

Press Release
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How Luxembourg Private Banks Embrace Digital Transformation: Survey by KPMG and ABBL Reveals Key Insights



Digitalization and private banking two worlds apart?

Private banks are often seen as lagging universal banks in terms of digital transformation. While the human element, such as the availability and attentiveness of customer relationship managers remains crucial, private banks cannot ignore the digital reality. How can they remain relevant to a younger, tech-savvy clientele? How can they ensure to remain close to customers who are often far away? How can they capitalize on innovation to free up advisory time and offer more personalized solutions? These are just some of the challenges facing private bankers.

Assessing the Digital Evolution of Luxembourg's Private Banks

Three years after their initial study, the Association des Banques et Banquiers Luxembourg (ABBL) and KPMG decided it was an opportune moment to re-evaluate the private banking industry's approach to digitalization. The interval between the two studies provides a unique perspective, especially considering the impact of COVID-19 during this period. Despite the hardships caused by the pandemic, it has arguably accelerated digital transformation within businesses and their customer engagement strategies.

The study underscores the ongoing digital transformation within Luxembourg's banking sector. The survey, which included a diverse range of banks, sheds light on the strategic priorities, tools, and challenges faced by the industry as it navigates the digital landscape.

Private Banking and Digitalization: Stated Goals, Practical Gaps

Most survey respondents (66%) view digitalization as a top strategic priority and believe there is room for improvement to gain competitive edge in this area. The primary digitalization goals for private banks include adding new digital capabilities to existing products and services, enhancing customer satisfaction and user experience, and improving efficiency through the automation of business processes and addressing regulatory compliance obligations with a digital approach. However, this sense of urgency is only partially reflected in the financial and human resources allocated to digital transformation, as well as in governance and organizational structures. For example, only a limited number of private banks surveyed have appointed a Head of Digital Transformation or developed a clear digital transformation strategy. However, Ananda Kautz, ABBL's Head of Innovation, Payments and Sustainability stresses: *"It is worth noting that several ongoing regulatory projects, such as DORA or the Instant Payments Directive, which require significant resources, are also related to digitalization"*.

Meeting the Needs of a Diverse Client Base

Luxembourg's banks serve a highly diverse clientele. While Millennials and Generation Z represent a small but growing segment, indicating a generational shift, institutional clients remain essential. To meet the varied preferences of their clientele, and without necessarily aiming to be leaders in innovation, 87% of private banks offer mobile apps and 91% provide online banking services, often tailored to generational preferences. Additionally, Luxembourg banks are leveraging agile methodologies, cloud computing, and data analytics to drive their digital transformation efforts. These tools enable banks to be more responsive to market changes and customer needs, ensuring they remain competitive in a rapidly evolving digital landscape. Furthermore, Luxembourg's banks are increasingly implementing advanced customer relationship management (CRM) systems to enhance services for high-net-worth clients and maintain competitiveness in a specialized financial landscape. More than one-third of banks have adopted hyperautomation, showcasing a trend towards experimenting with AI and robotization. *"Digital transformation is not just about adopting new technologies; it's about rethinking how we deliver value to clients and stay competitive in a rapidly changing environment,"* said Xavier Roch Lhotellier, Partner, Digital services & Technology consulting and Alliances Leader at KPMG Luxembourg. Ananda Kautz: *"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 enables private banks to deliver this hybrid model effectively"*.

Openness to FinTech Collaboration and Mutualization, Despite Challenges

Private banks are increasingly adopting FinTech solutions to speed up digital transformation and meet the needs of tech-savvy clients. In the past three years, 74% of private banks have signed at least one contract with a fintech. They also see the benefits of mutualization and collaboration on digital projects, leveraging their experience with similar partnerships. FinTech is viewed as a means to boost efficiency and address the increasingly complex compliance requirements of banks.

However, significant obstacles remain, including concerns over data confidentiality, competition, system integration challenges, and compliance and security risks. These issues continue to hinder broader collaboration and the full realization of digital transformation initiatives.

Skills for the Digital Age in Private Banking

The ongoing digitalization of Luxembourg's banking sector is driving a growing demand for specialized skills. Banks are increasingly adopting modern methodologies and tools such as agile practices, cloud computing, and data analytics to foster innovation and transformation. However, only 48% of respondents have the necessary in-house skills to support their digital transformation projects.

Xavier Roch Lhotellier concludes: *“Digital transformation is an ongoing journey requiring constant adaptation, leadership, and a culture of continuous learning to stay competitive. All stakeholders in the banking sector should prioritize digital transformation initiatives and invest in the necessary tools and resources to stay ahead. Embracing the future of banking by adopting innovative technologies and fostering a culture of continuous improvement can secure Luxembourg is at the forefront of the customer journey”.*

Survey Demographics and timeline: The survey conducted from Q1 2024, gathered data from 23 respondents, with 52% headquartered in Luxembourg. The respondents included 57% private banks and 43% universal banks of various sizes. Specifically, 22% of entities have 501-1,000 full-time employees (FTE), 39% have 101-500 FTE, 22% have 1,000 FTE, and 17% have up to 100 FTE¹¹. The client profiles served by these banks are diverse, encompassing middle-class and wealthy clients, high-net-worth individuals, and institutional clients.

About 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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About KPMG

As a member of KPMG International, a network of independent firms operating in 144 countries, KPMG in Luxembourg provides a full range of audit, tax and advisory services to major national and international clients active in the financial, insurance, commercial and industrial sectors.

With more than 1,900 people, KPMG in Luxembourg is one of the country's leading audit, tax and advisory firms. Our approach to relationships and service delivery is designed to help clients exploit new opportunities, improve performance and manage risk.

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