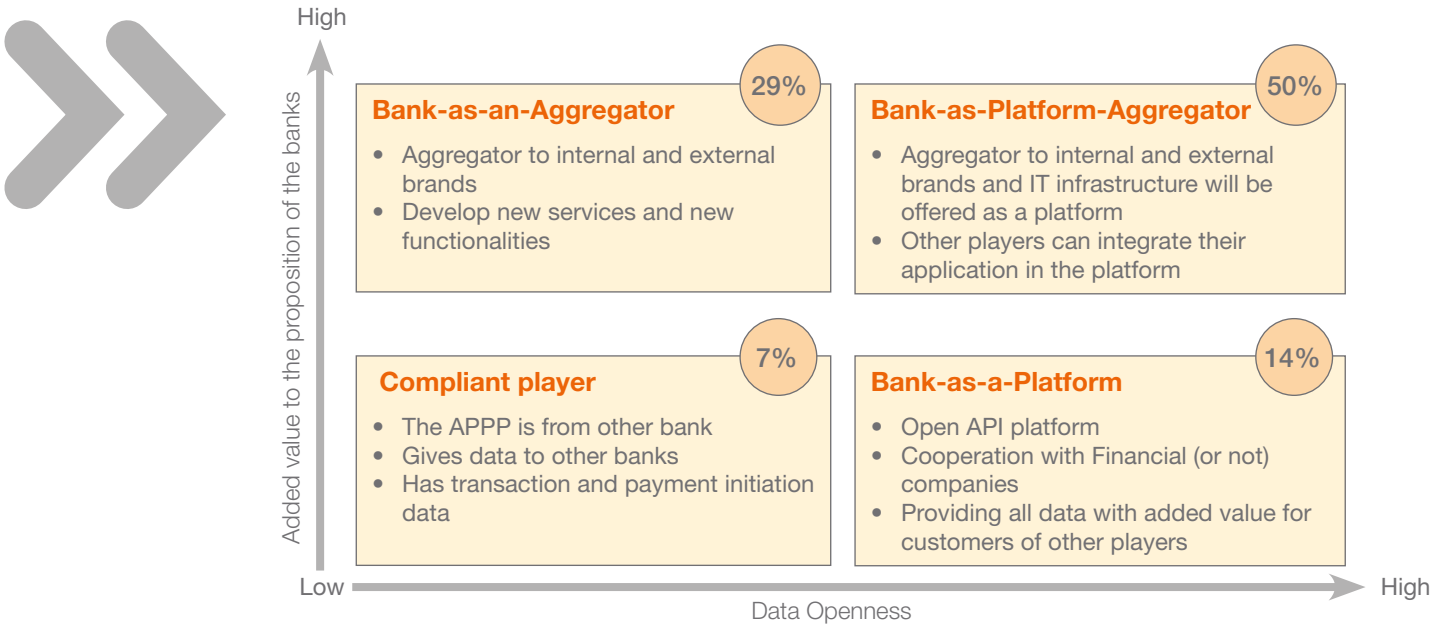


Source: PwC, Waiting until the Eleventh Hour, European Bank's reaction to PSD2, October 2017

FinTech vs Banks strengths

As the graph shows, half of banks aspire to be a platform aggregator. This would mean developing an open platform that allows partners to integrate their products and services into the bank's offering while providing an open platform for generating new products and services based on the bank's API and data. Any bank that could achieve this would be a powerful operator. However, the reality is that only a handful of large banks could reasonably expect to build a truly powerful partner ecosystem.

Which strategic positioning are Banks aiming to achieve in the long term?



Source: PwC, Roles for Banks and payment operators: How the scenario might evolve in the future, October 2017

Banks positioning in the long term

In fact, few third parties will be willing to connect to multiple banks as long as there is no common API standard across Europe. Third parties will instead turn to data consolidators to accomplish this cumbersome job for them. Only those banks that are important enough due to their size, that offer attractive, value-adding APIs or that are a compelling strategic partner will be attractive to third parties.

Without acknowledging it, most banks are actually in a wait-and-see mode. They might be focusing on compliance and a few short-term tactical moves. This might include collaborating with a couple of FinTech without an overarching strategy. So why is there a lack of strategic direction at this late hour? One reason may be that PSD2 is still a "niche topic" at many banks.

Appendix

Useful Luxembourg addresses

Administration
des contributions directes
45, boulevard Roosevelt
L-2982 Luxembourg
Tel.: +352 40 800-1
www.impotsdirects.public.lu

Administration de l'Enregistrement
et des Domaines
1-3, avenue Guillaume
L-1651 Luxembourg
Tel.: +352 247 808 00
www.aed.public.lu

Association des Banques et Banquiers, Luxembourg
(ABBL)
12, rue Erasme
L-1468 Luxembourg
Tel.: +352 46 36 60-1
www.abbl.lu

Association Luxembourgeoise
des Compliance Officers (ALCO)
12, Rue Erasme
L-1468 Luxembourg
www.alco.lu

Association Luxembourgeoise
des Fonds d'Investissement (ALFI)
12, rue Erasme
L-1468 Luxembourg
Tel.: +352 22 30 26-1
www.alfi.lu

Conseil de Protection des Deposants et des Investisseurs
(CPDI)
283, route d'Arlon
L-1150 Luxembourg
Tel.: +352 26 251-1
www.cssf.lu

Banque centrale du Luxembourg (BcL)
2, Boulevard Royal
L-2983 Luxembourg
Tel.: +352 47 74-1
www.bcl.lu

Parquet Economique et Financier - Cellule de
Renseignement Financier
Bâtiment PL, Cité Judiciaire
L-2080 Luxembourg
Tel.: +352 47 59 81 447

Chambre de Commerce
du Grand-Duché de Luxembourg
7, rue Alcide de Gasperi
L-2981 Luxembourg
Tel.: +352 42 39 39-1
www.cc.lu

Haut Comité de la Place financière
3, rue de la Congrégation
L-1352 Luxembourg
Tel.: +352 247-82600

Commissariat aux Assurances (CAA)
7, boulevard Joseph II
L-1840 Luxembourg
Tel.: +352 22 69 11-1
www.commassu.lu

Commission de Surveillance du Secteur Financier (CSSF)
283, route d'Arlon
L-1150 Luxembourg
Tel.: +352 26 251-1
www.cssf.lu

Institut Luxembourgeois des Administrateurs (ILA)
19, rue de Bitbourg
L-1273 Luxembourg
Tel.: +352 26 00 21 487
www.ila.lu

Fédération des professionnels du secteur financier, Luxembourg (PROFIL)
12, rue Erasme
L-2010 Luxembourg
Tel.: +352 27 20 37-1
www.profil-luxembourg.lu

House of Training
7, rue Alcide de Gasperi
L-1615 Luxembourg
Tel.: +352 46 50 16-1
www.houseoftraining.lu

Institut des Réviseurs d'Entreprises (IRE)
7, Alcide de Gasperi
L-1615 Luxembourg
Tel.: +352 29 11 39-1
www.ire.lu

Luxembourg For Finance (LFF)
12, rue Erasme
L-1468 Luxembourg
Tel.: + 352 27 20 21 1
www.luxembourgforfinance.lu

Faculté de Droit, d'Économie et de Finance Luxembourg School of Finance
Bâtiment K2
4, rue Albert Borschette
L-1246 Luxembourg-Kirchberg
T.: + 352 46 66 44 6460
wwwfr.uni.lu/luxembourg_school_of_finance

Société de la Bourse de Luxembourg S.A.
35 Boulevard Joseph II
L-1840 Luxembourg
Tel.: +352 47 79 36-1
www.bourse.lu

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