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Press release

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Cost of regulation: a complex equation to solve – 4th ABBL x EY Cost of Regulation Study

Banks play a central role in ensuring stability, and in financing our economy. Yet the substantial investments required to meet regulatory obligations force banks to make strategic choices in how they allocate their resources to strengthening their governance and risk frameworks and to supporting the economy's competitiveness.

The ABBL x EY study takes stock of compliance investments and shows that those have drastically increased in 2024. It also underscores the growing expenses tied to resilience and digitalization, on top of longstanding cost drivers like AML. In this context, the ABBL calls for greater proportionality in both the design and the implementation of regulatory requirements.

Financing Europe's transition: unlocking the full potential of the banking sector

Between €750 billion and €800 billion per year is what former European Central Bank President Mario Draghi estimates Europe must mobilize to finance its digital and sustainable transition, reindustrialize and strengthen its strategic autonomy. His 2024 report not only underscores the need for a greater mobilization of private capital, but also reaffirms the essential role played by the banking sector. Across Europe, nearly 80% of corporate financing needs are met through bank lending. In the context of the Savings and Investments Union, there are asks to even further contribute to channeling savings in investment in the real economy.

As **Vanessa Müller**, Partner, EY Luxembourg, notes: "Luxembourg banks can play a decisive role in addressing Europe's challenges, particularly through the financing solutions they offer to international companies and their ability to reallocate their clients' assets towards virtuous and forward-looking projects. But to fully play their part, they must strengthen agility and make optimal use of their resources."

Against this backdrop, the cost of regulation and the simplification of the regulatory framework emerge as decisive factors in ensuring banks can effectively contribute to Europe's transformation.

How regulation impacts costs, staffing and competitiveness in Luxembourg's banks



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For the fourth time, the *ABBL and EY have published their joint study* on the cost of regulation for banks in Luxembourg. The report offers a clear picture of how regulatory requirements continue to shape the financial sector, impacting costs, operations, risks and strategic priorities.

Presented at the **ABBL and EY | Survey on the Cost of Regulation 2025 event** on 3 December, the study aims to offer insights that help institutions navigate demands effectively while maintaining competitiveness and resilience. "Together, ABBL and EY are opening the floor for conversations. We are here to spark dialogue, and support conversations and ideas to better understand, influence, implement and monitor regulation, through market or technology solutions for example," says **Vanessa Müller**.

- **Larger institutions incur significantly higher absolute regulatory costs**

The study indicates progressive growth in regulatory investment costs, with the largest increase occurring between 2023 and 2024. Investment costs reached €8.1 million and recurring costs €20.7 million for significant credit institutions. In comparison, credit institutions incurred approximately €2.9 million in investment costs and €4.1 million in recurring costs. EEA and non-EEA branches reported investment costs of €2.8 million and recurring costs of €3.4 million. However, when adjusted for institutional size (using net banking income as a proxy), smaller institutions bear a proportionally higher regulatory burden, highlighting a structural disadvantage in meeting compliance requirements with limited resources.

- **Smaller institutions allocate a larger proportion of staff to regulatory roles**

Significant credit institutions reported the highest average number of regulatory staff (127 full-time equivalents (FTEs)), compared to 30 FTEs for credit institutions and seven FTEs for EEA/non-EEA branches. However, when viewed as a percentage of total staff, smaller institutions dedicate a larger share to regulatory roles (up to 21%) versus 12% for significant institutions.

- **Regulatory cost is more pronounced for smaller institutions**

Since smaller individuals allocate more staff to regulatory roles, they have a relatively higher regulatory burden. While larger institutions benefit from scale, smaller ones face a proportionally higher regulatory burden.

- **Luxembourg labor cost in compliance roles is more costly than other EU countries**

The average fully loaded annual cost of a regulatory FTE in Luxembourg was found to be significantly higher than both the EU average and Luxembourg's general labor cost, indicating a substantial cost impact for compliance roles.

- **Anti-money laundering and tax evasion, and MiFID, are the top regulatory priorities, DORA and Markets and Payments expenses emerged**

Banks continue to focus on regulations related to the fight against financial crime and tax evasion, followed by financial stability. Anti-money laundering (AML) remains the top priority among institutions. MiFID II also retains its relevance, reflecting its ongoing importance in market conduct regulation. The emergence of DORA and the Instant Payments Regulation signals a shift towards operational resilience and digitalization as key regulatory themes.

A fine balance to maintain



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The report closes with a main takeaway: banks have a tightrope to walk, balancing compliance with growth, leveraging smart technology, strong partnerships and keeping a sharp eye on efficiency. “No compromise should be made,” says **Sandrine Roux**, ABBL’s Secretary General “Finding the right balance in the cost of regulation is a complex equation to solve. On one side, we welcome regulation when it has a benefit on the robustness and stability of our financial sector or when it has some clear benefits to the clients in terms of protection, security or transparency. On the other side, it can divert time and resources from other strategic key projects.”

Still, the study shows that regulatory compliance remains a major cost driver for Luxembourg banks, especially smaller institutions which face a heavier burden relative to their size. This clearly impacts their capacity to support the economy. **Sandrine Roux**: “The structural challenges our members face make it clear that we need proportionality. Regulators and industry bodies should work side by side, building frameworks that are clear, consistent and fair.” “That is how Luxembourg banks will strengthen agility and keep their place as trusted financial partners,” concludes **Vanessa Müller**.

Download the full report here: https://www.ey.com/en_lu/industries/banking-capital-markets/survey-on-the-cost-of-regulation-and-its-impact-on-the-luxembourg

On the report methodology

Twenty-two (22) banks were surveyed, representing approximately 20% of total market assets and close to 40% of total market employment in Luxembourg. Varying by size, business model and geographic origin, banks were categorized according to the CSSF classification system: significant credit institutions, credit institutions, and branches of credit institutions. Investment costs (one-time or project-based expenses) and recurring costs (substantive compliance or administrative expenses) across six thematic clusters and 25 regulations were analyzed. Fourteen (14) key regulations were examined in technical detail.



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About the ABBL

The ABBL's mission is to promote the sustainable development of regulated, innovative, and responsible banking services. The ABBL is the largest and oldest professional association in the financial sector. It represents the banking sector in the broadest sense, i.e. the majority of banks established in Luxembourg, as well as regulated financial intermediaries and others in the sector including law firms, consultancies, auditors, market infrastructures, e-money and payment institutions. The ABBL provides its members with the information, resources, and services they need to operate in a dynamic financial market and an increasingly complex regulatory environment. It is an open platform for discussing key industry issues and developing common positions across the sector.

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