Luxembourg Private Banks Digitalization Survey 2024

Second edition

November 2024

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Foreword: ABBL and KPMG

Foreword ABBL

Insights and conclusions

With the growing importance of digitalization in the banking sector, The Luxembourg's Bankers Association remains committed to supporting its members on their journey of transformation.

Trust has always been the cornerstone of banking—trust from customers and counterparties alike. While private banks are not expected to lead the charge in innovation and digitalization, banks are expected to provide solutions that are stable, reliable, and secure. Striking the balance between security and innovation is particularly crucial in the private banking sector.

Three years after our initial study, we, alongside KPMG, felt it was timely to reassess the private banking industry's relationship with digitalization. The time gap between the two studies offers a unique perspective, especially given that the world faced the COVID-19 pandemic in the interim. Despite the many sufferings it entailed, the pandemic has arguably accelerated digital transformation within businesses and in how they engage with customers.

While universal banks have led the way in this area, our study reveals that private banks are increasingly positive about digitization. In fact, digital transformation in banking is about how customer relationship managers operate and serve their clients.

The first winners of this transformation are undoubtedly the customers. Customers' needs have been driving the digital transformation in banks as they expect a combination of real-time digital financial services and personalized, face-to-face advisory support. Digital transformation is enabling us to deliver this hybrid model effectively.

However, the survey also uncovers certain challenges and nuances. For instance, private banks tend to focus more on maintaining and improving existing tools rather than adopting new systems. This may reflect a preference for tried-and-true solutions, or it may stem from resource constraints, as the report also highlights.

Generally seen, digital transformation is very transversal, it impacts all corners of the organization: customers, relationship managers, operations, compliance, risk, IT, cybersecurity... It is an ongoing journey that requires constant adaptation. Thus, leadership plays a crucial role setting priorities, choosing the right technologies and fostering a culture of continuous learning. Overall, it is about competitiveness: It is better to innovate when you can, not when you need.

At the ABBL, we are paying close attention to these findings and hope that this study will spark a shift in mindset especially on leadership level. Through our Fintech and Innovation Forum, we will continue fostering dialogue between banks and fintech companies. We also look forward to welcoming bank CEOs at our third "CEO Meets Fintechs" event on 20th January 2025.

In the meantime, we hope you find this study insightful and thought-provoking.

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ABBL

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ABBL

Foreword KPMG

What digital transformation meant for banks 2 to 3 years ago is nothing compared to today's reality. Digitalization is now the cornerstone of business success, the powerful tool that not only bridges gaps but also unlocks and drives competitive advantage.

Intent and vision

This second edition, building on the first from 2019, explores the ongoing digital transformation within Luxembourgish banks.

It delves into organizational strategies, tools, client interactions, and collaborations, with a focus on Universal and Private banks as well as partnerships with FinTechs.

This survey seeks to deepen the understanding of evolving trends observed in the field. By compiling this data, the aim is to offer a clearer view of the factors driving digitalization and the challenges banks continue to face in their efforts.

The insights gathered are intended to contribute to the broader conversation around digital transformation, helping organizations address barriers and foster growth in an increasingly digital environment.

Acknowledgments

We extend our sincere thanks to all that participated in the survey and provided invaluable insights. Your contributions are crucial in understanding the current landscape and advancing our collective knowledge in the banking sector. Your time and effort in sharing detailed information are greatly appreciated.

Our gratitude also goes to the ABBL for their collaboration with KPMG in this initiative. We value your continued support and commitment to fostering a deeper understanding of industry trends.

We also want to thank the KPMG internal teams for their work. These efforts have been essential in delivering the final results.

02

Behind the scene and key findings

How have we realised this exercise and what were the outcomes of the survey?

Key takeaways

Digitalization in Private Banking

66% of survey respondents consider digitalization a top strategic priority.

- Main goals of digital transformation:
  Add new digital capabilities to products and services
  Improve customer satisfaction and user experience
  Enhance efficiency through automation and digital approaches to regulatory compliance.
- However, reality shows still limited resource allocation:
  Few banks have appointed a Head of Digital Transformation
  Lack of clear digital transformation strategies
- Regulatory compliance takes precedence leaving small room for innovation and digital initiatives
  Key projects like DORA and the Instant Payments Directive align with digitalization but consume significant resources.

Services for a Diverse Client Base

Luxembourg's private banks is diversifying its client profiles:

- Millennials and Generation Z: growing segment
- Institutional clients remain a core focus

Offerings include:

✓ Mobile apps and online banking tailored to generational preferences

✓ Advanced CRM systems to enhance services for high-net-worth clients

✓ Innovative solutions: more than one-third of banks have adopted hyper automation, showcasing experiments with AI and robotization.

FinTech Collaboration and Mutualization

74% of private banks have signed at least one contract with a FinTech in the last 3 years. The main benefits of such collaboration:

- Boosts efficiency
- Helps address complex compliance needs

Main challenges to collaborate and keep time-to-market:

- Compliance, security risks, and data confidentiality concerns
- Competition and system integration issues

New Skills Needed

Increasing demand for specialized skills in digitalization, related to new tools and methodologies (agile practices, cloud computing, and data analytics)

Only 48% of private banks report having sufficient in-house skills for digital transformation projects.

Digitalization: A recognized priority!

However Regulatory Compliance takes Precedence Over Digital Transformation.

Methodology

To take the temperature of the Luxembourgish located bank landscape and its digital transformation, KPMG's Management Consulting team and the ABBL collected survey responses focusing on adoption rates, key drivers and barriers.

Our findings explore how universal banks lead in digital maturity compared to private banks, the gaps between digital expectations and resources, and the role of evolving technologies and partnerships in overcoming challenges.

23 Luxembourgish banks — **Responding to** → **86 questions**

Covering

Tools and systems + **Digital strategy and organization** + **FinTech and RegTech collaboration**

Timeline:

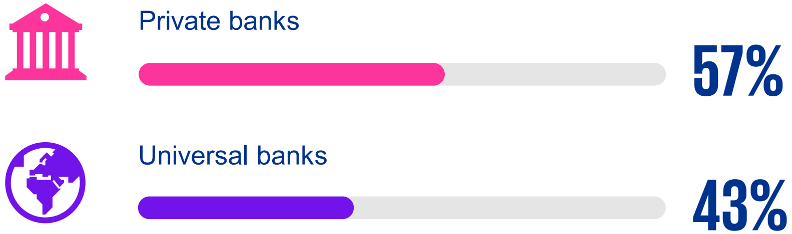
Survey completion	Answer analysis	Survey results
Q1, 2024	*Summer, 2024*	*Fall, 2024*

Respondents and demographics

23 respondents

of which **52%** are headquartered in Luxembourg

ABBL's member categories to which respondents belong:



Size of respondents' organization within Luxembourg legal entities and branches in terms of full-time equivalents (FTEs) as of December 2023

03
Organization and strategy

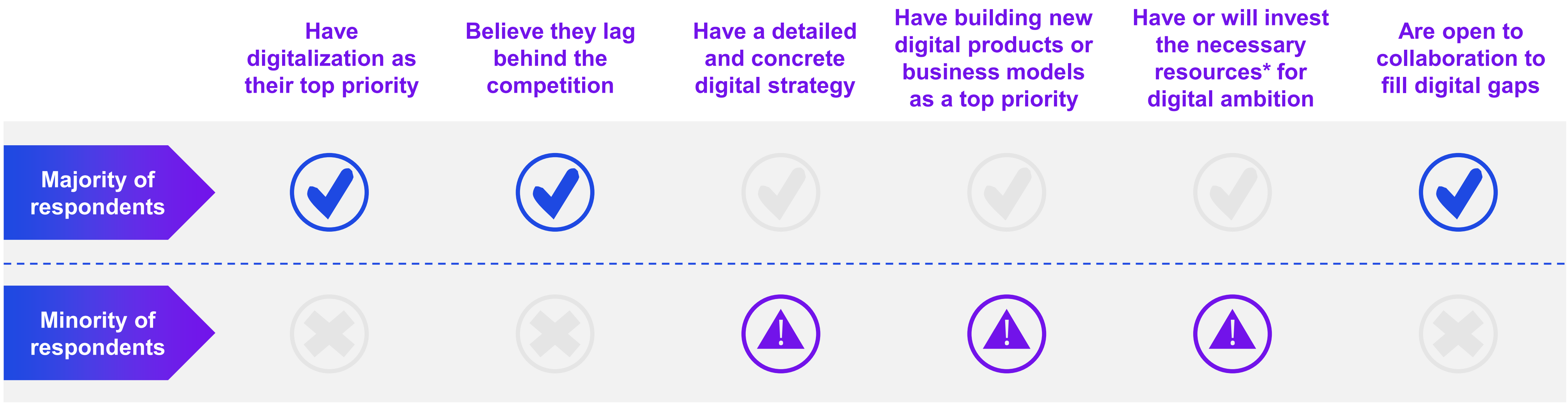
How are Luxembourg banks strategically organized to effectively navigate and accelerate their digital transformation?

Organization and strategy findings

While respondents largely consider digitalization a top priority, many still feel they lag behind their competitors.

Contributing factors to this concern could include:

- Most respondents **lacking a concrete digital strategy**
- **Insufficient investment in building new digital products or business models**, which could affect future readiness, innovation efforts and global competitive advantage
- Despite ambitious digital goals, most have **not allocated the necessary resources to achieve them, such as trained in-house FTEs.**.



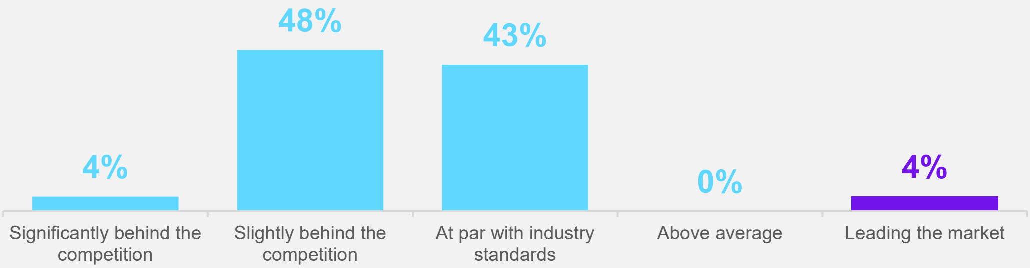
(Trained FTE, budget and governance)

Organization and maturity

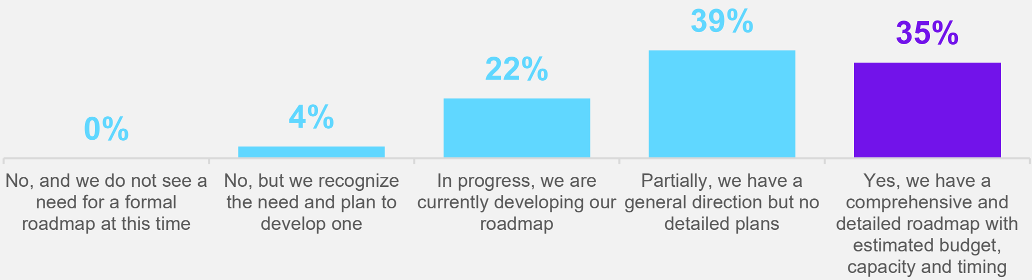
Luxembourg's banks show mixed progress in digital maturity, with more work needed to fully realize their digital potential.

/!\ While many banks prioritize digitalization and believe they are only slightly behind or equal to their competition, only the minority has a concrete digital roadmap, strategy, or both.

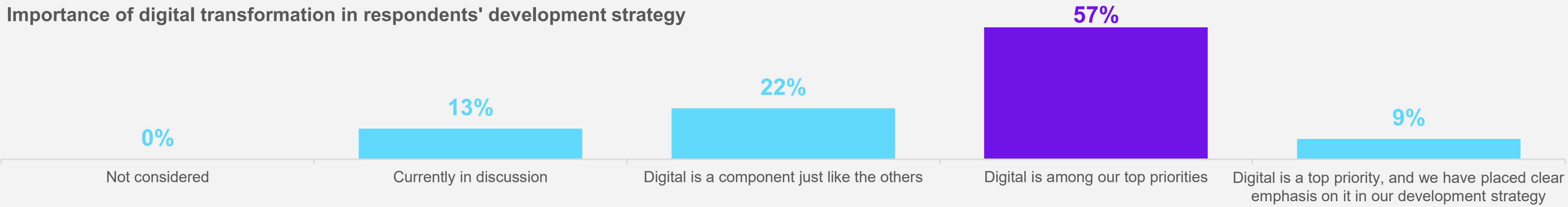
Participants’ perceived digital position compared to competitors



Survey partakers’ answers on having a clear roadmap for digital initiatives



Importance of digital transformation in respondents' development strategy



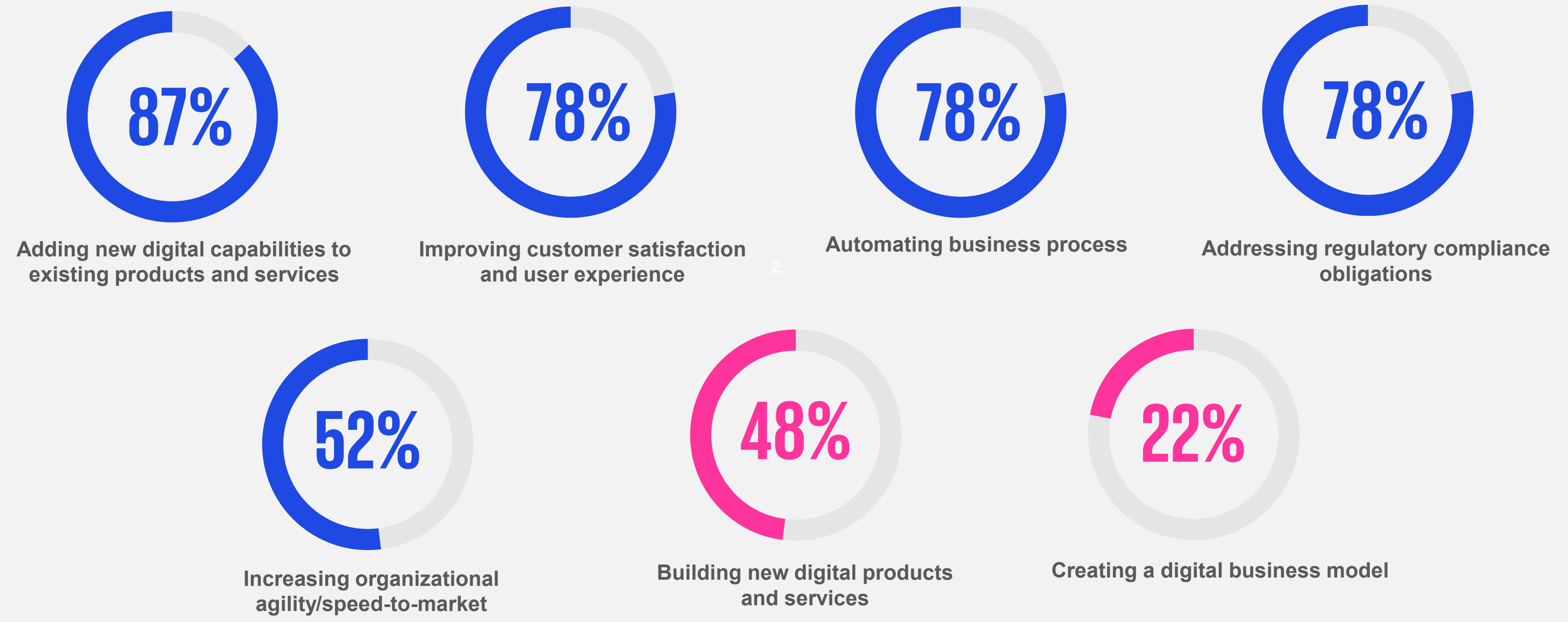
23 of 23 respondents provided an answer

Organization and priorities

In Luxembourg, banks prioritize digitalization to enhance products, automate processes, ensure compliance and improve customer satisfaction, aligning with broader observed market trends.

While this indicates that banks view digitalization as a key lever to achieve their strategic objectives, some key benefits are being overlooked.

Respondents' main digitalization goals - Percentage of respondents that identified the elements below as main digital goals



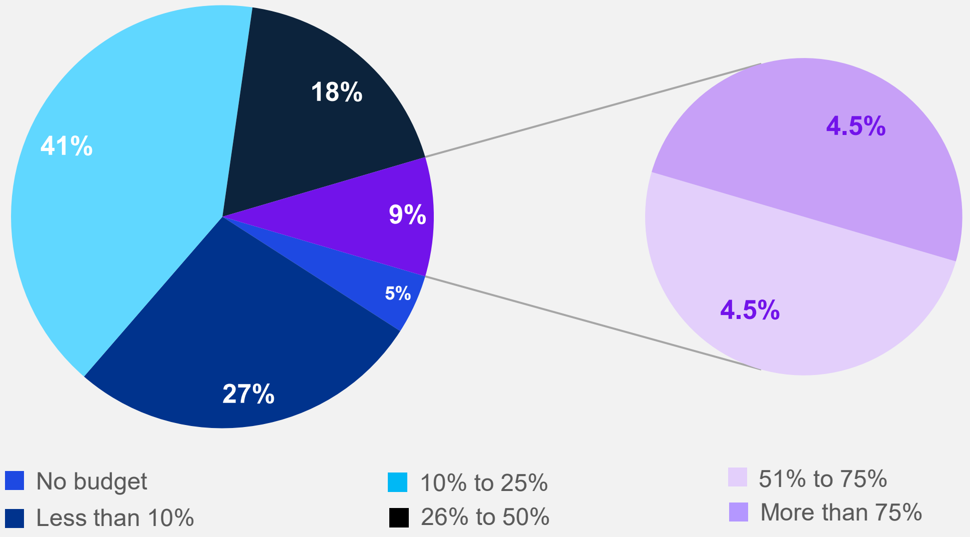
23 of 23 respondents provided an answer

Strategy and budget

Luxembourg banks are dedicating a growing portion of their IT budgets to digital transformation. **However, 70% of respondents only allocates 0-25%, which begs the question: is this sufficient to meet their digital goals?**

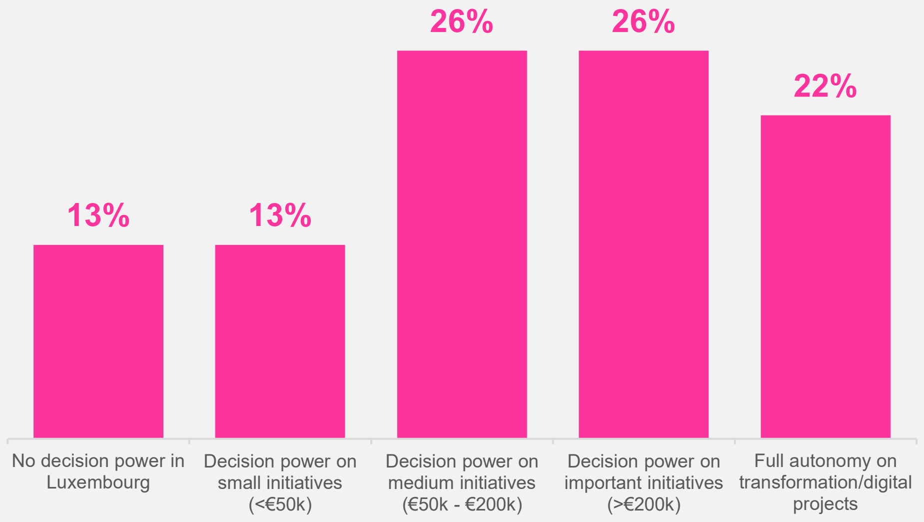
65% of respondents expect **their digital transformation budget to rise in the next five years**, while 26% foresee a significant drop in their digital spending.

Respondents' global IT budget for both operational maintenance and strategic initiatives/changes earmarked specifically for digital transformation projects



22 of 23 respondents provided an answer

Participants' decision power over the Luxembourg legal entity's transformation/digital projects



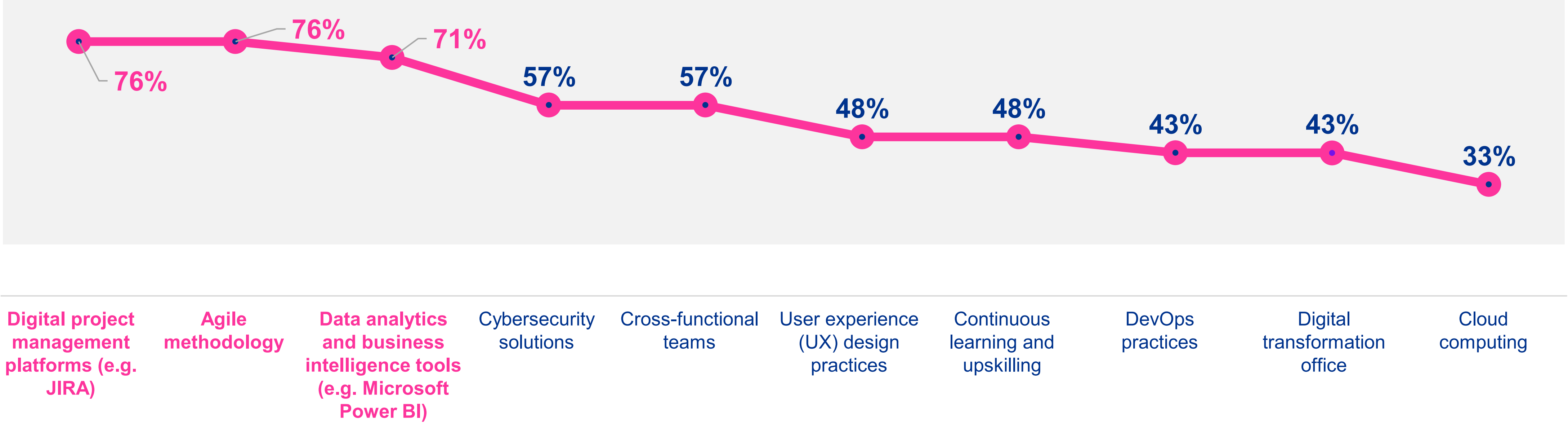
23 of 23 respondents provided an answer

Strategy and tools

Banks in Luxembourg are embracing organizational approaches and solutions to catalyse digitalization, such as agile and DevOps methodologies, cloud computing and data analytics.

To enhance these efforts, they're focused on improving user experience, forming cross-functional teams, promoting continuous learning, and implementing robust cybersecurity practices.

Panelists' specific organizational structures, tools and methodologies to support digitalization ambitions



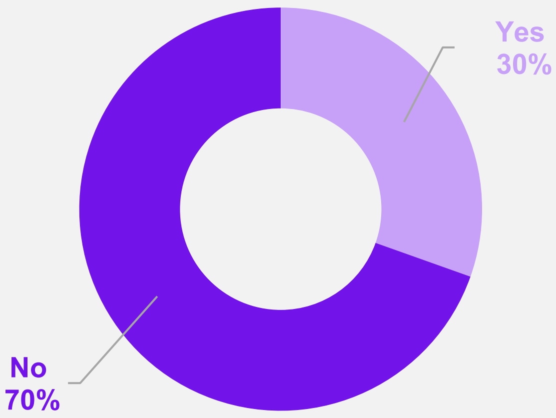
21 of 23 respondents provided an answer

Strategy and people

The digitalization of Luxembourg's banking sector drives a growing need for specialized skills.

/!\ Limited investment in corporate digital governance and digital and technical training, together with a shortage of skilled digital professionals in Luxembourg, could hinder the future health of concerned banks.

Banks with a Head of Digital Transformation or equivalent in the Luxembourg legal entity



23 of 23 respondents provided an answer

52% of respondents **lack the right in-house skills** to support their digital transformation projects.

73% of respondents would **seek support from the group** if they do not have the right in-house skills.

57% of respondents only allocate **less than 10%** of their training budget to digital and technical topics, while the remaining 43% only allocate between 10 and 30%.

45% of respondents would **seek support from specialized external consultants** if they lacked the right in-house skills, while only 27% would hire new staff or train existing staff.

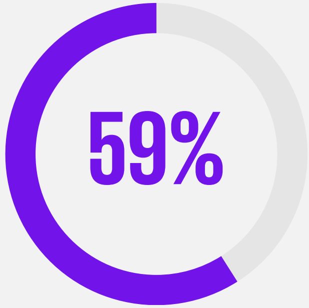
11-21 of 23 respondents provided an answer

Strategy and partnerships

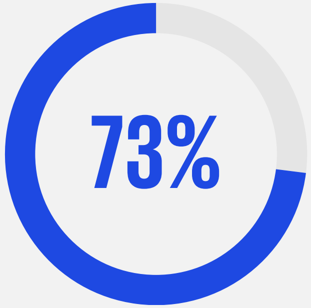
Banks in Luxembourg recognize the benefits of mutualization and are open to partnering on digital projects, drawing on their experience with similar collaborations.

Despite this willingness, significant concerns about data confidentiality and banking secrecy continue to pose challenges in expanding mutualization efforts.

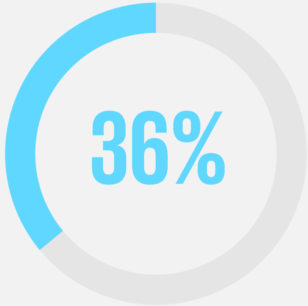
Participants' previous experience with mutualizing digital projects at the group level with other organizations within or outside Luxembourg



Have experience with mutualized digital projects



Would be open to partnering on digital projects through mutualization



Would not refrain from partnering even if there are data confidentiality or banking secrecy concerns

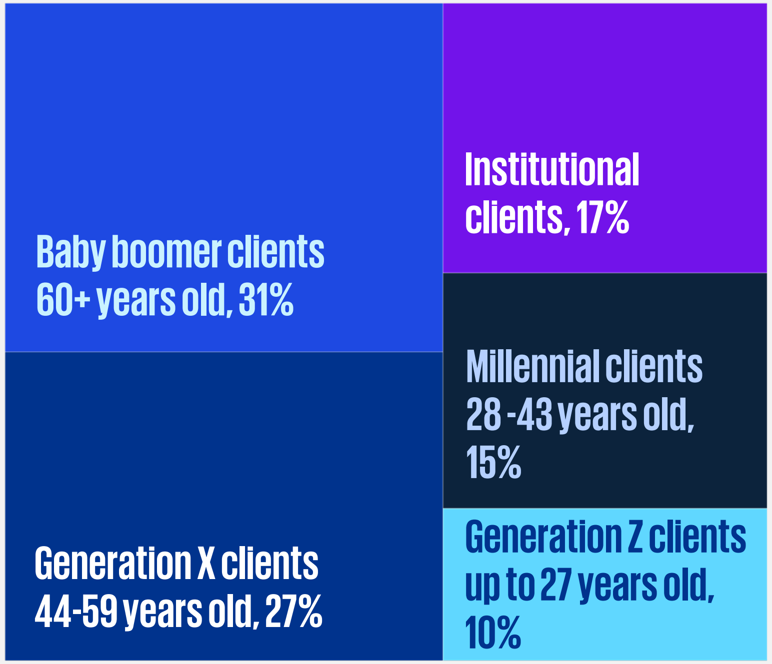
22 of 23 respondents provided an answer

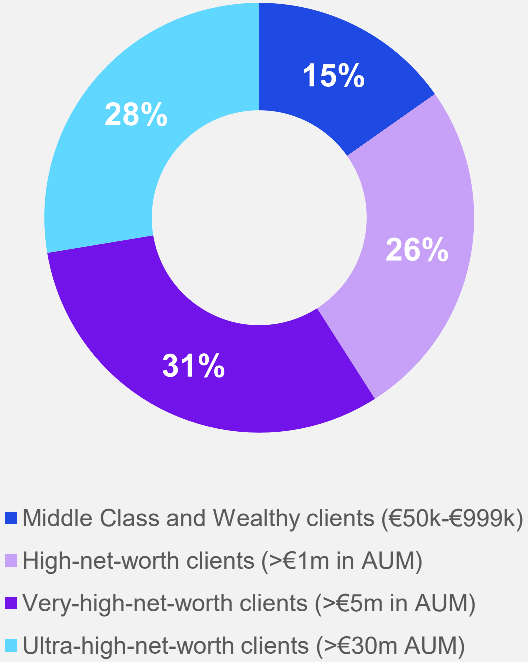
Client base demographics and digital channels

Banks in Luxembourg serve a diverse client base, with Millennials and Generation Z comprising a small but growing segment, indicating a generational shift. Institutional clients also play a vital role, underscoring banks' robust foothold in both retail and institutional markets.

Consequently, most banks provide mobile apps and online banking to cater to their clients' varying preferences, often associated with different generations.

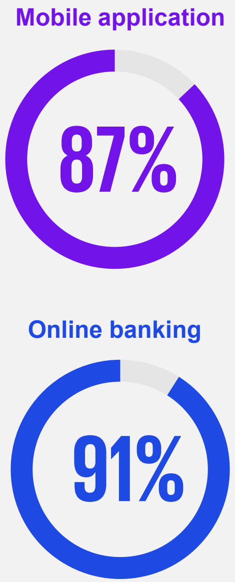
Ranking of respondents' client profiles and profile types based on their assets under management (AUM) as of the end of 2023.





21 of 23 respondents provided an answer

Panelists' digital channels offered to clients

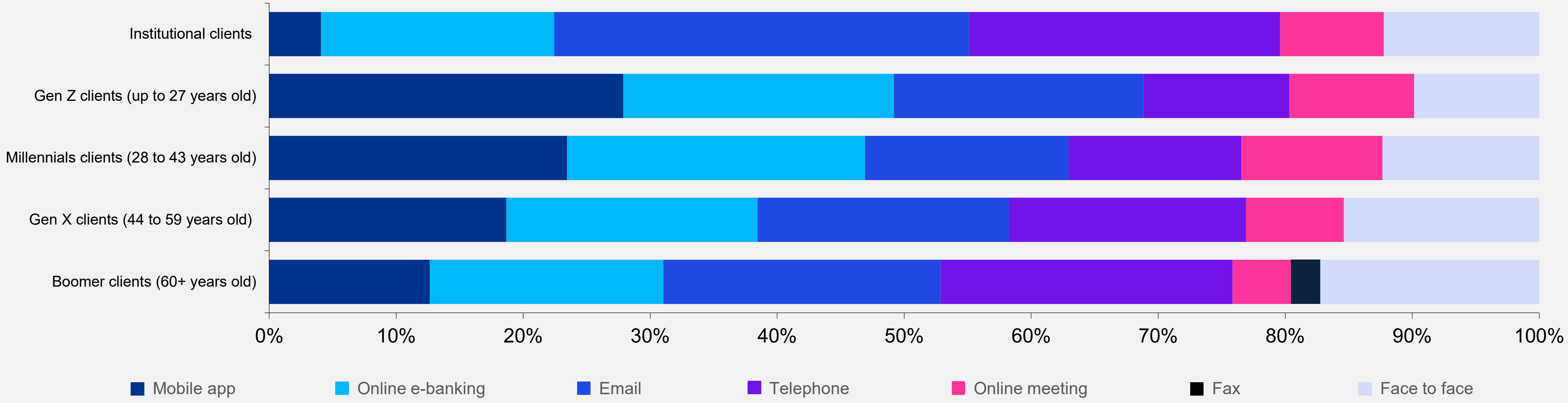


23 of 23 respondents provided an answer

Generations and interfaces

The diverse client base of Luxembourg banks demands a spectrum of communication channels to meet different generational needs and boost service efficiency.

Respondents' most popular client access points for recurring operations per generation



20-23 of 23 respondents provided an answer

04

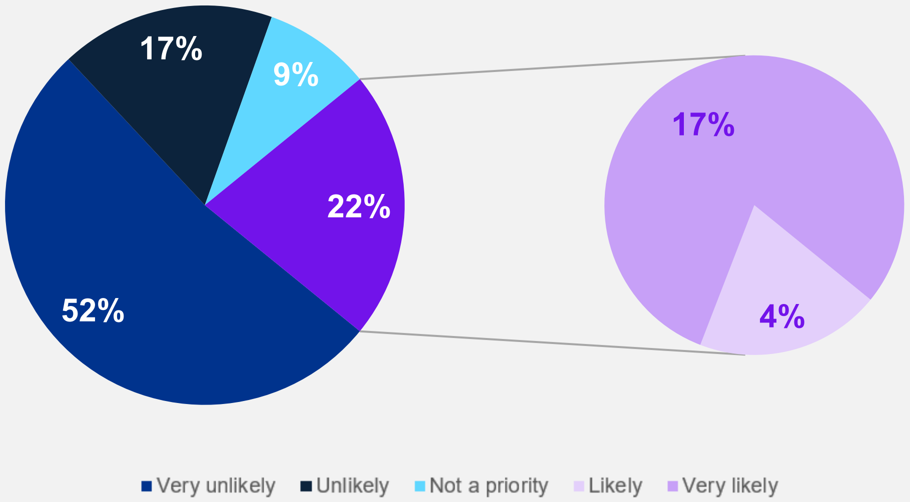
Tools and systems

Which tools and systems are banks in Luxembourg adopting to strategically drive and streamline their digital transformation, ensuring they stay competitive and compliant in a rapidly evolving financial landscape?

Core banking systems

Respondents are focusing on enhancing efficiency and shrinking costs through their core banking systems (CBS). Despite interest in boosting agility and tackling new regulatory requirements, most institutions are unlikely to replace their CBS in the next five years, favouring regular maintenance and upgrades instead.

Likelihood of changing the CBS in the next five years



22 of 23 respondents provided an answer

55% of respondents **regularly update their CBS for maintenance (e.g. every six to 12 months),** compared to every two to three years (27%) or as per provider request (14%).

96% of respondents are **prioritizing improved efficiency** as a key goal for their CBS, underscoring a significant motivation to streamline operations.

78% of respondents are focused **on reducing costs via their CBS,** reflecting a clear drive for financial optimization.

69% of respondents are **(very) unlikely to change their CBS,** indicating a preference for maintaining existing systems rather than seeking replacements.

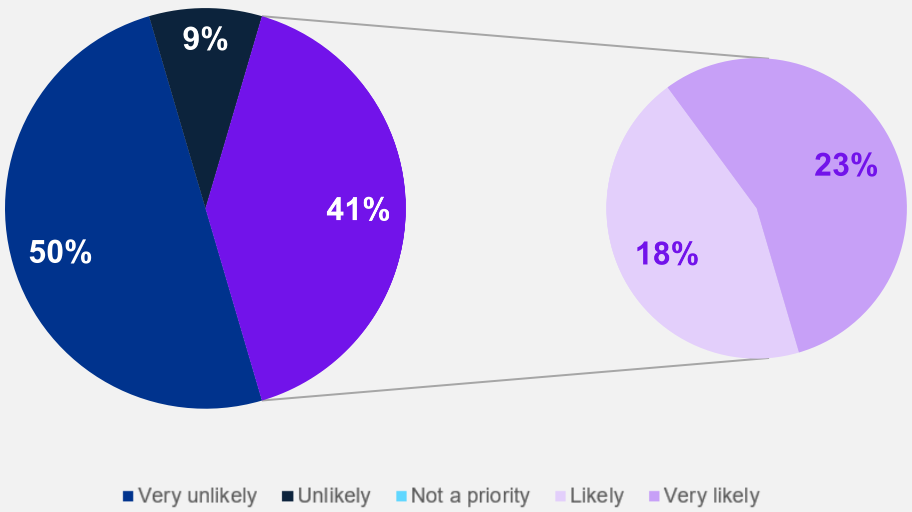
22 of 23 respondents provided an answer

Customer relation management

Luxembourg's banks are increasingly adopting advanced customer relationship management (CRM) systems to better serve high-net-worth clients and stay competitive in a specialized financial market.

This reflects a broader industry trend of leveraging digital transformation to boost personalization, client engagement and regulatory compliance.

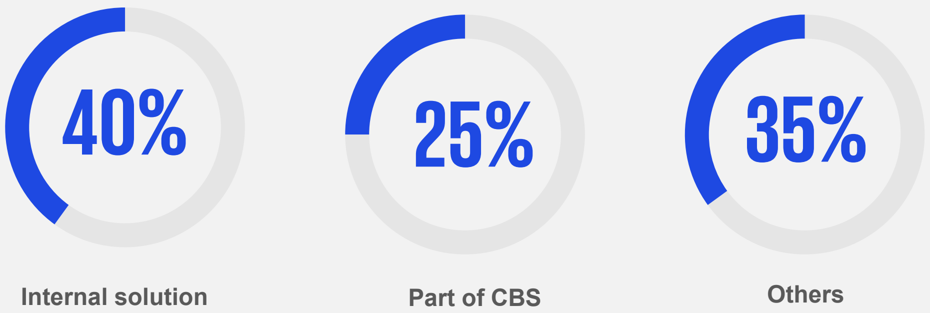
Likelihood of changing the CRM in the next five years



22 of 23 respondents provided an answer

41% of respondents expect to change their CRM within the next five years. The **top three reasons given** are **improving efficiency** (67%), enhancing **agility and time-to-market** (48%), and **improving or creating group synergy** (33%).

Participants' current CRM systems



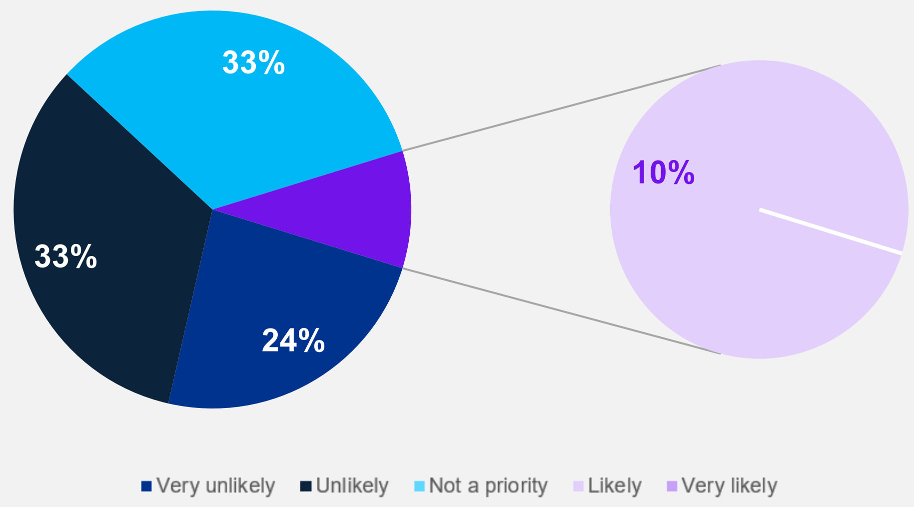
20 of 23 respondents provided an answer

HR systems

While Luxembourg banks' HR systems (HRS) are diverse, two providers dominate. Many banks face fragmented solutions across departments as well as group and local levels, leading to rising costs and reduced efficiency.

Additionally, most banks do not foresee changing their HRS in the next five years.

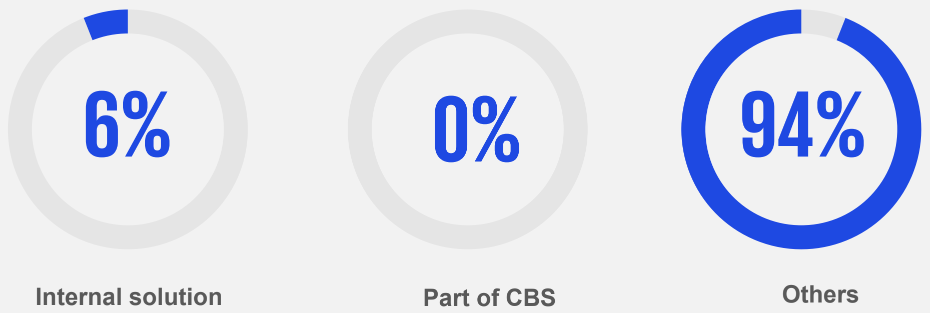
Likelihood of changing the HRS in the next five years



22 of 23 respondents provided an answer

10% of respondents expect to change their HRS within the next five years. The **top three reasons given** are **improving efficiency** (60%), enhancing **group synergies** (50%), and **reducing costs** (35%).

Participants' current HRS



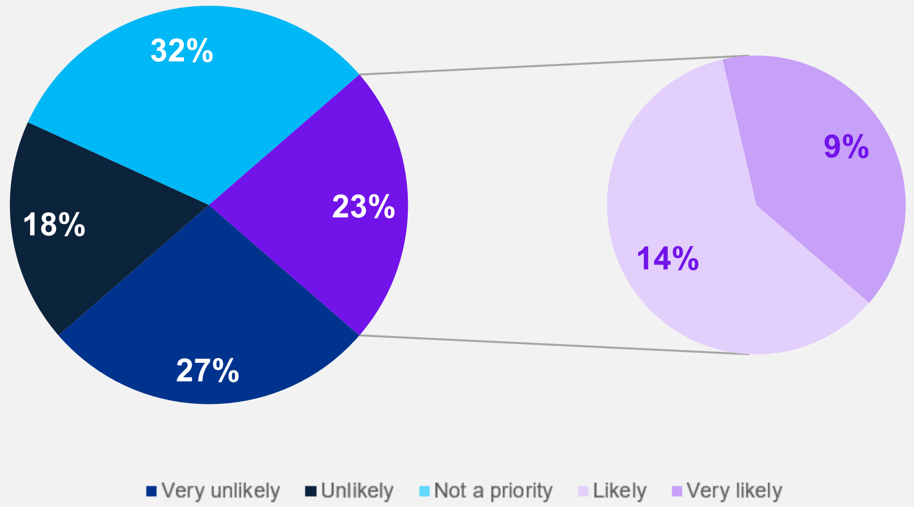
18 of 23 respondents provided an answer

Integrated risk management

There is a clear preference for in-house, custom-designed integrated risk management (IRM) systems tailored to specific needs, with major commercial solutions used less frequently.

Upgrades are primarily driven by boosting efficiency and meeting new regulatory requirements. While IRM system changes are currently not a top priority, banks could reconsider if significant enhancements or compliance needs arise.

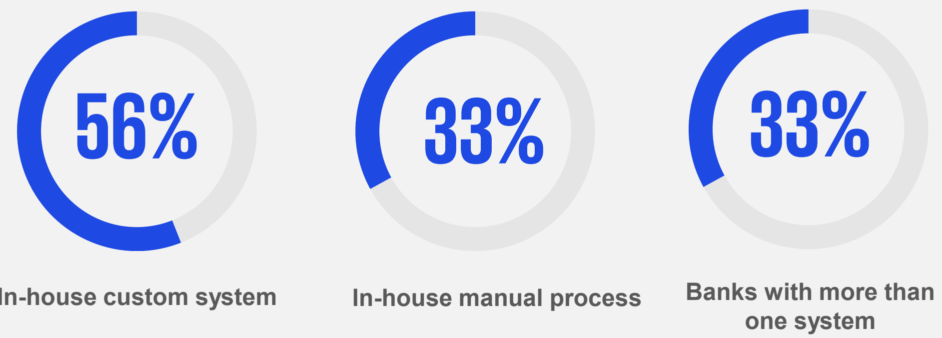
Likelihood of changing the IRM in the next five years



22 of 23 respondents provided an answer

23% of respondents expect to change their IRM within the next five years. The **top three reasons given** are **improving efficiency** (59%), **covering new business and regulatory requirements** (59%), and **mitigating risks** (50%).

Participants' current IRM systems

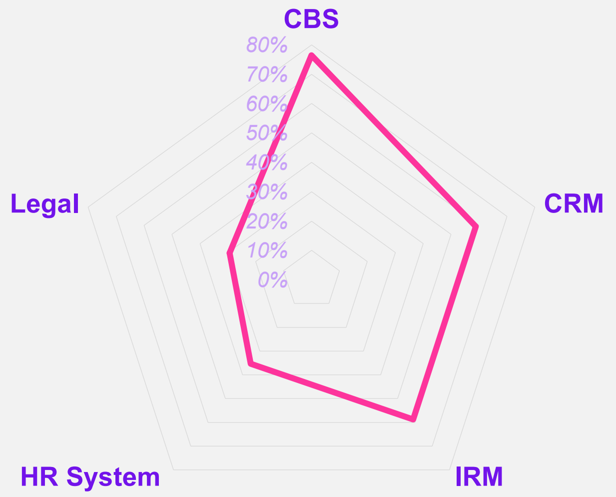


18 of 23 respondents provided an answer

Hyperautomation

The Luxembourg banking sector's adoption of hyperautomation* is progressing but varies in maturity. Some banks are integrating these technologies, while others are in early testing phases or using them sparingly. The use of multiple tools, such as robotic process automation (RPA), artificial intelligence (AI), machine learning (ML) and low-code platforms, indicates diverse automation approaches rather than a consolidated strategy. In other words, while the sector shows a growing interest in hyperautomation, barriers remain to achieving comprehensive, scalable implementation.

Respondents' expectation of the largest AI application within the organization, mapped per system



17 of 23 respondents provided an answer

18% of respondents believe **hyperautomation has no added value.**

36% of respondents have **already tested one or more hyperautomation solution(s)** but did not fully achieve the project.

27% of respondents are using **hyperautomation solutions but on a limited scope.**

9% of respondents use one or more hyperautomation solution(s) **on a regular basis.**

*Hyperautomation is a systematic approach that organizations adopt to quickly identify, evaluate, and automate a wide range of business and IT processes. It utilizes a combination of technologies, tools, and platforms, such as Artificial Intelligence (AI), Machine Learning (ML), and Robotic Process Automation (RPA), etc.

05 FinTech and collaboration

To what extent do banks in Luxembourg leverage FinTech partnerships and collaborations to strategically enhance their digital transformation and stay ahead in the competitive financial industry?

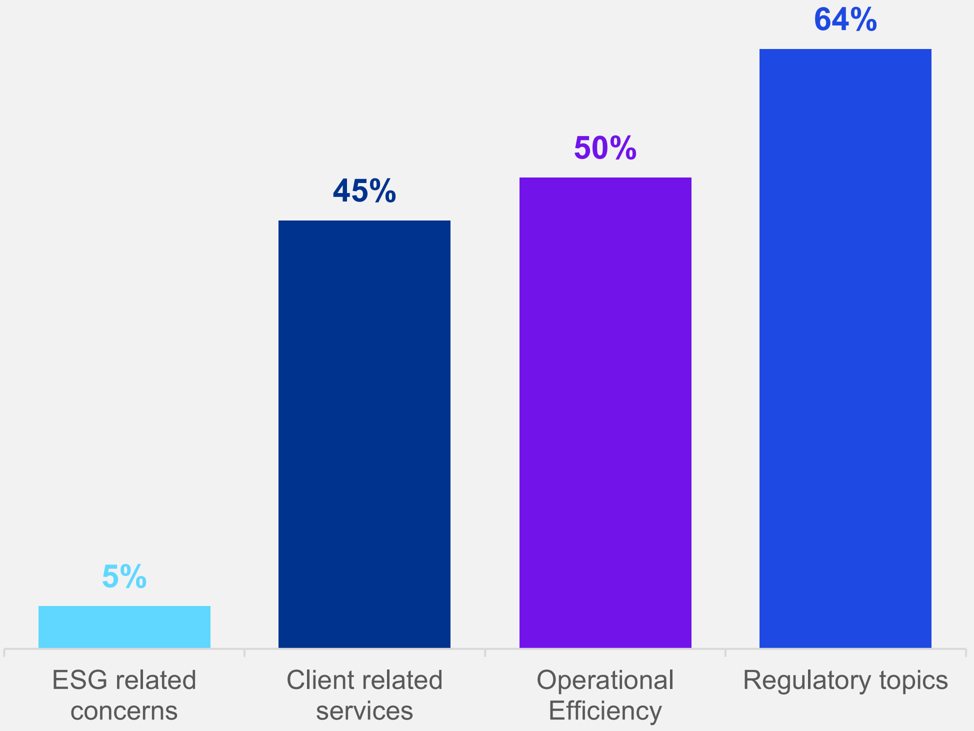
Collaboration and utility

As the FinTech and RegTech sectors evolve in Luxembourg, their future utility in traditional financial institutions looks promising. These technologies are set to play an increasingly vital role in driving innovation, enhancing operational efficiency and delivering more personalized services.

While improving client services is also valued by banks, FinTech is seen as more helpful for boosting efficiency and addressing banks' increasingly complex compliance requirements.

This indicates a strategy of leveraging technology to tackle the broader challenges that Luxembourg banks face.

Panellists' view on the business line(s) where FinTech could be most useful



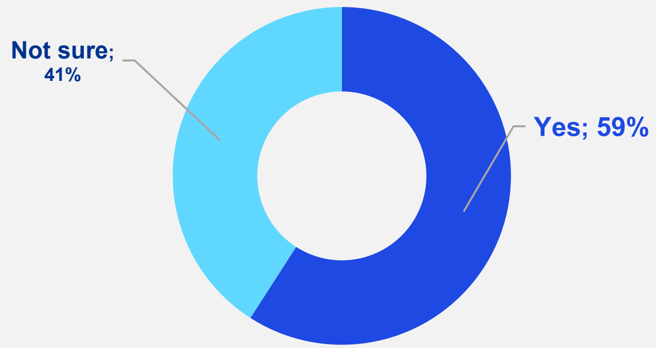
22 of 23 respondents provided an answer

FinTech and adoption

Banks are increasingly leveraging FinTech solutions to drive digital transformation and meet the demands of tech-savvy clients.

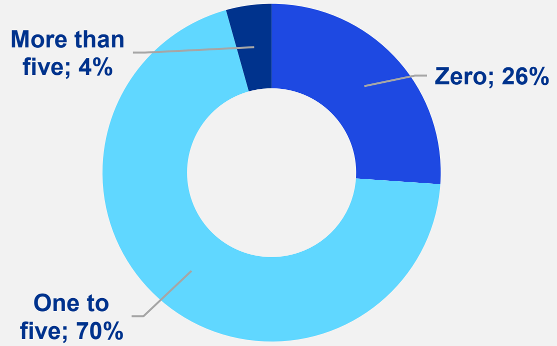
However, they may hesitate to partner with FinTechs due to competition concerns, system integration challenges, compliance and security issues.

Bank's views of whether FinTechs and RegTechs are well-established in Luxembourg



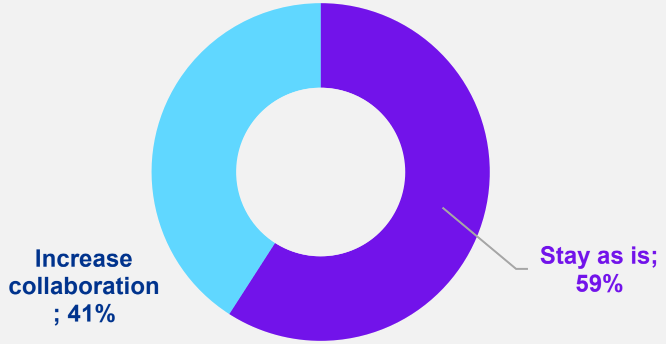
22 of 23 respondents provided an answer

Number of contracts signed with FinTech firms over the last three years in Luxembourg



22 of 23 respondents provided an answer

Banks' plans regarding cooperating with FinTech and RegTech firms in the next three to five years



23 of 23 respondents provided an answer

38% of respondents perceived **FinTech and RegTech as both cooperative and competitive.**

14% of respondents have faced **difficulties with integration** or **regulatory compliance.**

83% of respondents regard **integrating FinTech solutions with existing systems** as the biggest hurdle for adoption, followed by **security and cyber risk concerns** (53%).

06

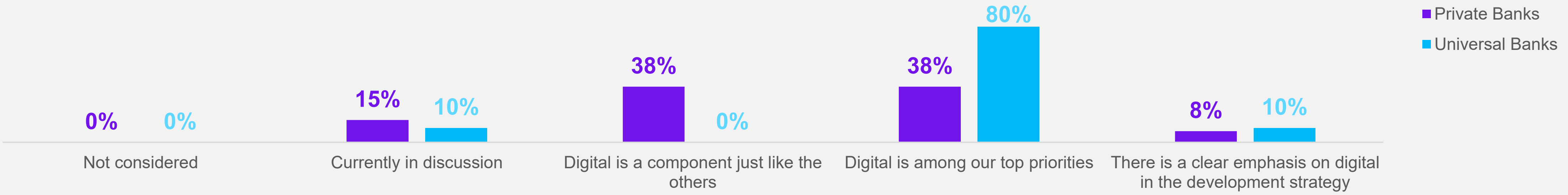
Industry maturity: universal versus private banks

How significant is the digital gap between universal banks and private banks?

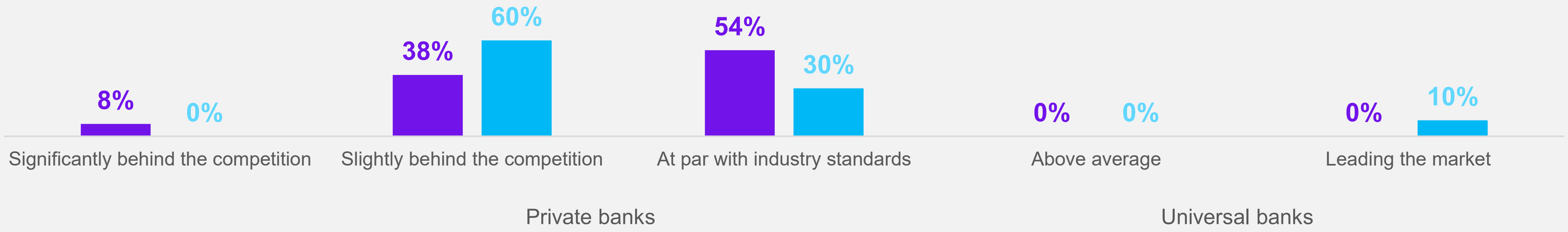
Maturity gap overview

Even though universal banks regard digital transformation as key to their strategy, surprisingly only one bank views itself as a digital leader. In contrast, private banks consider digital transformation as just one of many priorities and generally believe They are slightly behind or on par with their competitors. This suggests that universal banks are aggressively pursuing digitalization, while private banks are more cautiously integrating digital elements at a slower pace.

Importance of digital transformation in respondents' development strategy



Participants' perceived digital position relative to competitors



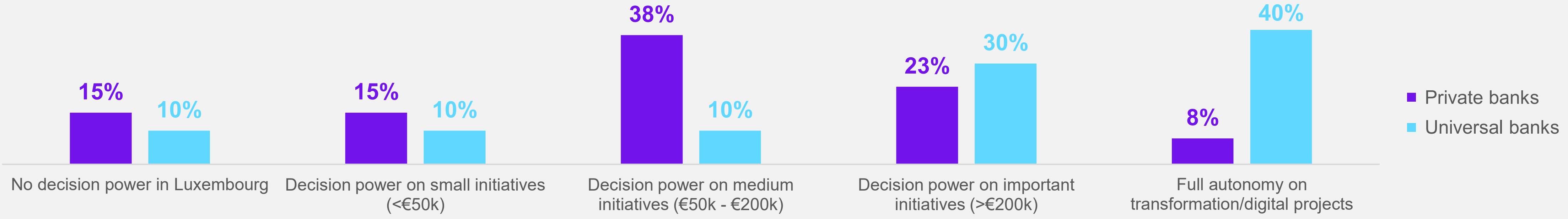
23 of 23 respondents provided an answer

Resources gap

There is a significant gap between universal and private banks in Luxembourg regarding digital transformation resources and autonomy.

Generally, universal banks enjoy more decision-making power and in-house skills for major projects, while private banks face more challenges due to limited autonomy and resources.

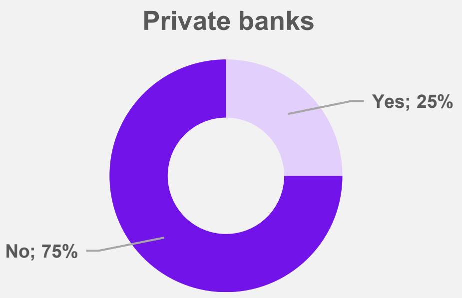
Decision power gap between panellists regarding their Luxembourg legal entity's digital transformation projects

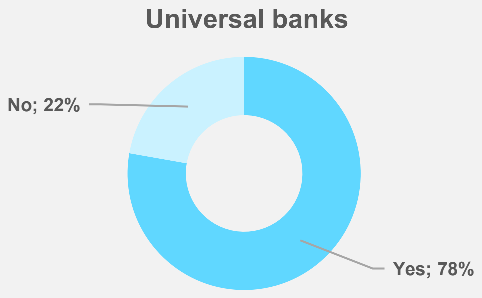


23 of 23 respondents provided an answer

FTE and digital Transformation skills Gap – Respondents answers on having the right skills in-house to support Digital Transformation projects in Luxembourg legal entity

There is an inverse correlation regarding in-house digitalization skills, **with universal banks typically having enough,** while **private banks are largely lacking**.





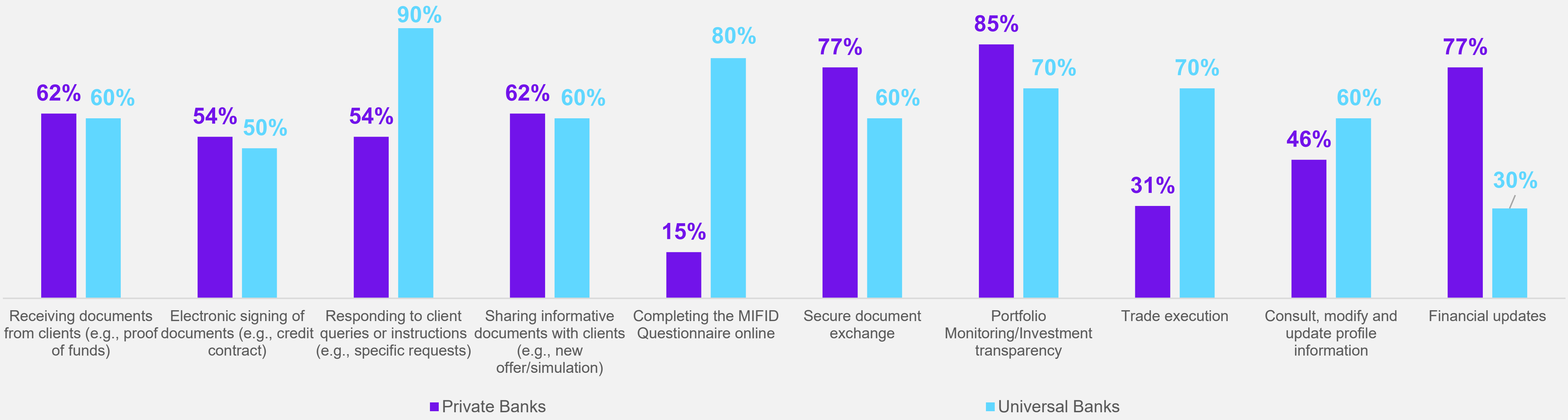
21 of 23 respondents provided an answer

Technology gap

Private banks prioritize secure document exchange and financial updates, while universal banks excel in client interaction and digital compliance features.

This suggests that private banks are leveraging technology primarily for security and transparency compared to universal banks, which are aiming for comprehensive digital engagement.

Universal and private use cases supported survey partakers' online services



23 of 23 respondents provided an answer

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