

A photograph of a young woman with blonde, wavy hair, smiling and looking towards the camera. She is wearing a white blouse with a black collar and is sitting at a desk with a laptop open in front of her. The background is a bright, modern office setting.

Clarity on performance of Luxembourg private banks

Private banking survey website

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Foreword

The cover for the Foreword page features a blue sky background with a white architectural dome and a hot air balloon.

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Key trends

The cover for the Key trends page shows a woman with blonde hair smiling while working at a computer in an office setting.

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Luxembourg market analysis

The cover for the Luxembourg market analysis page depicts a woman in a white shirt talking on a mobile phone in an office environment.

Page 15

Understanding industry performance

The cover for the Understanding industry performance page shows two men in business suits looking at a laptop screen together.

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Overview of business

The cover for the Overview of business page features a woman in a patterned dress sitting at a desk and writing in a notebook.

Foreword

Drawing on data from the 2022 financial year, KPMG Luxembourg and the Private Banking Cluster of the Luxembourg Bankers' Association (ABBL) have again joined forces to produce a new edition of the KPMG-ABBL Private Banking Report, which aims to identify significant trends as well as raising awareness of the sector's different business models and their relative performances and weight.

From post-pandemic recovery to the new dynamics of global trade, against a backdrop of fears of escalating war, we examine in depth the current state, strategies and performance of the private banking sector. Many participants had hoped for brighter days in 2022, but the year brought its share of hardship and surprises, as well as demonstrating the industry's resilience. While rising interest rates stemming from the high-inflation environment had a significant positive impact on banks' profitability, they also squeezed the total value of assets, regardless of allocations to equities, bonds or real estate.

Despite a decrease of 2.3% in total assets under management, there was positive evidence of the attractiveness of Luxembourg with total net new money of EUR 31.7 billion, compared with EUR 45 billion for Swiss private banks. As the figures presented in this survey show, 2022 proved to be a solidly profitable year for the Luxembourg private banking sector, with net income up by 24%, mainly due to increased net interest margin.

In terms of M&A activity, the wave of consolidation we have seen in previous years remained in evidence throughout 2022 and into 2023. This phenomenon is driven by a variety of objectives, from strengthening market position and expanding operational scale to the

recalibration of business models. Transactions in the sector remain driven by various key factors. For buyers, these include economies of scale, acquisition of new capabilities and access to new markets; for sellers, notably the recalibration of business models toward core activities, involving the strategic divestment of non-core assets.

In this volatile, uncertain, complex and ambiguous environment, we are convinced the third edition of this study is more important than ever, to shine additional light on the development, challenges and ambitions of the private banking sector in Luxembourg. Similarly to last year, we believe it makes sense to examine the development of our private banking neighbors — so we have also included the main findings from the annual private banking study Clarity on Swiss Private Banks, produced by KPMG Switzerland in collaboration with the University of St. Gallen, which was published in July 2023. We would also like to offer warm thanks to all the members of the Private Banking Cluster for their contributions and openness, and we hope the information in this report will provide you, the reader, with useful insights.



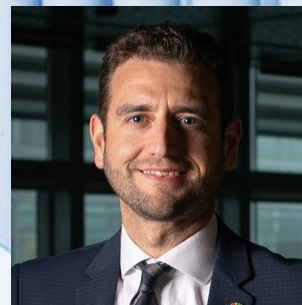
Stanislas Chambourdon

Head of Banking and Insurance
KPMG Luxembourg



Anne-Sophie Minaldo

Risk Consulting, Partner
KPMG Luxembourg



Fabio Mandorino

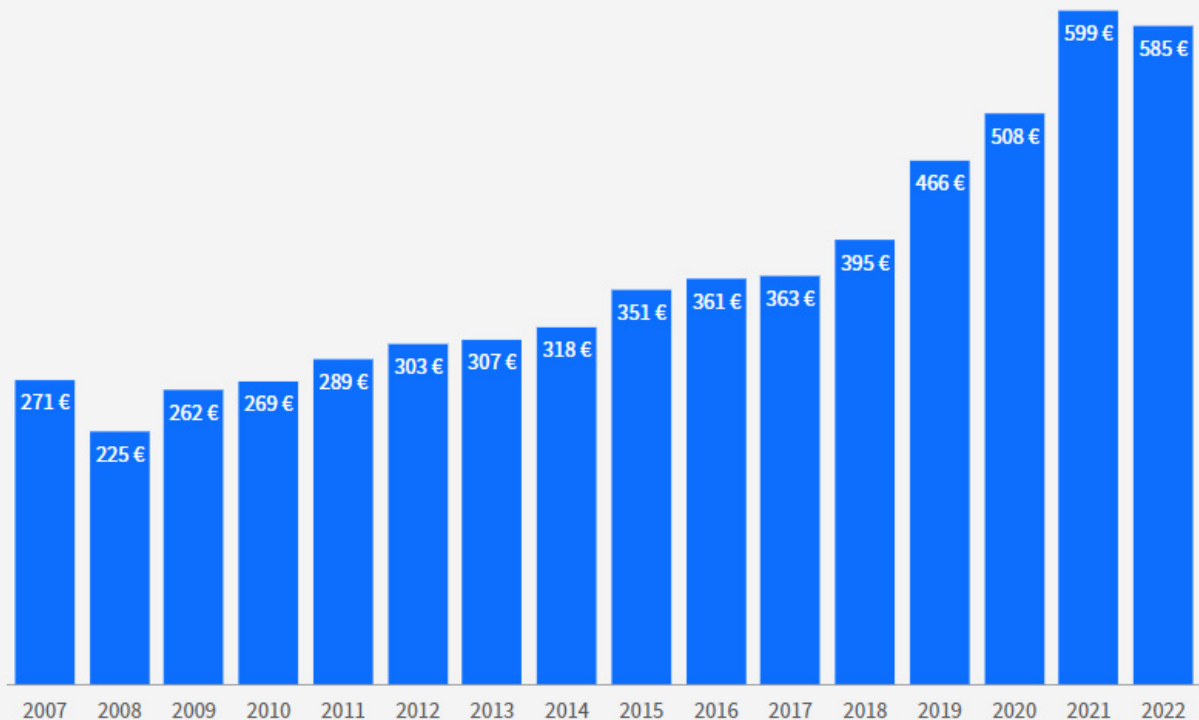
Senior Adviser - Private Banking
ABBL Member Relations

Luxembourg private bank assets under management prove resilient

Annual growth in assets under management was uninterrupted until recently, growing almost threefold from EUR 225 billion in 2008 to EUR 599 billion by 2021.

AuM dipped last year by just under EUR 14 billion to EUR 585 billion, as geopolitical turbulence, supply chain constraints, fears of recession and tightening of monetary policy led to market volatility.

Evolution of private banking AuM in Luxembourg
EUR billions, 2007-2022

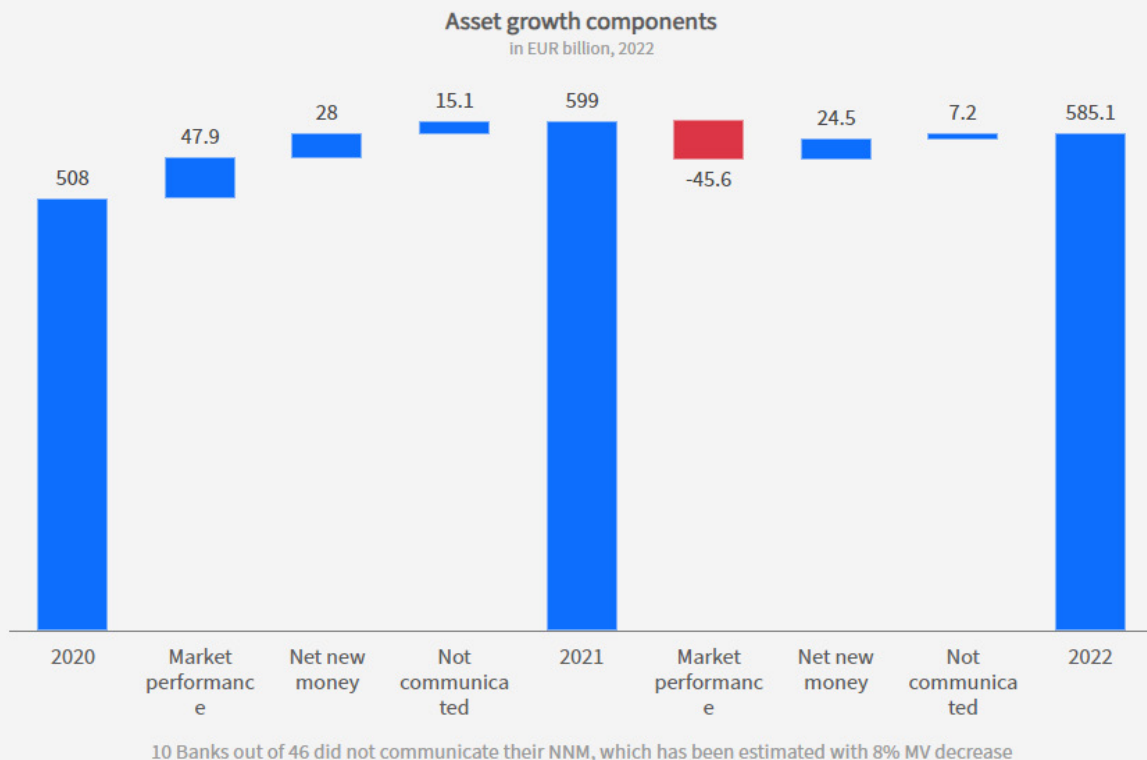


Markets down, inflows up

In context, the drop of 2.3% in 2022 is minor compared with how markets performed; total asset values were resilient, as were inflows of new client money. By comparison, the Euro Stoxx 50 equity index lost 9% and the S&P 500 dropped by 15%. Bond markets suffered from the effects of higher interest rates too, with the S&P Eurozone Sovereign Bond down 15%.

We estimate the overall market effect on client assets amounted to a drop of 8%, or EUR 45.6 billion. That was partially offset by net inflows (new money less withdrawals) of EUR 33.4 billion, up slightly from the previous year.

Longer term, the compound annual growth rate was an impressive 12% over the period from 2008 to 2022. The figure drops to 9.67% once last year's AuM is taken into account.¹



¹ Some of the data has been recalculated due to mergers and acquisitions by survey respondents and changes to their business models to reflect the use of re-booking centers (the jurisdictions where assets are ultimately domiciled and accounted for).

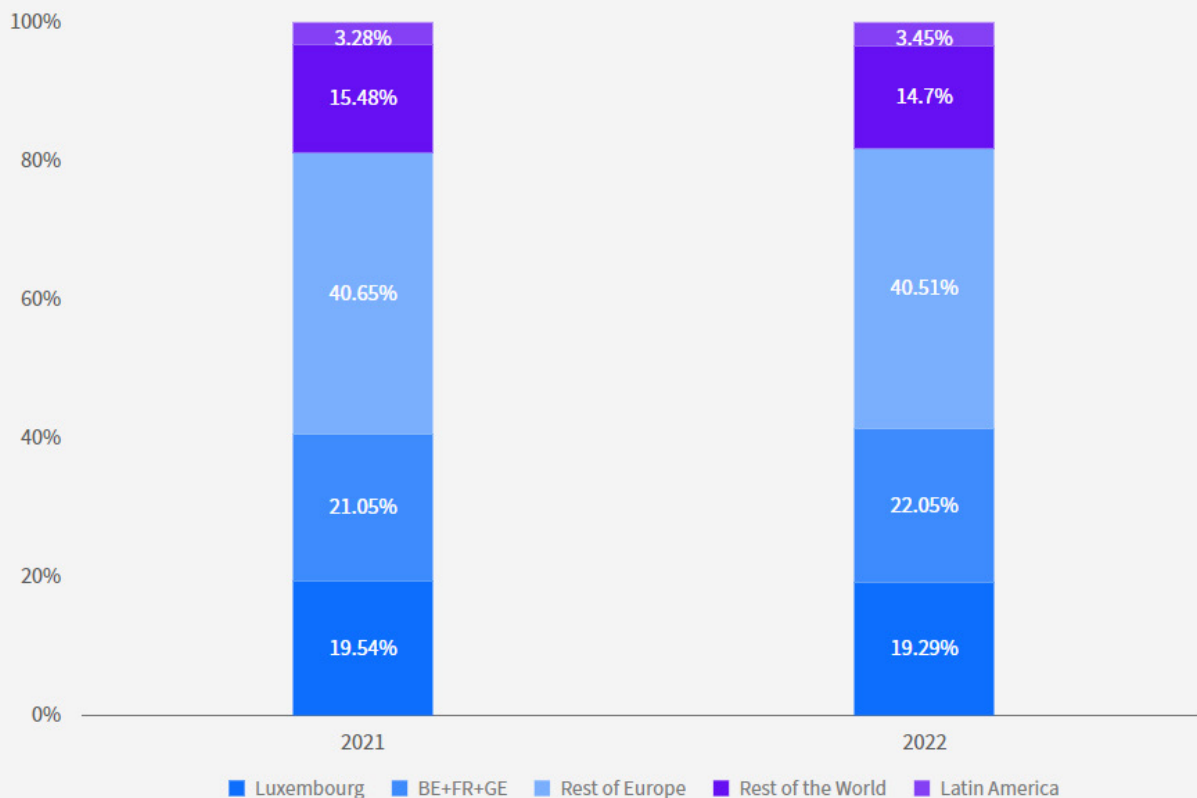
Pan-European clientele with a Brexit bonus

Rebooking activity confirms Luxembourg is springboard for expansion

The bulk of Luxembourg private banking clients, just over 60%, come from Belgium, France, Germany and the rest of Europe. The focus on Europe has been reinforced by some banks deciding to switch assets previously booked in France and the UK to their Luxembourg hubs in the wake of Brexit. This is confirmation, if required, that industry

members continue to see Luxembourg as a key location to expand their European presence.

So far emerging economies have been less of a priority. Latin America makes up just 3.45% of the customer base, a slight increase on 2021.



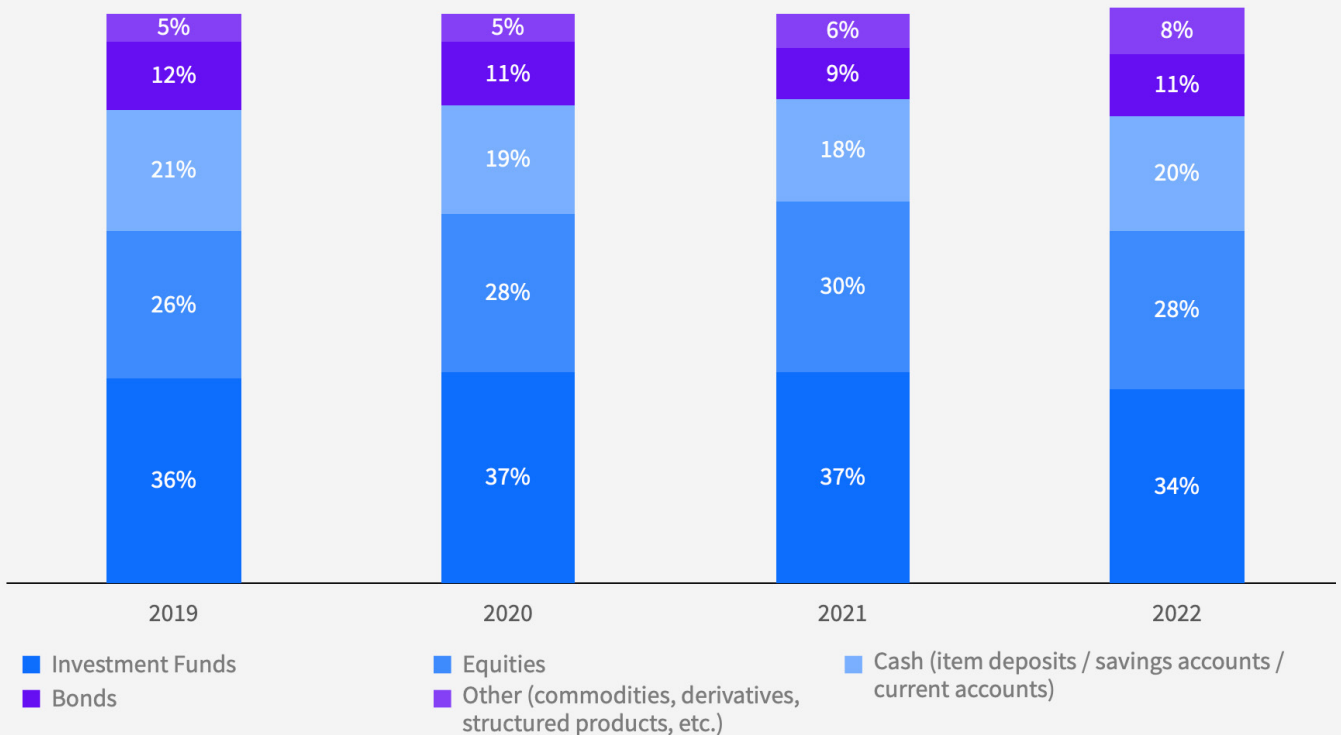
An ever-increasing choice of investment options

Third-party funds and new alternative products offer greater opportunities

In turbulent markets, one might expect a higher degree of product turnover in client portfolios. Last year investors increased their cash exposure by one-tenth to 20%, with a corresponding cut in direct equities.

Overall fund investment exposure dipped from 37% to 34% – more likely a market value effect than actual withdrawals, based on our analysis. Third-party funds from other providers still outnumber in-house fund offerings by two to one. That reflects the open architecture approach common throughout the sector, providing more choice and value-for-money investment options for individual clients.

Composition of client portfolios
by asset type (all service types together)



Overview

The Private Banking Cluster and KPMG Luxembourg joined forces for the third time to carry out a study assessing the development of the private banking industry in Luxembourg and the performance of Luxembourg-based private banks.



Data collection in May-
August 2023



Anonymized
questionnaires via the
CSSF/PBGL



140 data items related
to FY22



46 private banks, 100%
of Luxembourg PB AuM

A young woman with brown hair tied back, wearing a white button-down shirt, is smiling and talking on a black mobile phone. She is wearing a silver watch on her left wrist. The background is a blurred office setting with a window on the right.

Luxembourg market analysis

Mergers and acquisitions

In the evolving landscape of the private banking sector, the wave of consolidation we have seen in preceding years has continued to surge throughout 2022 and 2023. This phenomenon is driven by a spectrum of objectives, ranging from strengthening market positions and expanding operational scales, to the recalibration of business models through the divestiture of non-core assets.

In 2022/2023, transactions in the sector remain driven by several key factors. For buyers, these include economies of scale, acquisition of new competences or entering new markets; while, for sellers, a notable driver is the recalibration of business models towards core activities, involving the strategic divestiture of non-core assets.

The pursuit of larger scale continues to play a pivotal role in shaping M&A activity within the private banking sector. The expansion of the customer base is a primary avenue through which banking institutions seek to improve profitability. This strategy continues to be pertinent in light of the evolving and more complex regulatory framework and shifting customer expectations, which has contributed to increasing costs to operate. Recent transactions where such factors may have been part of the considerations include, for instance, the acquisition of Compagnie de Banque Privée Quilvest S.A. by Fideuram Bank S.A.

Another significant evolution in the landscape of banking M&A is the recalibration of business models towards core activities. Banking institutions, whether international or local players, are meticulously assessing their operations and divesting non-core assets. This strategic realignment is tailored to each bank's unique business model and goals. As international banks refocus on core activities, they make strategic divestitures, such as shedding Luxembourg operations that lack synergies with their central businesses. Similarly, local banks are actively streamlining their customer portfolios and service offerings. This deliberate streamlining allows them to channel resources into their identified core strategic areas. Transactions where such considerations are likely to have played a role include the sale by Banque Havilland S.A. of their institutional business to Banco Inversis S.A., the sale of Danske Bank International S.A. to Union Bancaire Privée (Europe) S.A.

There is also continued interest by leading banking players from other geographies to establish and build a presence in Luxembourg. This interest typically stems primarily from the prospect of expanding their core services already established in their home markets to Luxembourg. The enhanced prospect of leveraging the Luxembourg bank as a foundational step toward broader expansion within the Eurozone further enriches the appeal of this strategic maneuver. One such transaction that was recently announced was the acquisition of FIS Privatbank by Banco BTG Pactual S.A.

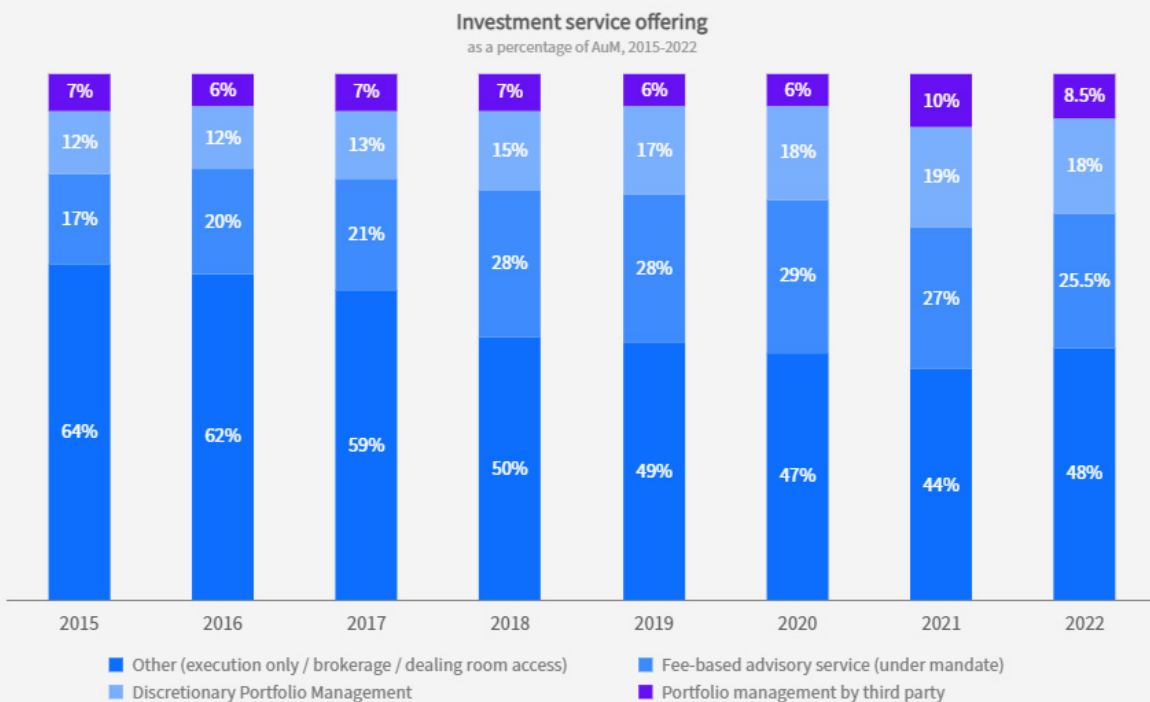
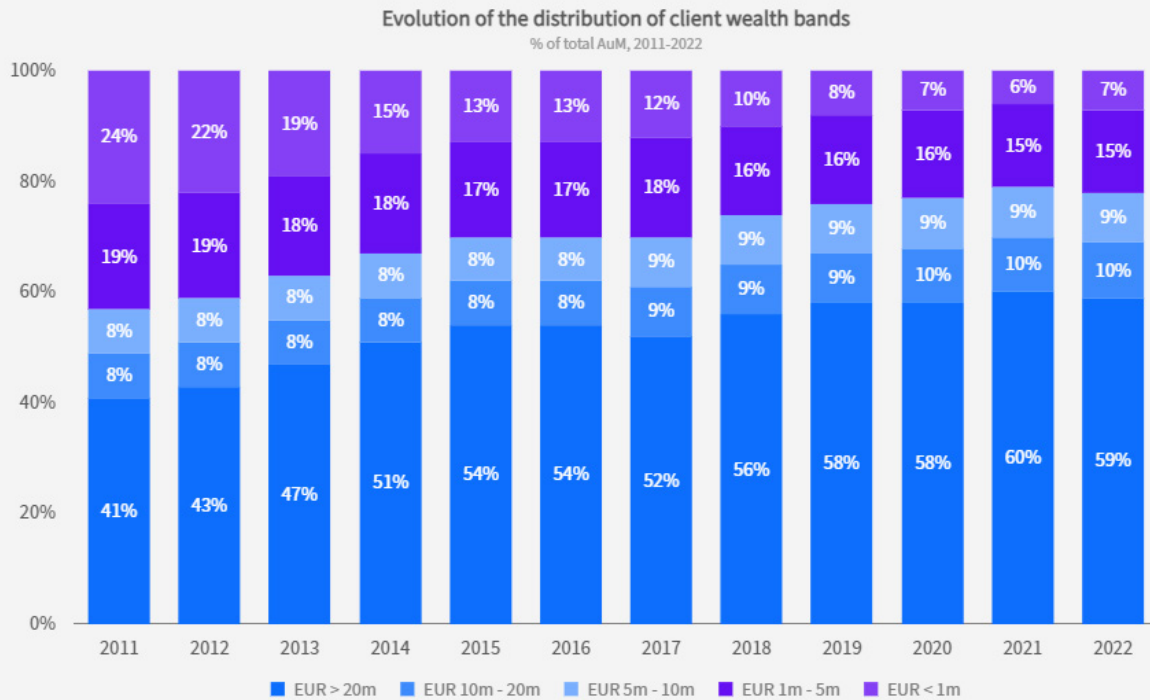
We expect the three abovementioned trends to continue to shape the Luxembourgish banking M&A activity in the coming years. While the increase in interest rates have provided a much-needed breathing room for some of the smaller private banks in Luxembourg, the decline in asset prices and increases in costs are expected to continue to challenge subscale players. The focus on core activities is likewise expected to be a driving force for M&A activity, with several private banks expected to divest non-core operations such as institutional businesses or management company activities. Similarly, we continue to see strong interest in Luxembourg from banking players hailing from outside the European Union.

European banking supervisory authorities have generally had a favourable view of the ongoing consolidation wave. This wave has been seen as a means to bolster banking efficiency, stimulate technological innovation, and mitigate risk associated with undersized banks. In alignment with this trend, specific measures have been enacted to relax the current regulatory framework, aiming to harmonize key constraints that previously led to disparities in national regulatory structures. These measures also aim to encourage cross-border transactions.

Nonetheless, there is also a high degree of regulatory scrutiny, particularly on cross-border deals. Regulatory bodies maintain vigilant oversight, raising concerns and intervening to prevent any takeovers that could potentially undermine financial stability, competition, and the safeguarding of investor interests, especially when such transactions involve cross-border elements. Consequently, we continue to observe that a number of announced M&A transactions fail to complete. One of the most notable transactions that was announced but failed to complete include the acquisition of BBH's investor services division by State Street (2021).

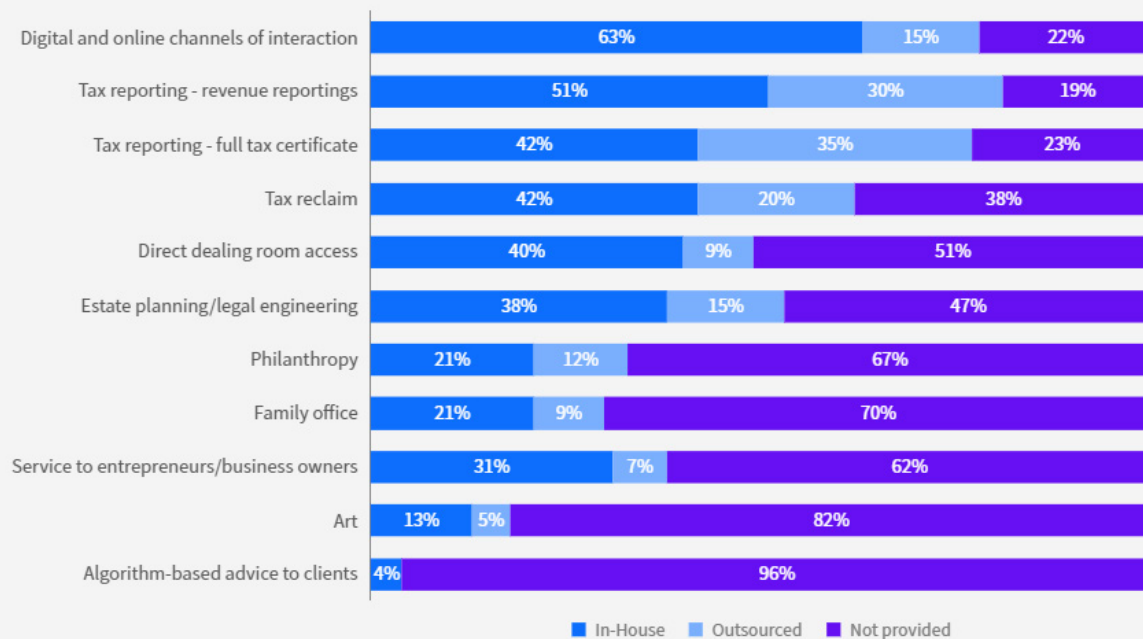
Target	Acquirer	Seller(s)	Completion date
Bank Degroof Petercam SA (~80% Stake)	Credit Agricole Indosuez Wealth (Europe) SA	Private shareholders, Copeba, Marinvests	Pending
Sense Bank	Ukraine Government (nationalization)	ABH Holdings	Pending
The depositary, custody, and related services business of Banque Havilland SA (100% Stake)	Banco Inversis SA	Banque Havilland SA	Pending
FIS Privatbank SA (100% Stake)	Banco BTG Pactual SA	Private shareholders	Pending
European asset servicing activities of RBC Investor Services	CACEIS	Royal Bank of Canada	Jul-23
i-Hub	Banque Internationale à Luxembourg, Spuerkeess and Banque de Luxembourg	n.a.	Dec-22
European Fund Administration S.A.	Universal-Investment-Gesellschaft GmbH	Banque et Caisse d'Épargne de l'État Luxembourg, Banque de Luxembourg, Quintet Private Bank (Europe) S.A., ODDO BHF SCA	Nov-22
Banque Fortuna customer portfolio	Banque et Caisse d'Épargne de l'État	Individual shareholders	Aug-22
Compagnie de Banque Privée Quilvest S.A.	Fideuram Bank S.A.	Quilvest Wealth Management and private shareholders	Aug-22
SEPAexpress (b4payment GmbH)	Banking Circle S.A.		Apr-22
Keytrade Bank Luxembourg	Swissquote Bank Europe	Crédit Mutuel Arkéa S.A.	Mar-22
Danske Bank International S.A.	UPB (Luxembourg) S.A.	Danske Bank A/S	Jan-22

Assets under management and service offering



Additional services provided by private banks

by % of banks, 2022



A photograph of two men in business suits. The man on the left is leaning over a laptop, pointing at the screen with a focused expression. The man on the right is smiling broadly, looking towards the laptop. The background is a bright, slightly blurred office setting. A purple gradient overlay covers the left side of the image.

Understanding industry performance

Global instability, tight monetary policy, regulation, client and salary expectations push up costs

Last year saw a paradigm shift, with the impact of war in Ukraine and rising protectionism, on top of the residual impact of the Covid-19 pandemic, contributing to a resurgence of inflation and higher interest rates.

Longer-term structural pressures, including customer demand for seamless digital services and new products, suggest cost pressures will also continue to constrain profitability at Luxembourg private banks.

More cost-efficient than Swiss banks

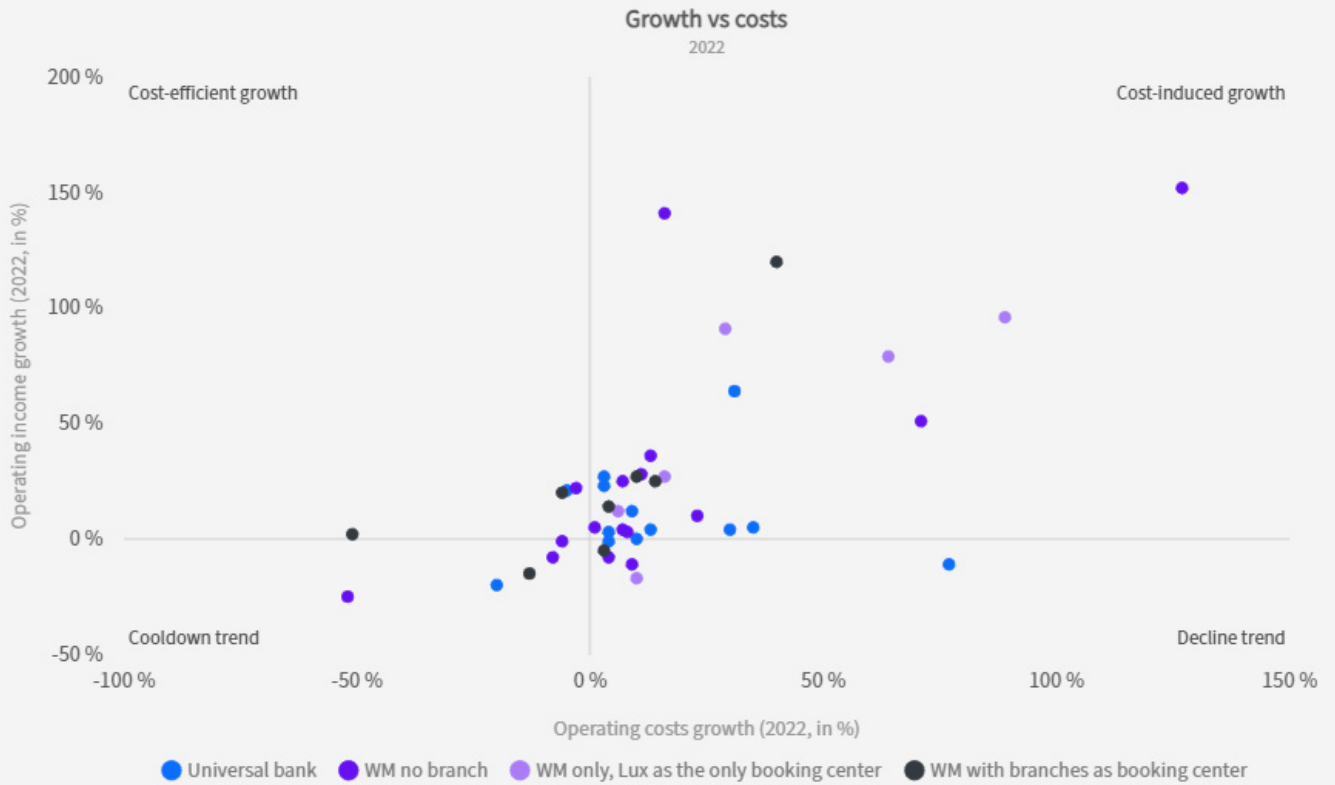
Even so, Luxembourg's universal private banks and wealth management specialists improved their cost-income ratios last year, from a median 75.8% to 70%. They also had a tighter rein on costs than their Swiss peers, whose median ratio rose slightly to 81.3% in 2022.

That is despite the EU's regulatory burden, which accounts for 23% of total direct costs. The biggest pressure on institutions was for market data, likely linked to rapidly increased demand for ESG fund classification and reporting information.

The tight labor market is not helping. Staff expenses rose by 7.8%, with more to come, as many salaries are indexed directly to inflation, which remains stubbornly above the European Central Bank target.

KPIs		Universal banks				WM only, no branches			
		2021	2022	Change	# answers	2021	2022	Change	# answers
AuM	25 th percentile	2.47	2.37	(4.04%)		1.24	1.40	12.64%	
	Median (EUR bn)	7.70	9.86	28.03%	15/15	3.25	2.56	(21.26%)	16/16
	75 th percentile	23.05	20.85	(9.58%)		5.30	4.54	(14.34%)	
FTEs	25 th percentile	31	31	0.46%		30	33	10%	
	Median	102	105	3.27%	14/15	41	44	9.24%	16/16
	75 th percentile	270	180	(33.29%)		88	87	(0.90%)	
Cost-income ratio	25 th percentile	61.01%	58.76%	(2.25pp)		58.37%	50.91%	(7.47pp)	
	Median	66.77%	66.32%	(0.44pp)	13/15	75.78%	65.60%	(10.18pp)	15/16
	75 th percentile	74.89%	77.90%	3.01pp		94.50%	83.45%	(11.05pp)	
Return on AuM	25 th percentile	0.40%	0.43%	0.03pp		0.38%	0.40%	0.02pp	
	Median	0.56%	0.58%	0.02pp	12/15	0.49%	0.66%	0.15pp	13/16
	75 th percentile	0.65%	0.75%	0.10pp		0.75%	0.82%	0.12pp	
Return on AuC	25 th percentile	0.19%	0.21%	0.02pp		0.06%	0.04%	(0.02pp)	
	Median	0.26%	0.23%	(0.03pp)	7/15	0.15%	0.20%	0.05pp	4/16
	75 th percentile	0.47%	0.33%	(0.14pp)		0.36%	0.45%	0.09pp	

KPIs		WM with branches (Luxembourg only as booking center)				WM only, branches as booking center			
		2021	2022	Change	# answers	2021	2022	Change	# answers
AuM	25 th percentile	7.74	8.99	16.10%		11.52	10.79	(6.32%)	
	Median (EUR bn)	10.14	10.62	4.78%	7/7	15.65	15.42	(1.46%)	8/8
	75 th percentile	19.33	18.63	(3.59%)		21.98	21.39	(2.68%)	
FTEs	25 th percentile	135	158	16.85%		100	99	(0.80%)	
	Median	145	169	16.61%	7/7	188	189	0.55%	8/8
	75 th percentile	313	327	4.55%		295	307	4.16%	
Cost-income ratio	25 th percentile	86.55%	71.75%	(14.81pp)		75.59%	63.59%	(12pp)	
	Median	96.02%	80.69%	(15.33pp)	6/7	88.12%	69.88%	(18.24pp)	7/8
	75 th percentile	106.3%	89.11%	(17.21pp)		91.05%	92.17%	1.12pp	
Return on AuM	25 th percentile	0.44%	0.42%	(0.02pp)		0.47%	0.53%	0.06pp	
	Median	0.48%	0.60%	0.12pp	7/7	0.60%	0.66%	0.06pp	6/8
	75 th percentile	0.55%	0.66%	0.11pp		0.65%	0.69%	0.04pp	
Return on AuC	25 th percentile	0.11%	0.17%	0.06pp		0.04%	0.07%	0.03pp	
	Median	0.11%	0.24%	0.13pp	3/7	0.08%	0.15%	0.07pp	3/8
	75 th percentile	0.24%	0.34%	0.10pp		0.18%	0.22%	0.04pp	



Quadrant definition

- Cost-efficient growth: income increase and cost decrease
- Cost-induced growth: income increase and cost increase
- Cooldown trend: income decrease and cost decrease
- Decline trend: income decrease and cost increase

An overview of business models



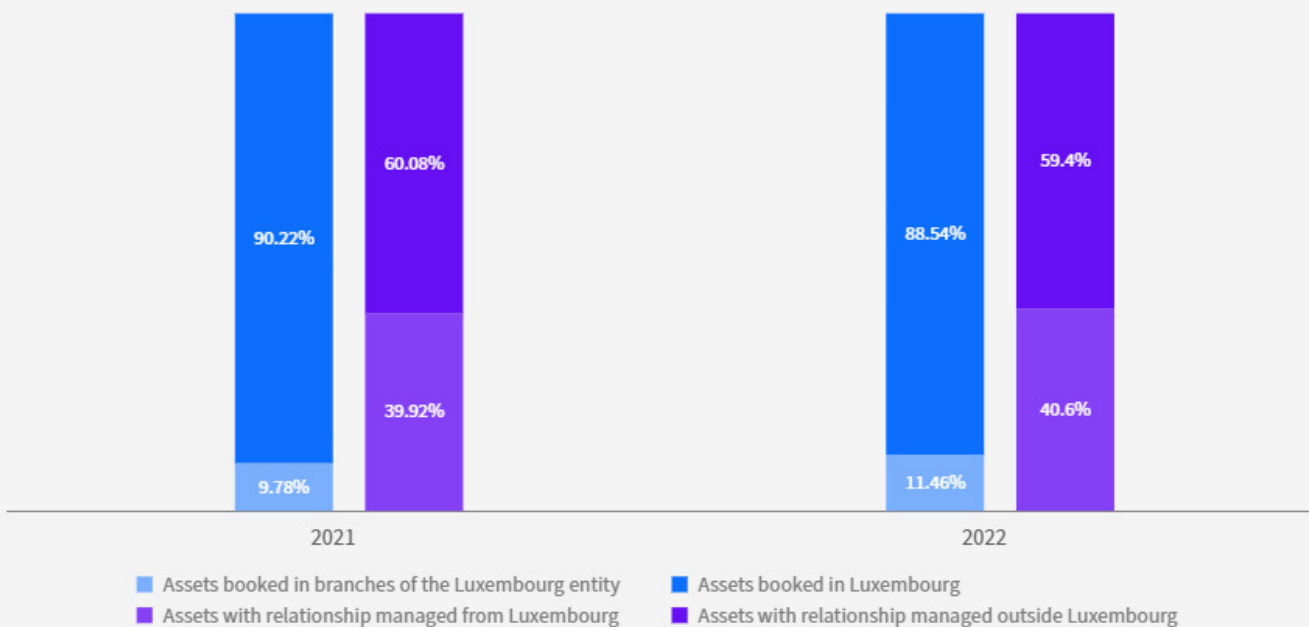
Consolidating local hub models and maturing tech demand

Demand for IT staff dips after digital push; client asset consolidation continues.

In recent years, Luxembourg banks have consolidated their booking activities in the grand duchy, creating sales and distribution hubs that reach across Europe. Just under 60% of total assets under management comes from relationships managed elsewhere in the EU.

Booking centers

Booking center distribution, as a percentage of AuM, 2021-2022

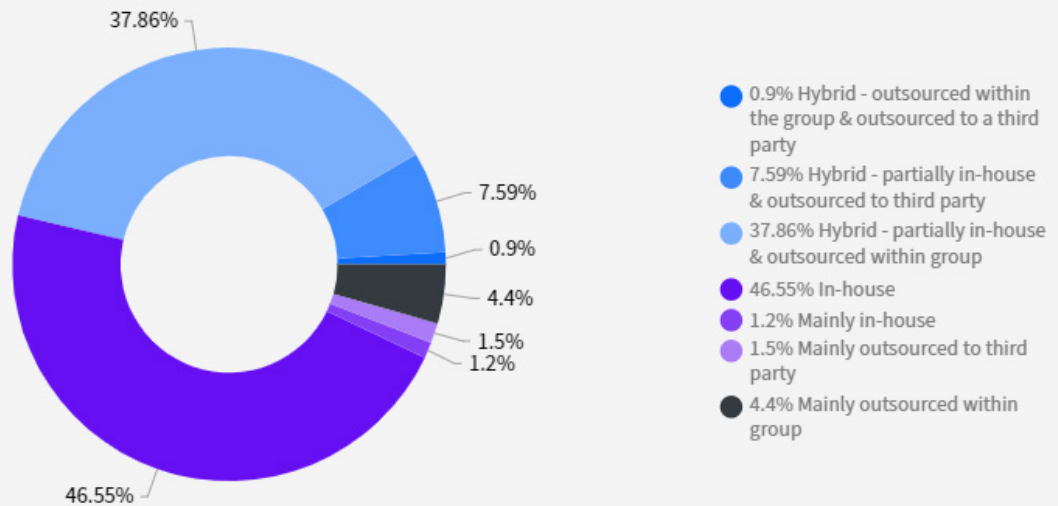


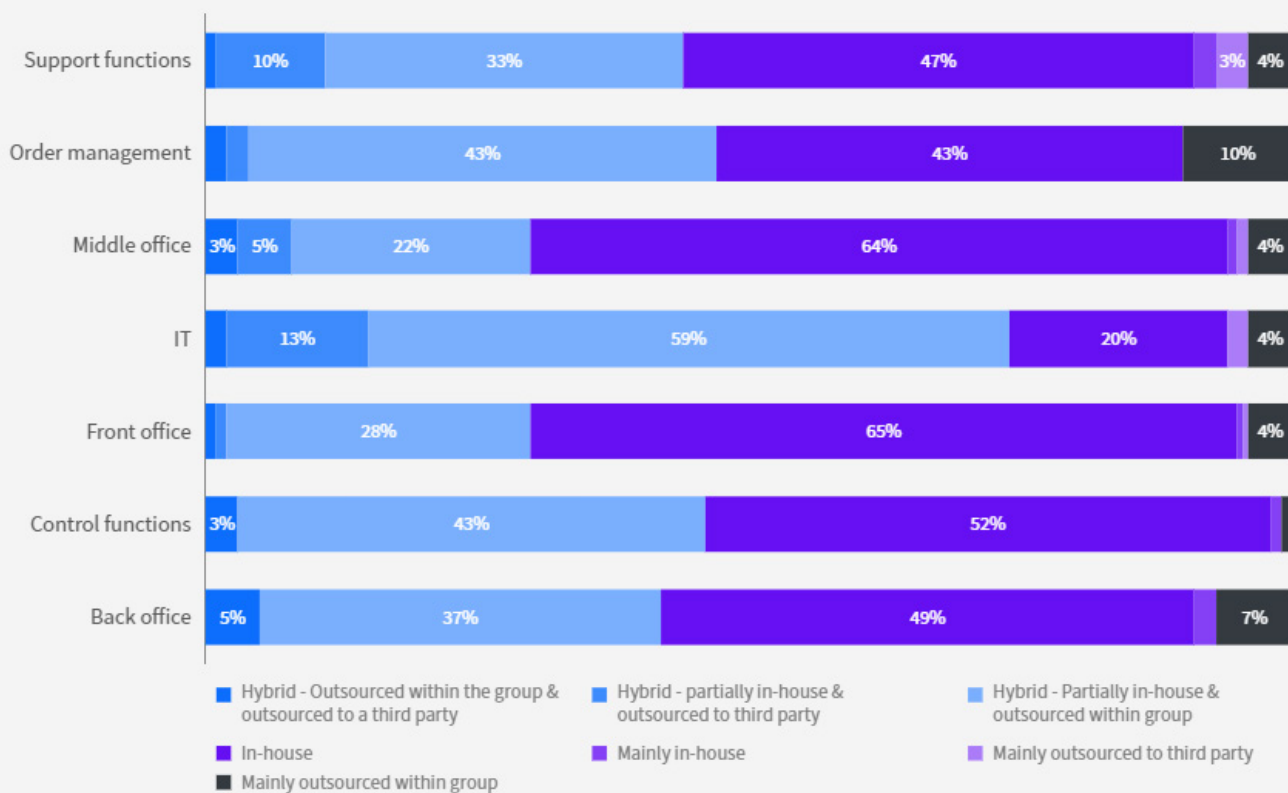
A slight increase in assets booked in other jurisdictions in 2022 may reflect asset performance rather than a reversal of that trend.

Equilibrium between outsourced and in-house approaches

When it comes to daily processes and activities, in-house employees are still the rule – just. The balance between internal and third-party providers is approaching equilibrium. That split has already tipped toward external suppliers for IT, turbo-charged by the uptake of cloud services.

Proportion of total activities
undertaken in-house/outsourced/hybrid, 2022



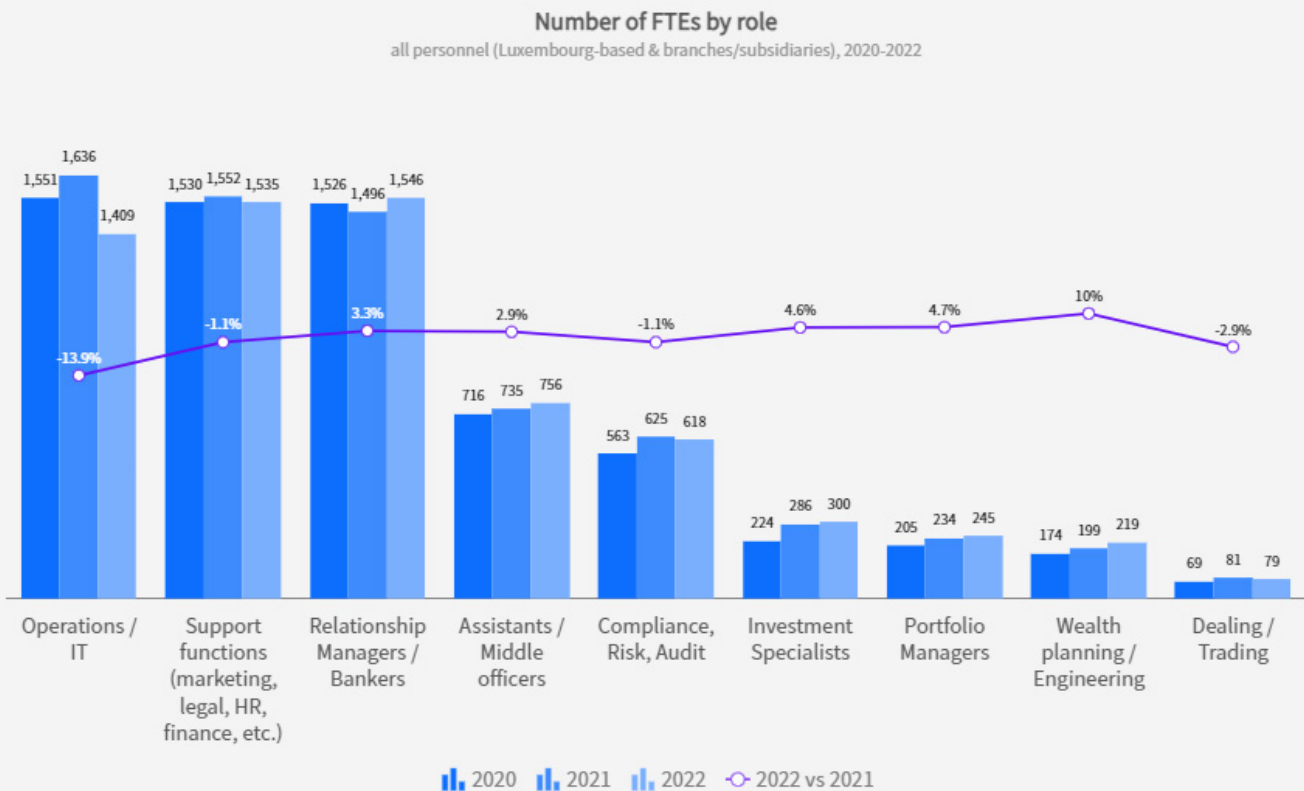


Structurally, private banks are seeking to streamline and personalize their offering. Focusing on their core expertise in advice and investment will lead to increased operational outsourcing, particularly among wealth management specialists.

More investment specialists, fewer IT staff

Staffing remained consistent, despite wage cost pressures. Private banks employ around 5,400 staff in Luxembourg, with a further 1,300 working for branches and subsidiaries.

The focus on quality in advisory and discretionary management saw the number of investment specialists rise last year. Conversely, an earlier focus on digital and operational excellence is coming to an end: demand for operational and IT staff fell sharply, down 14%, as the impact of automation takes hold.



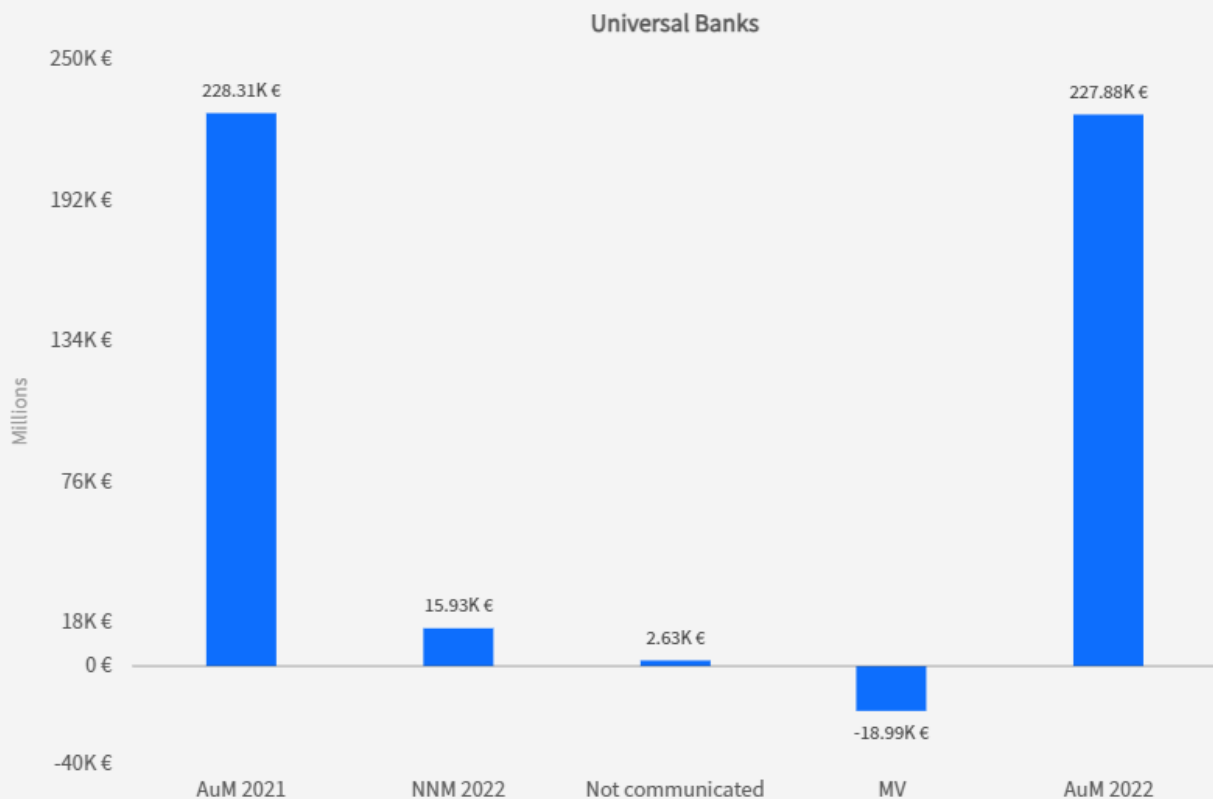
Universal Banks

Rapid rise in universal bank data costs outstrip jump in net income. Branchless model profitability soars as net interest income more than doubles.

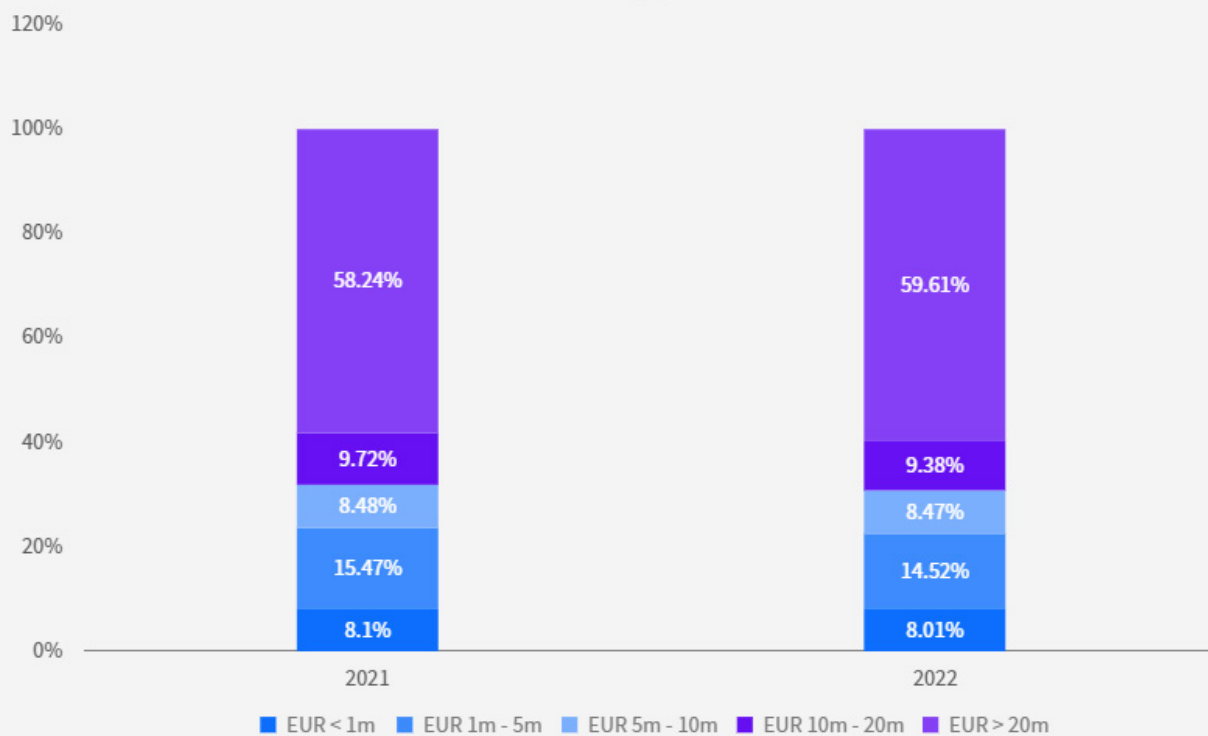
Private banks in Luxembourg that are part of a larger universal banking group reported positive inflows of new customer investment money, and an increase in average client portfolio size while their total customer base shrank slightly.

Rising interest rates were good for business; net interest income rose almost 20% in 2022. The cost-to-income ratio remained relatively stable, albeit with significant variations. Those with traditional branch-based channels reported reduced efficiency gains.

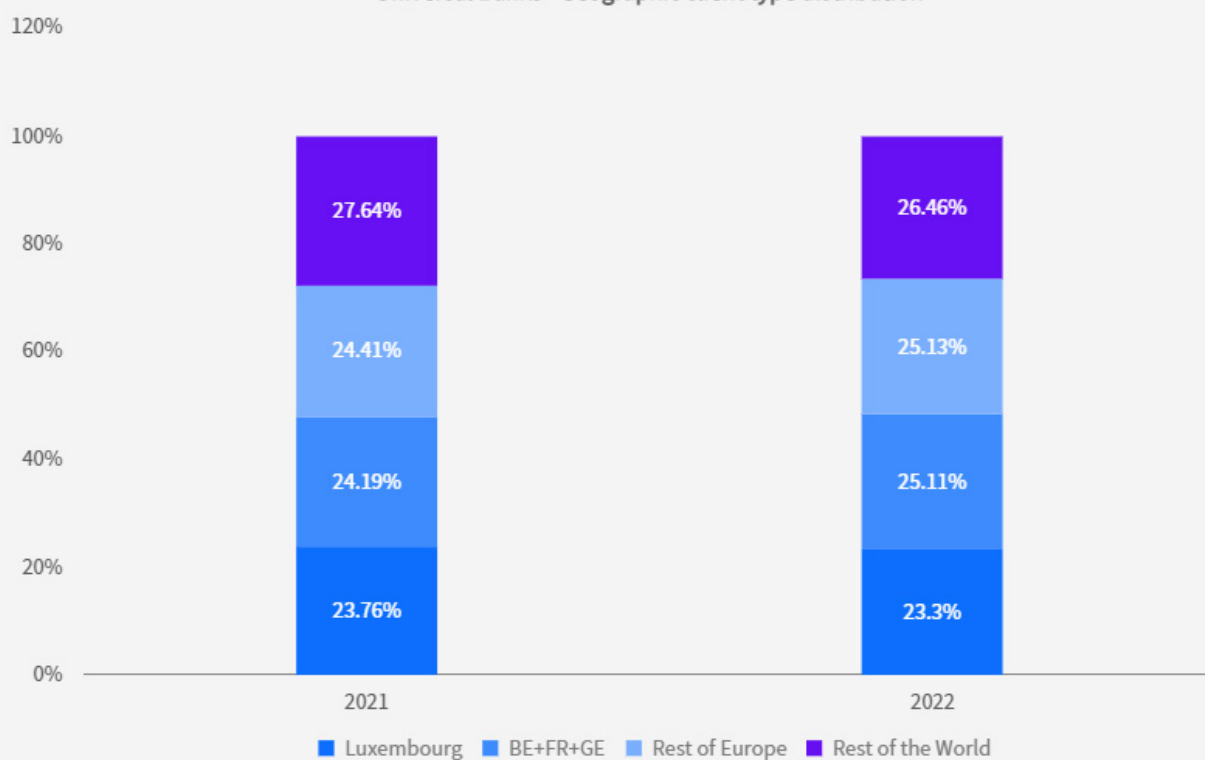
Digital or physical, no universal bank was able avoid inflation, particularly for data costs (up 140%), compliance and staff. That applied equally to banks that use their group's expertise for IT and other functions, or those solely focused on wealth management that are more likely to outsource.



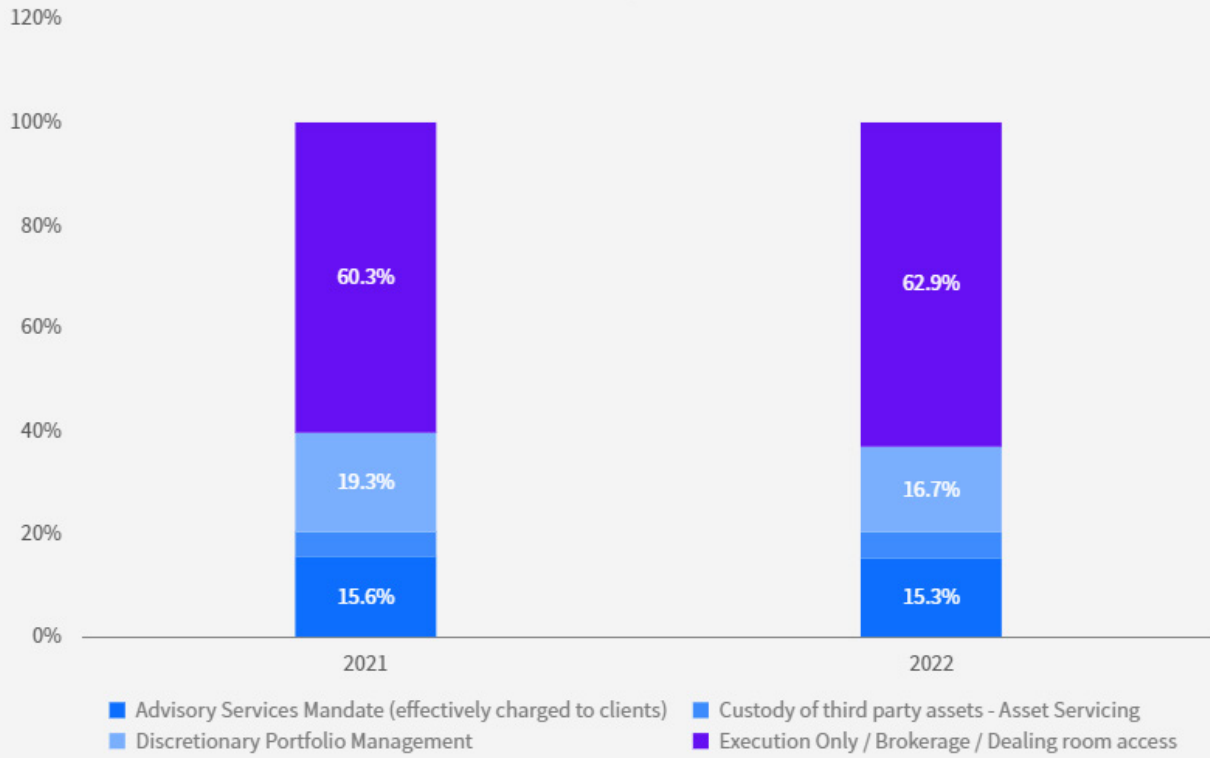
Universal Banks #1
in %



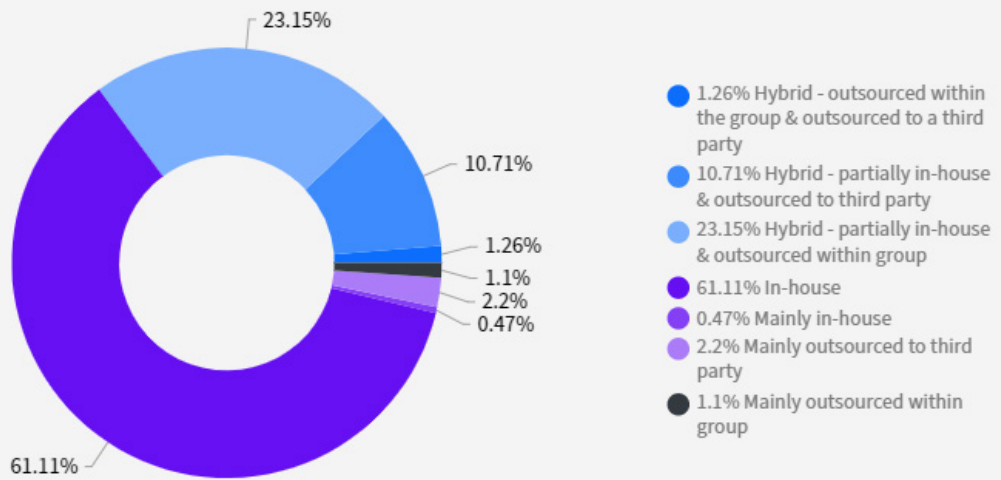
Universal Banks - Geographic client type distribution



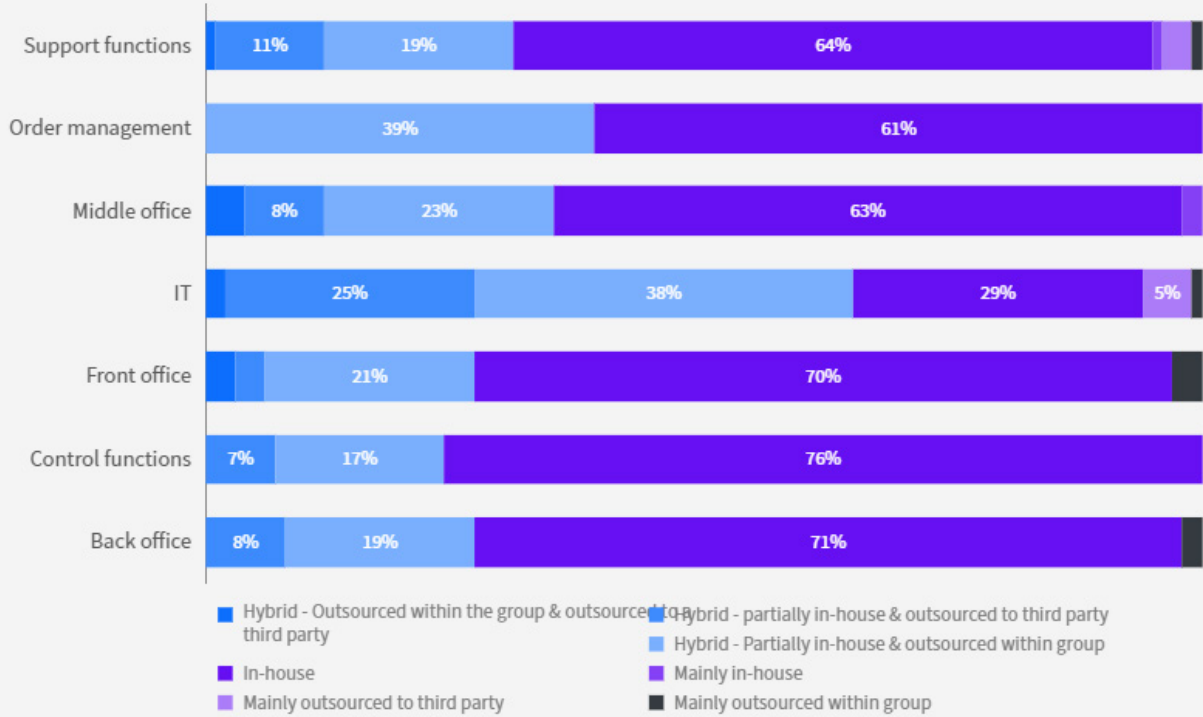
Service offering - Universal Banks



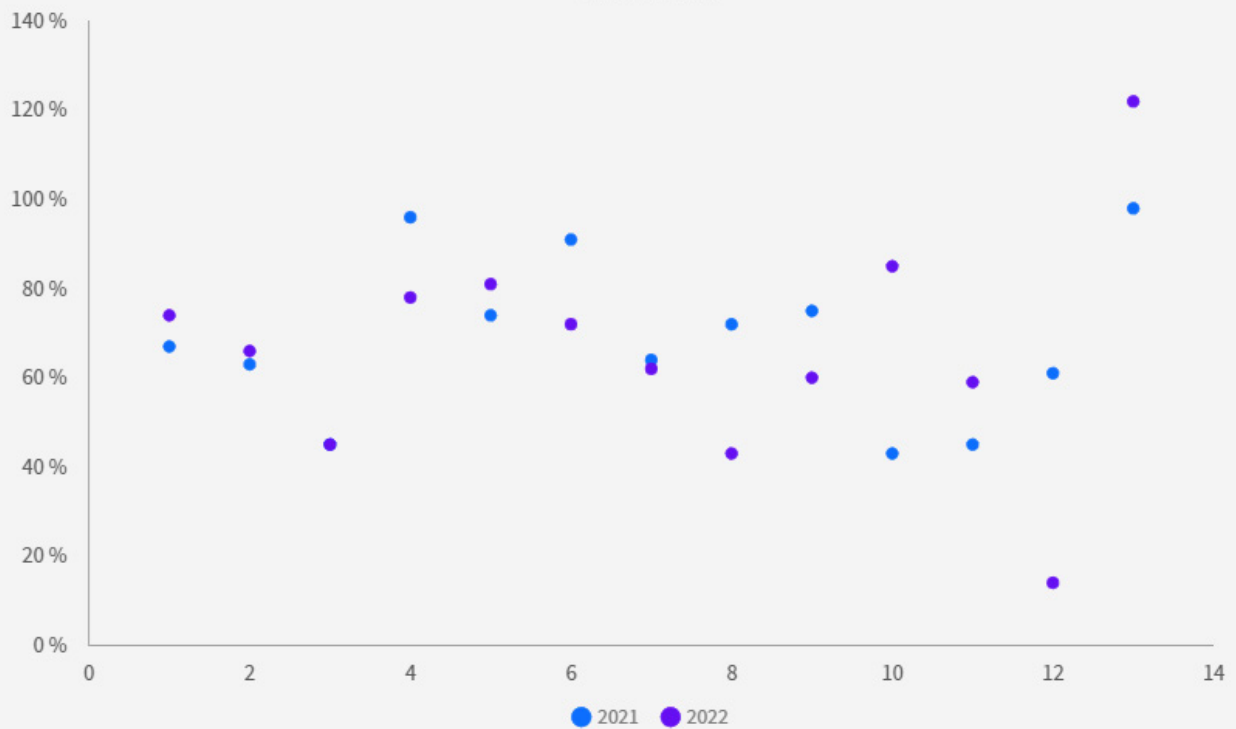
Proportion of total activities undertaken in-house/outsourced/hybrid, 2022

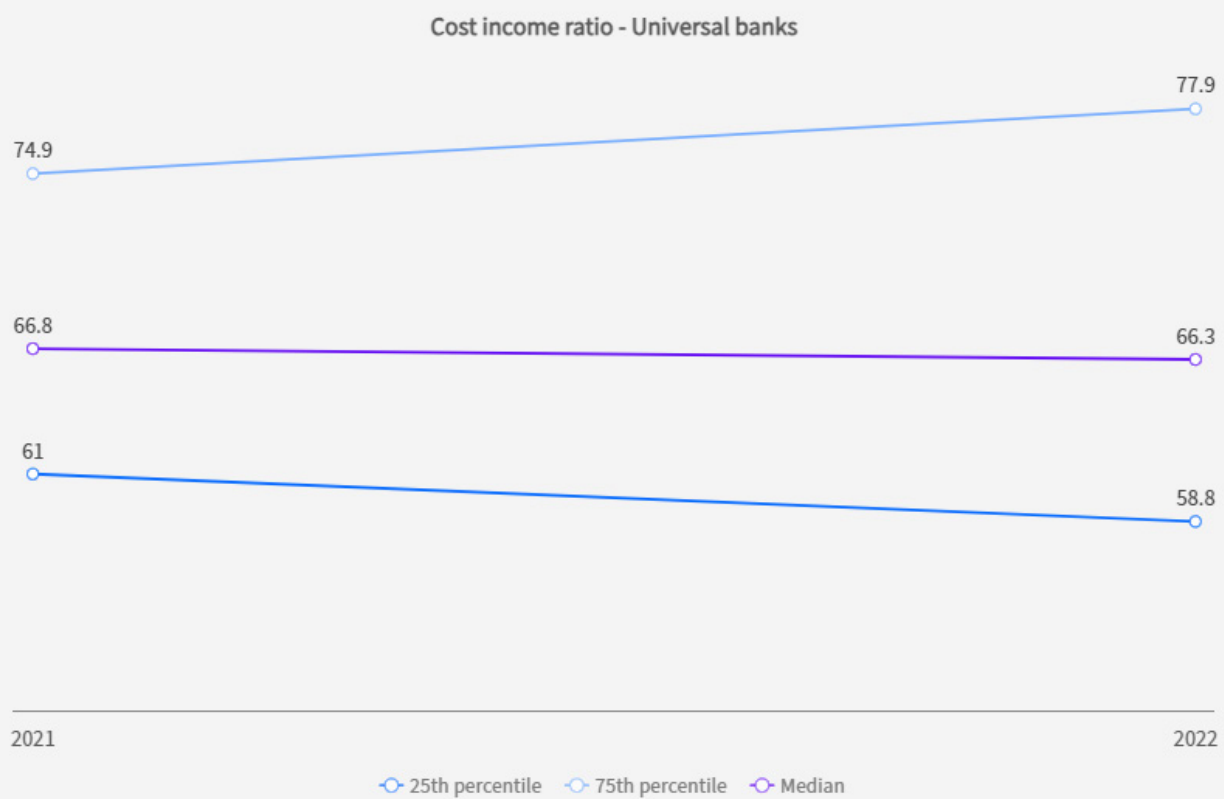


Porportion of total activities
undertaken in-house/outsourced/hybrid



Universal banks
Cost-income ratio





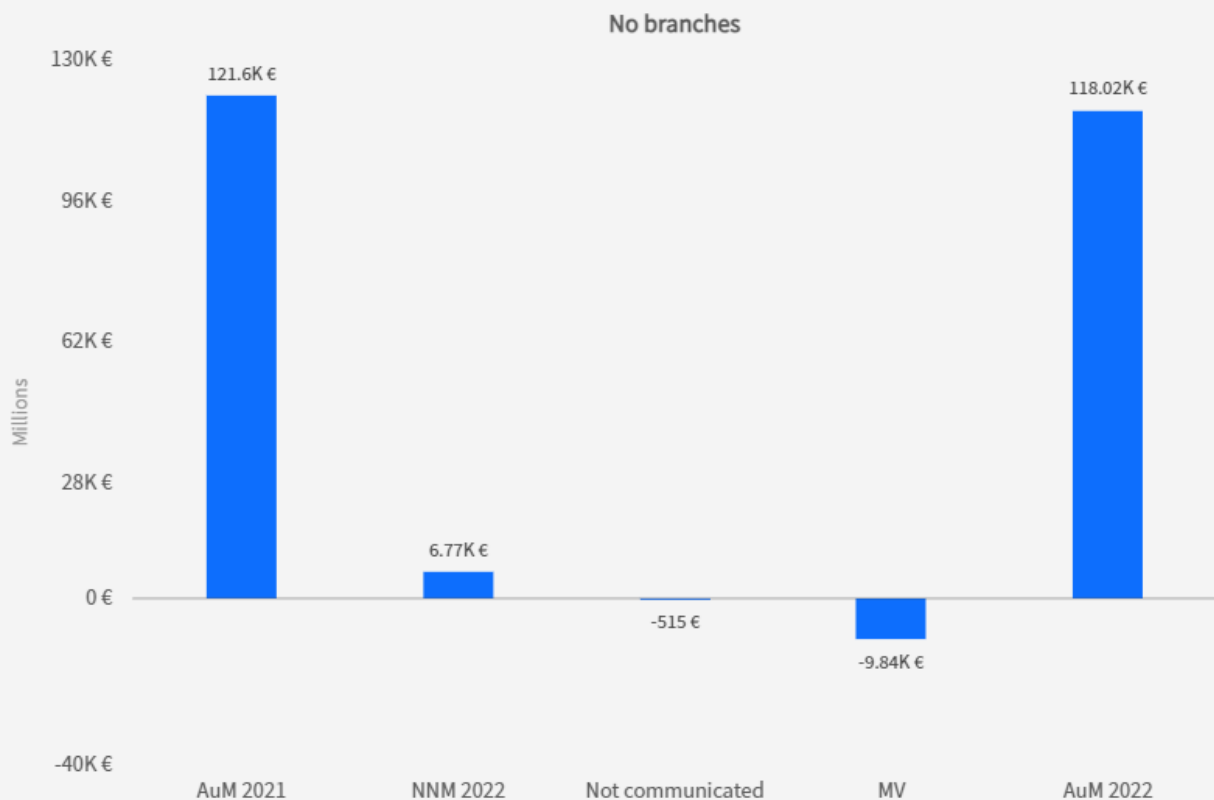
Wealth managers without branches operated from Luxembourg

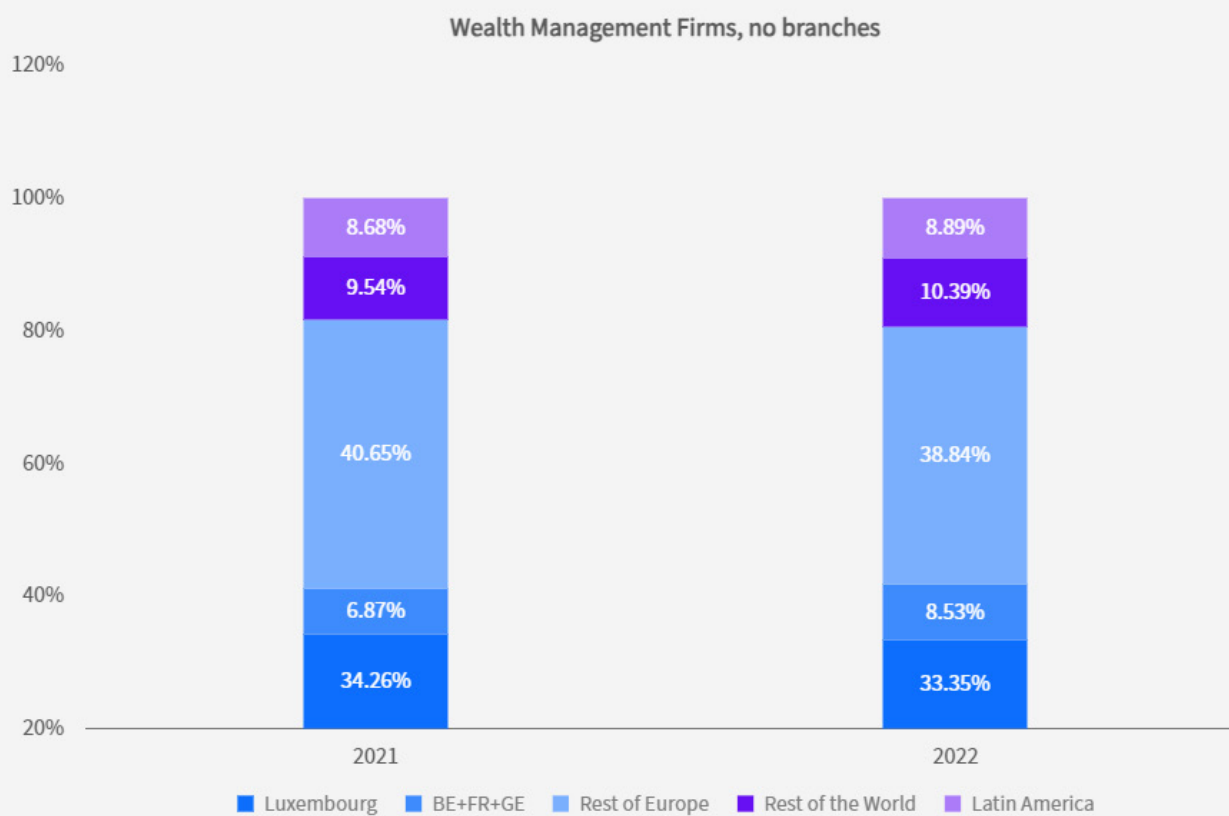
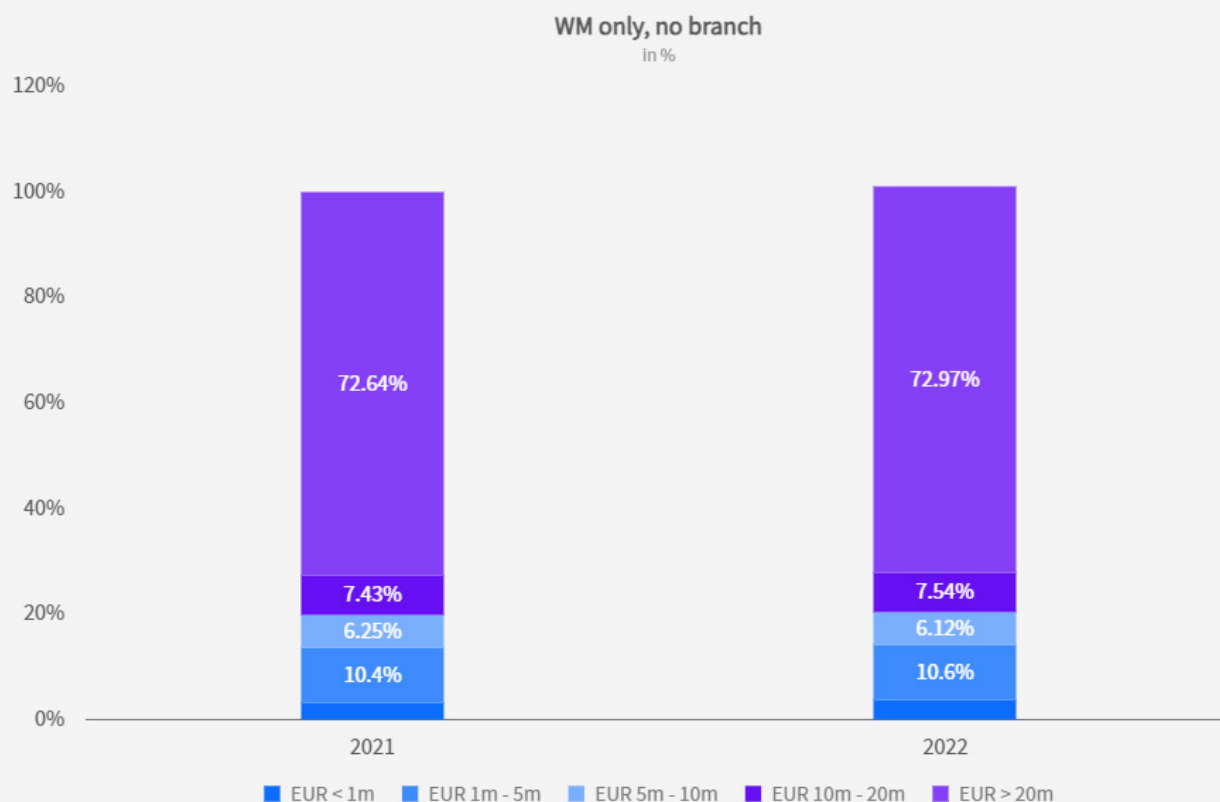
Branchless wealth managers doubled their net interest income. International customer base continues to expand.

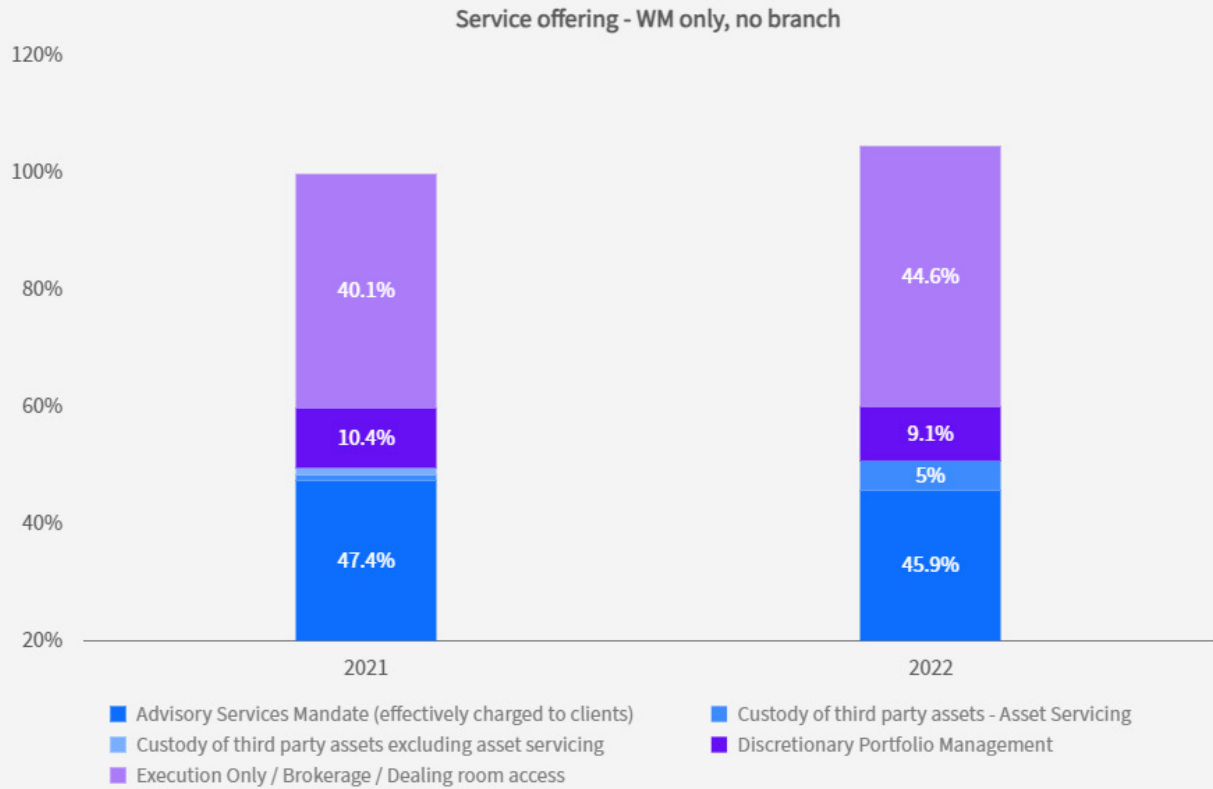
Branchless business models were the outright winners on all fronts in 2022. Client numbers rose by 16%, mostly offsetting the impact of falling securities markets on investor portfolios. Clients with portfolios exceeding EUR 20 million make up almost three-quarters of the investor base.

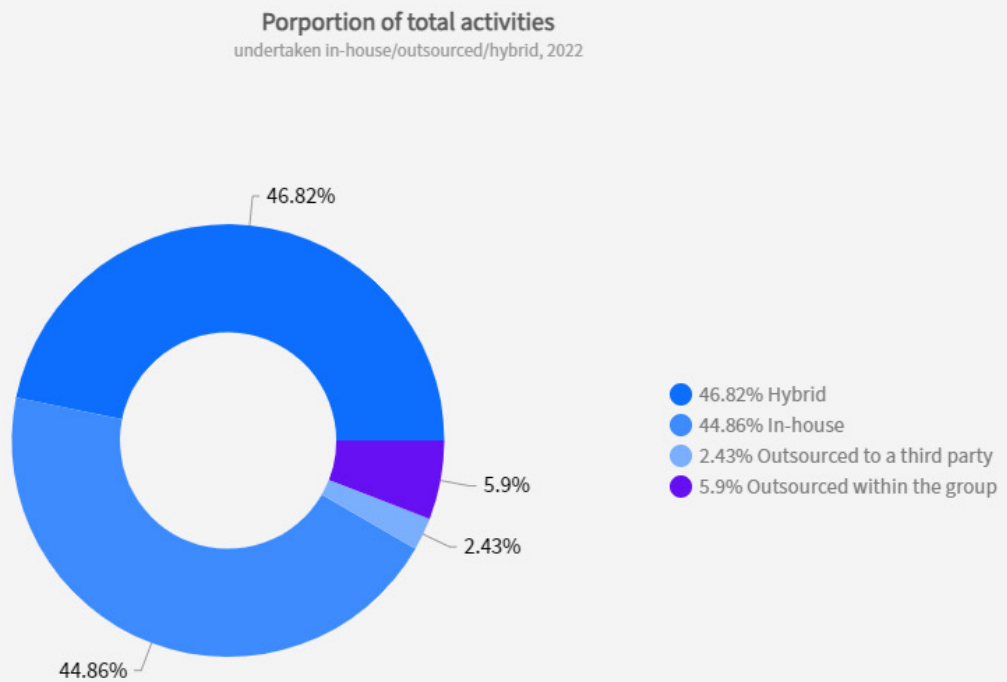
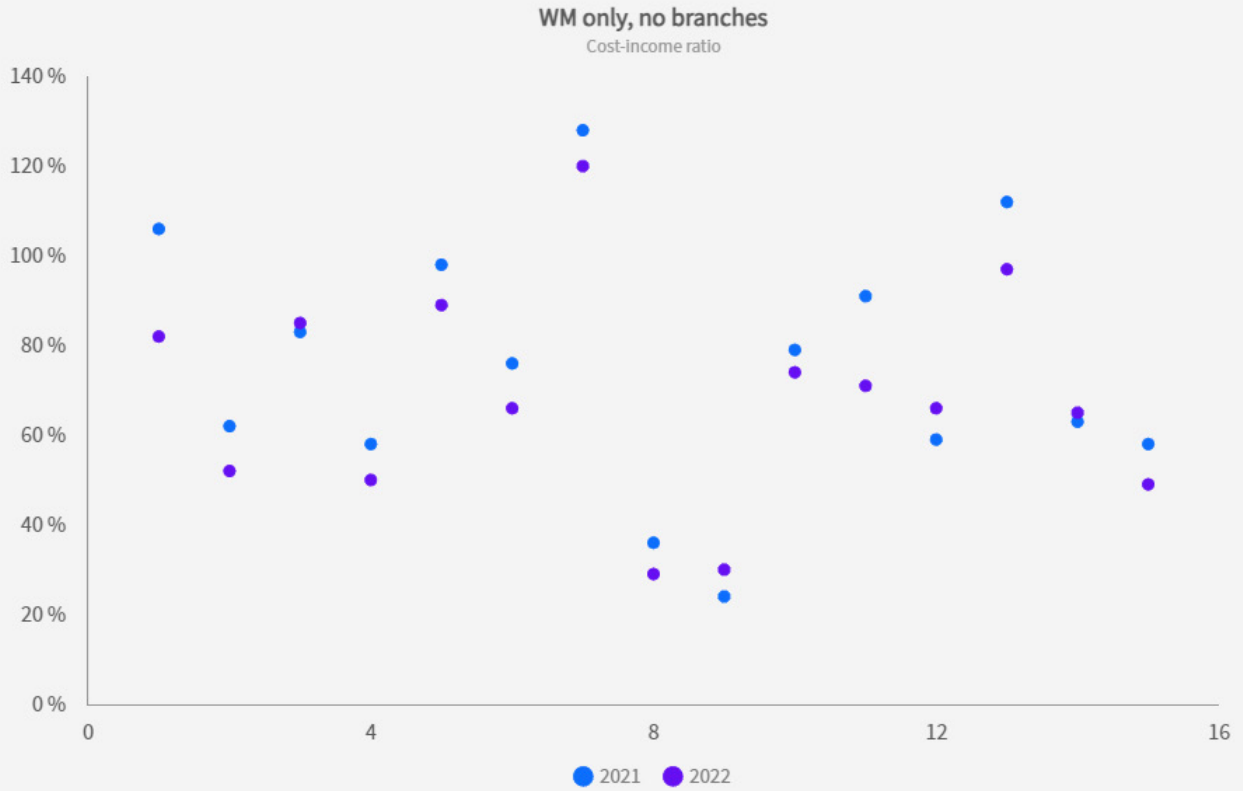
While primarily focused on Europe, branchless wealth managers have made bigger inroads in international markets. The proportion of Latin American clients crept up to 8.89%, as did those from the rest of the world (10.39%).

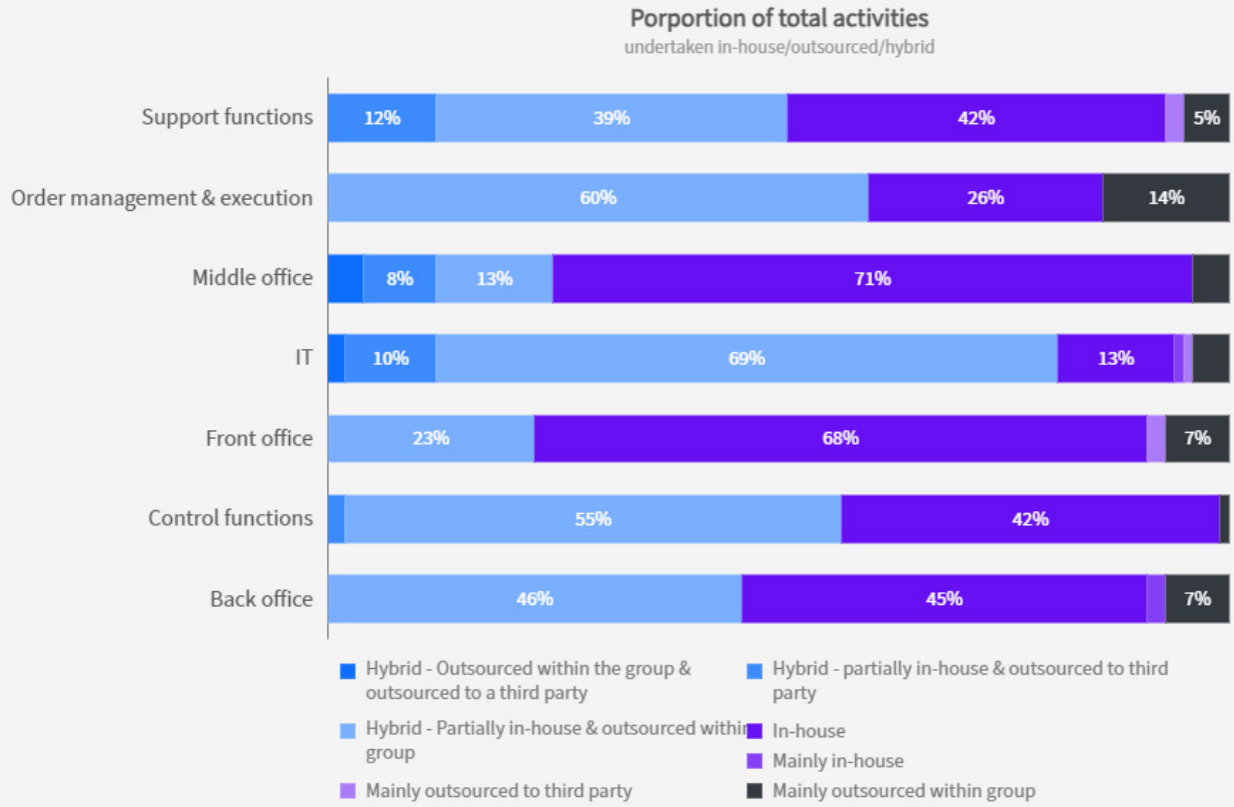
More impressive was growth in net interest income, which more than doubled last year. Despite the impact of cost inflation, the revenue boost from interest income boosted profitability. The median cost-to-income ratio dropped by no less than 10.18 percentage points to 65.6%.











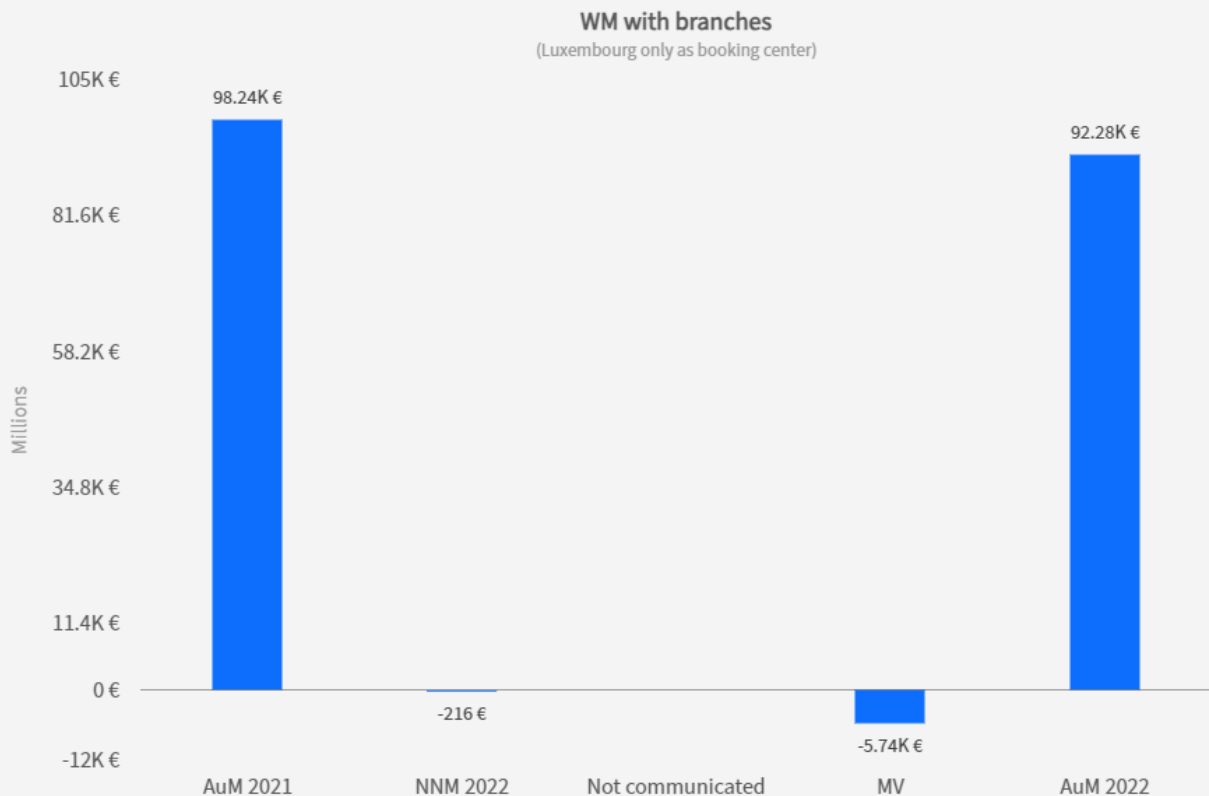
Wealth managers with branches that are not booking centers

European branch networks remain stable despite sector upheaval. Cost-to-income ratios improve significantly.

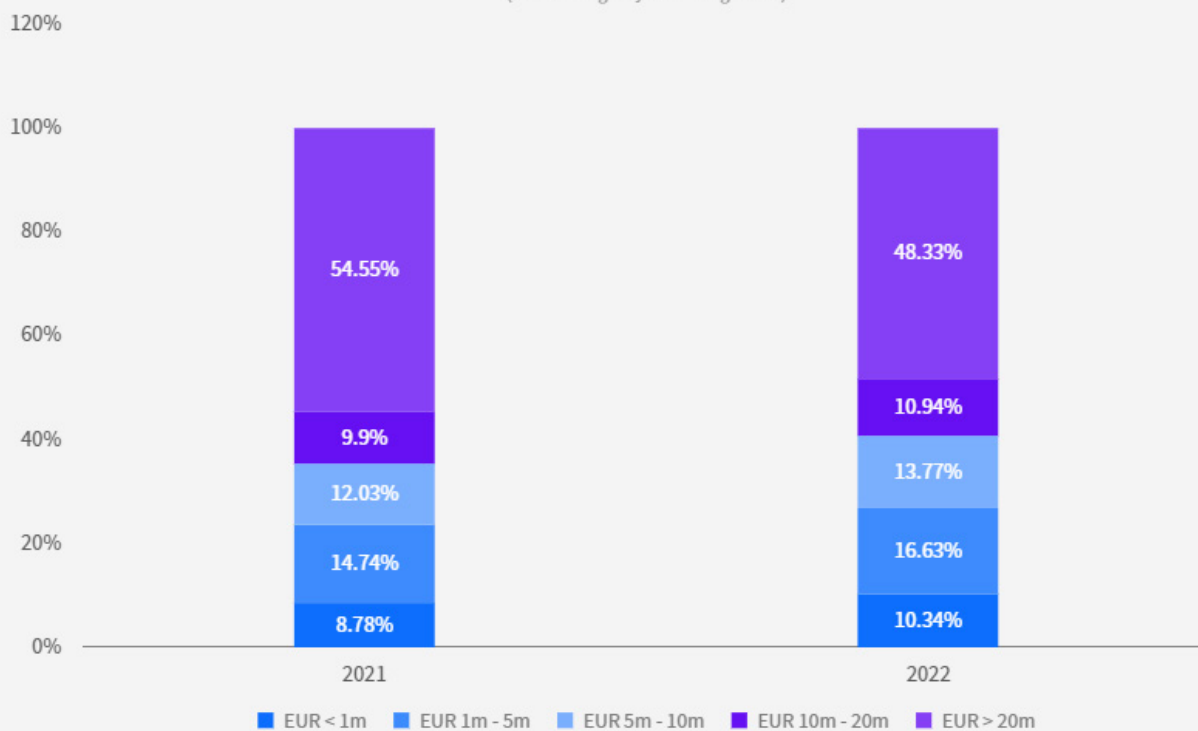
It's been all change for specialist wealth managers who book their EU branch business in Luxembourg. Credit Suisse suffered significant outflows ahead of its acquisition by UBS, Intesa Sanpaolo and CBP Quilvest are set to merge, and HSBC brought its French private banking business under its Luxembourg umbrella last year.

Clients were largely unperturbed by the corporate maneuvering; assets under management dipped by just 6%. Although the share of assets from ultra-rich clients fell from 55% to 48%, their number increased.

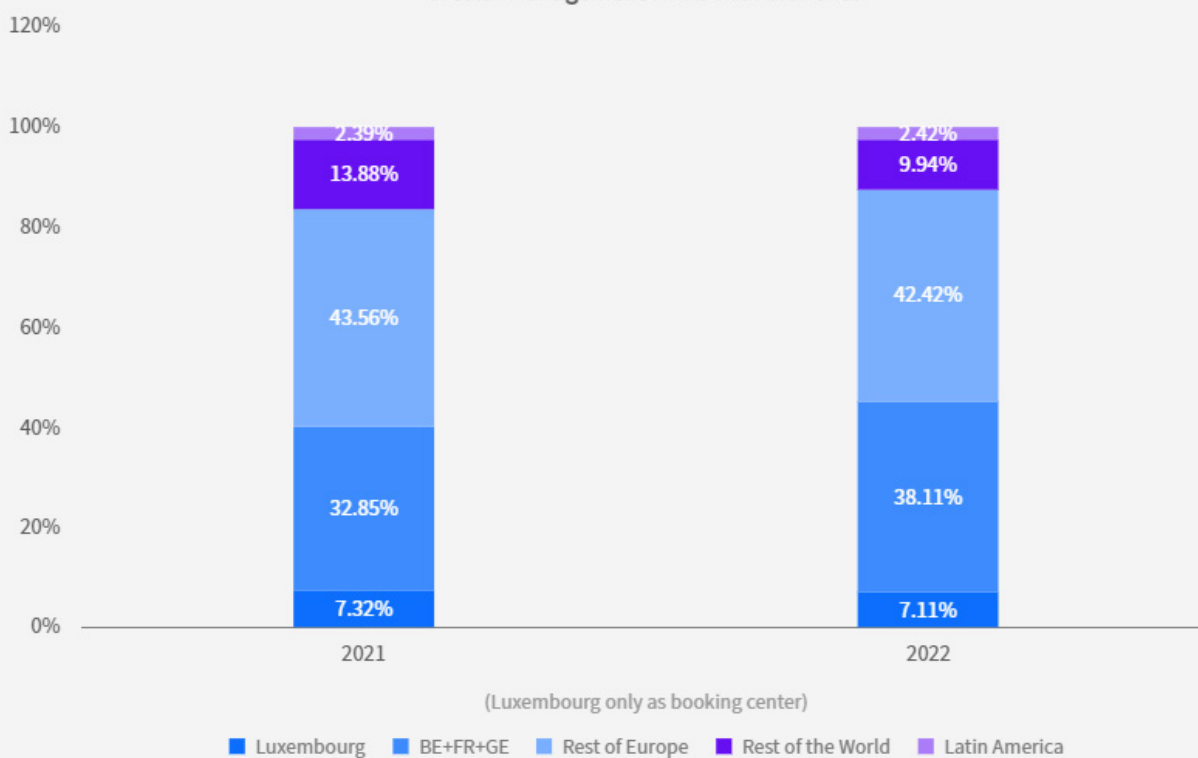
Net income increased by three-quarters and operating profit by almost one-fifth. That helped to reduce the median cost-to-income ratio by 15.33 percentage points. However, at 80.69%, it remains far higher than that of branchless peers.

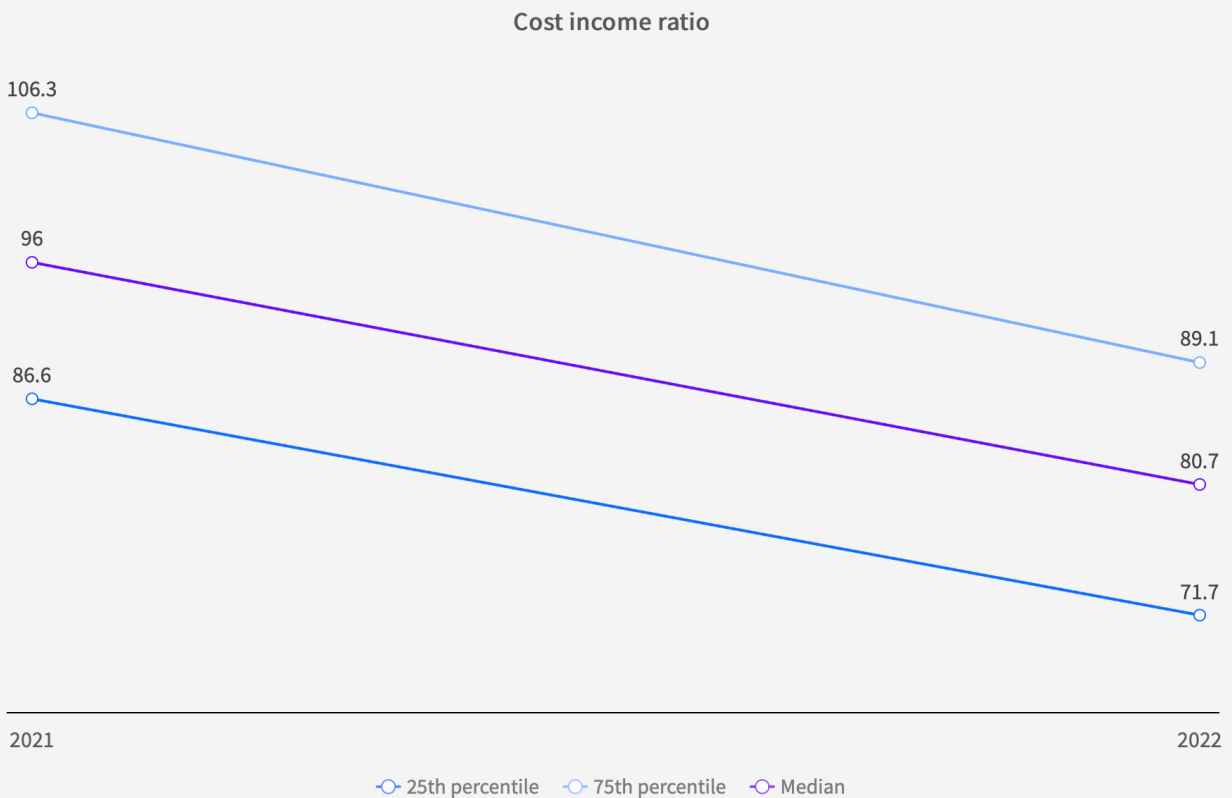
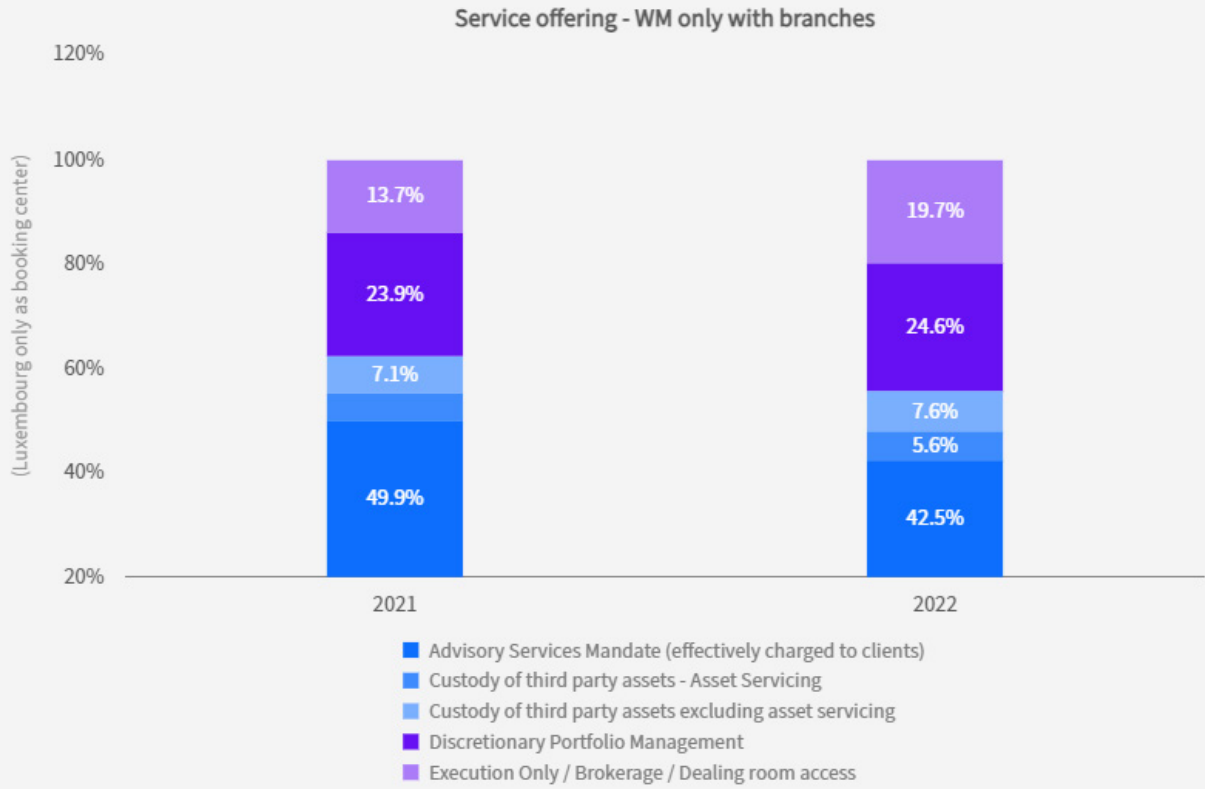


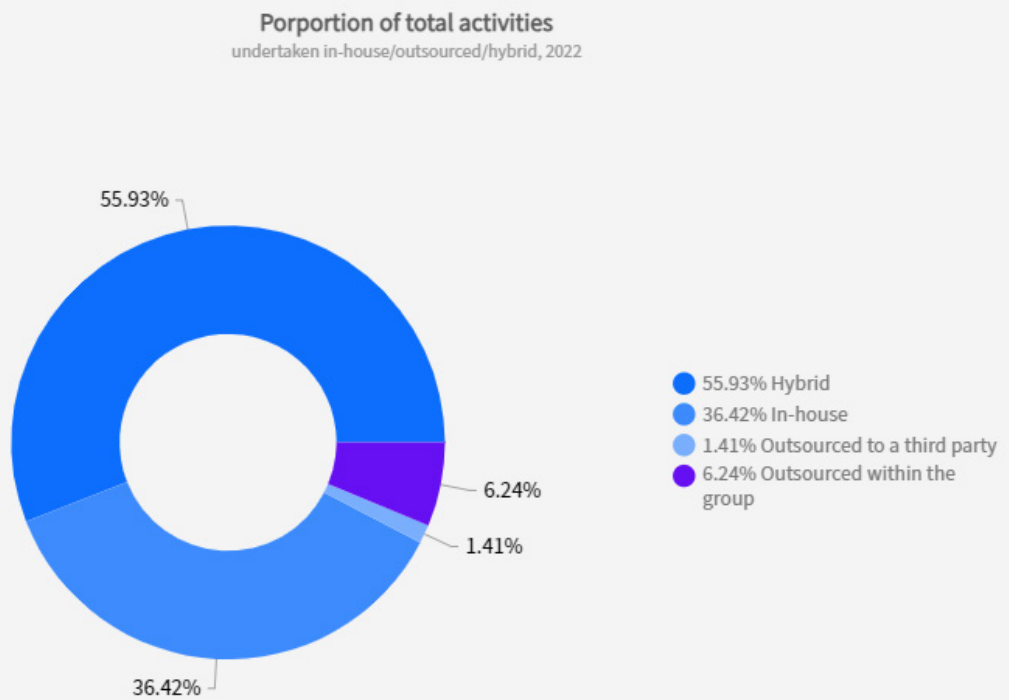
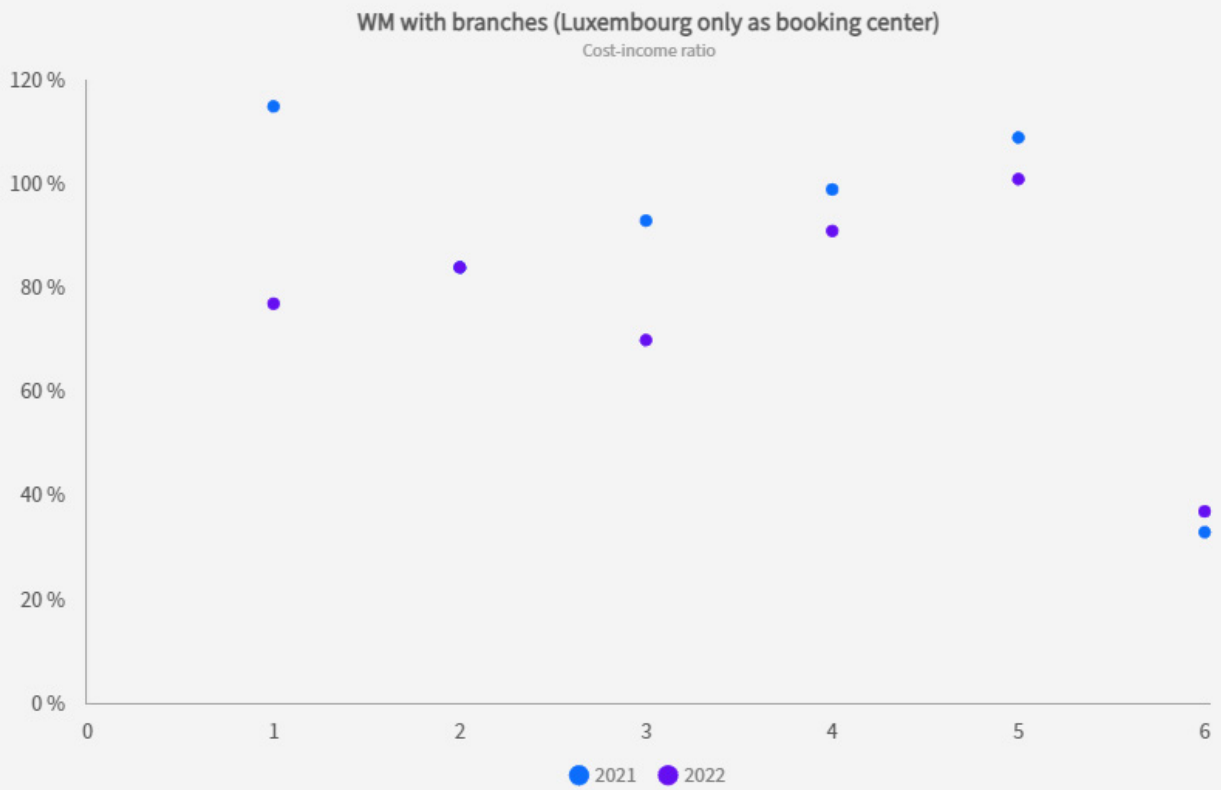
WM with branches
(Luxembourg only as booking center)

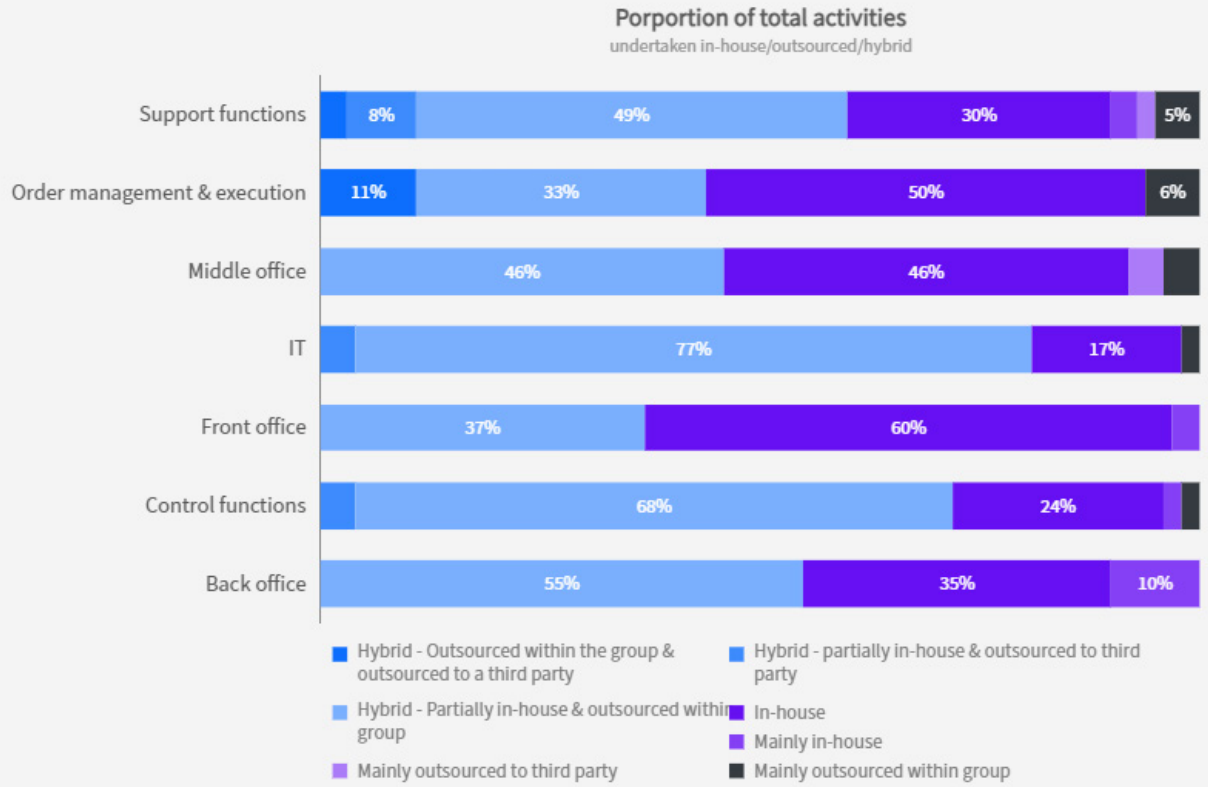


Wealth Management Firms with branches









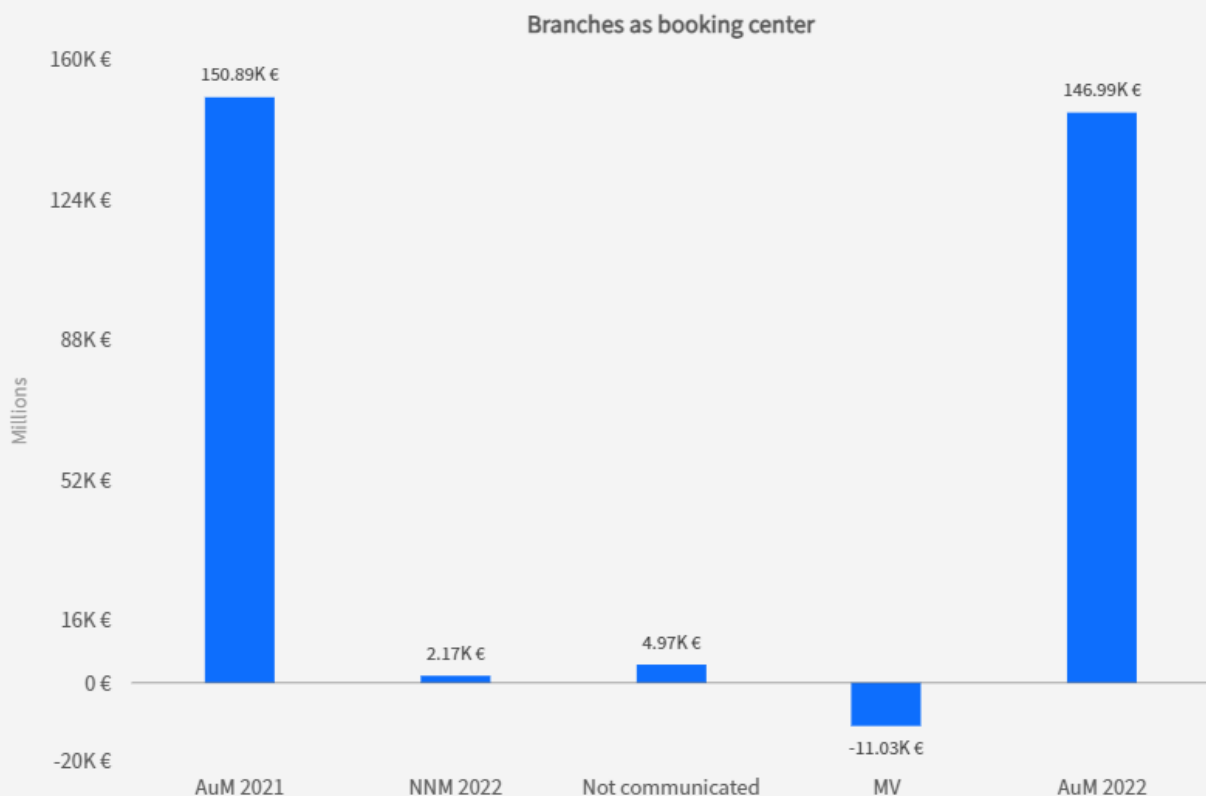
Wealth managers with branches that are also booking centers

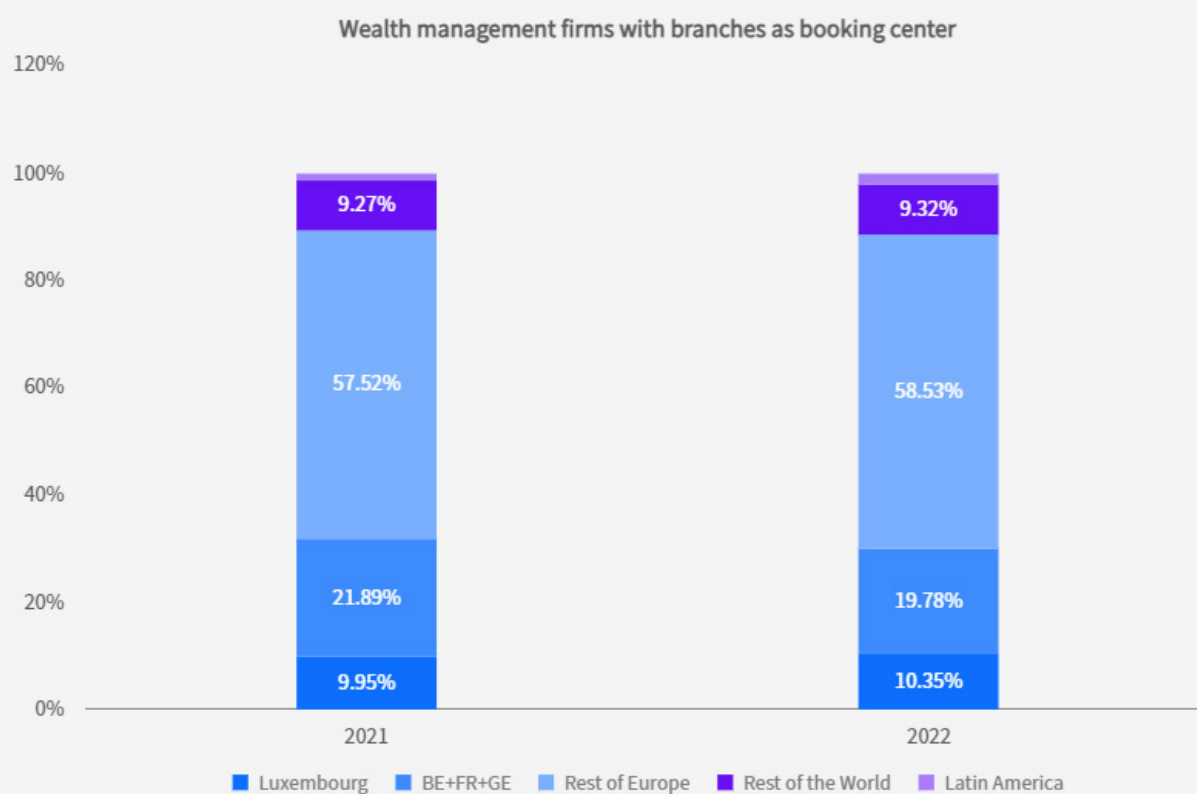
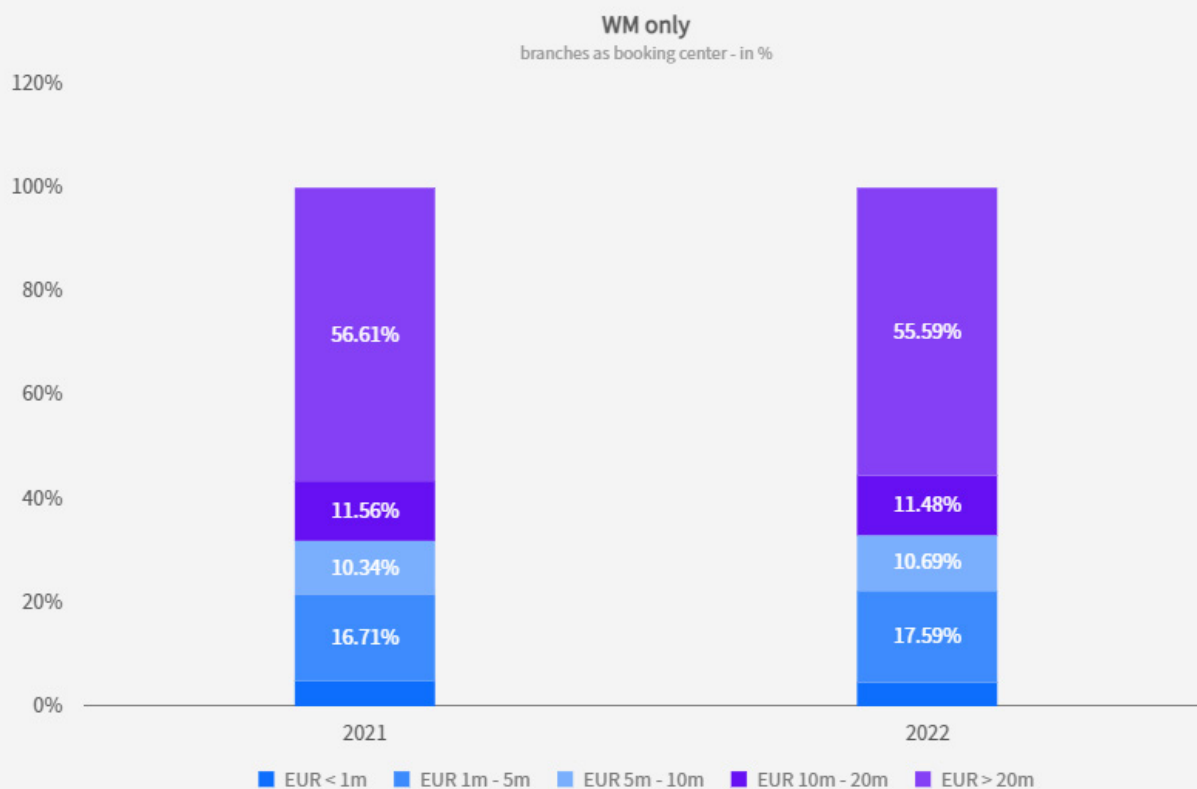
Wealth managers with EU booking centers boosted cost efficiency. Local booking opens up additional revenue streams.

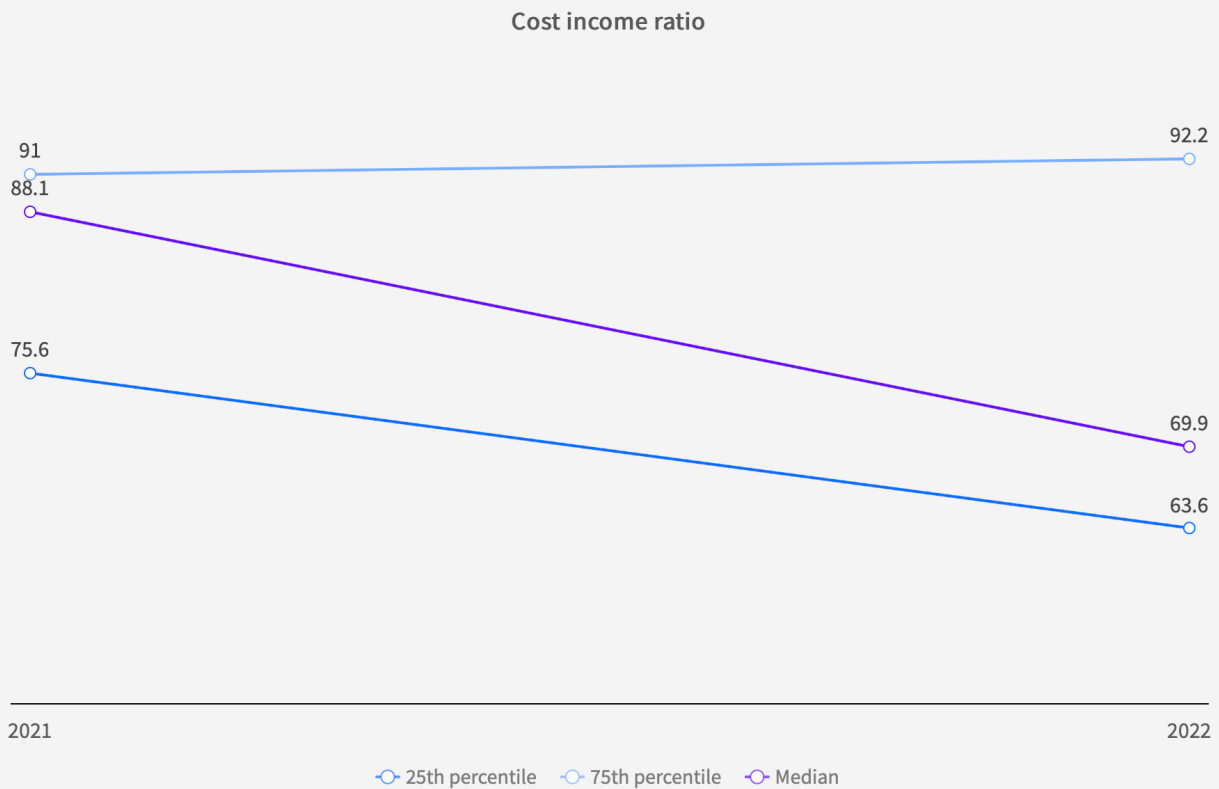
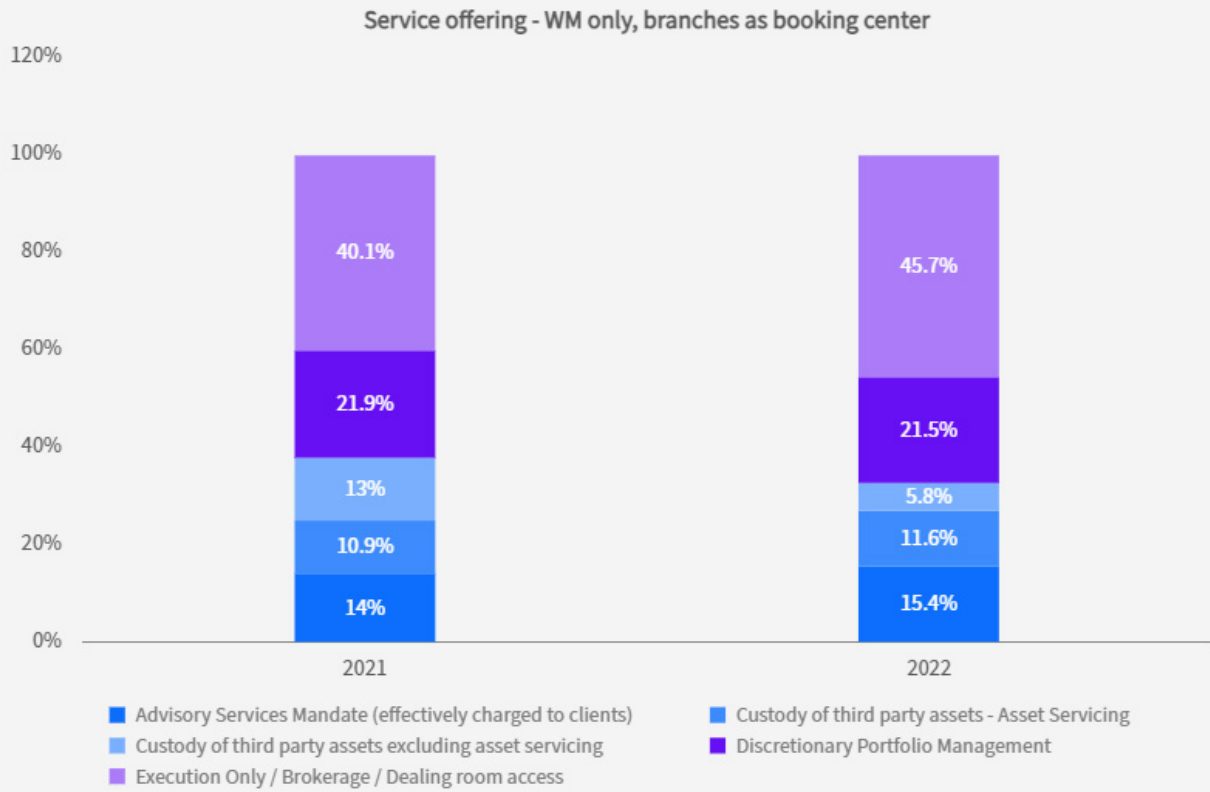
A shrinking number of wealth management-only private banks continue to book business in other EU member states, but they still represent a bigger share of client assets, at CHF147 billion, than those who book transactions in Luxembourg. After adjusting for market movements, we calculate that their total assets under management dipped by 8% last year.

Institutions following this more traditional model are more likely to outsource functions such as IT. But they can also sell IT platform services to asset managers who want to register their client portfolios locally, and earn revenue from order execution and custody functions.

More conservative in nature, this cluster of wealth managers has tight cost controls. Overall operating expenses rose by just 5.31%, and employee remuneration by even less. With net income and operating income up, they cut their median cost-to-income ratio by 18.24 percentage points, a strong performance by comparison with other business models.

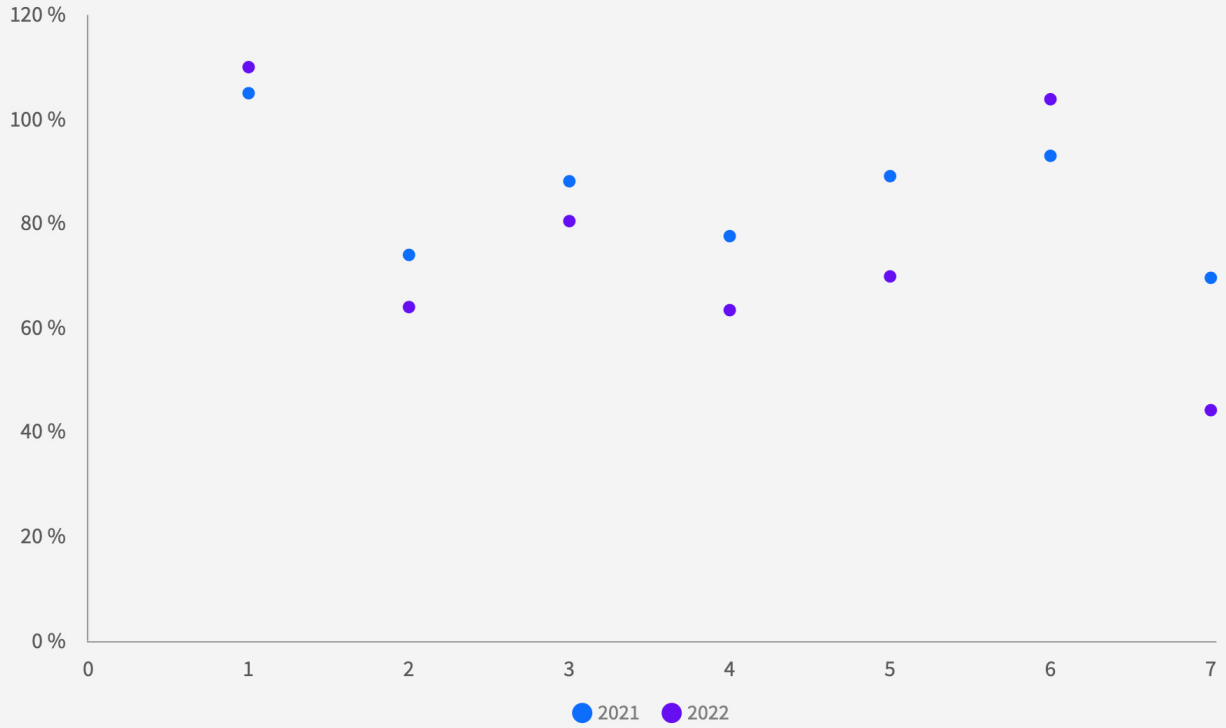






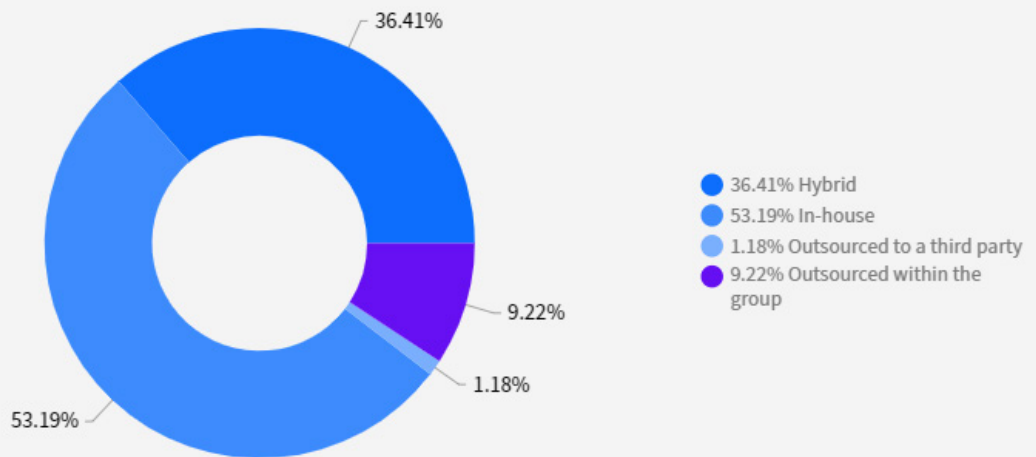
WM only, branches also as booking center

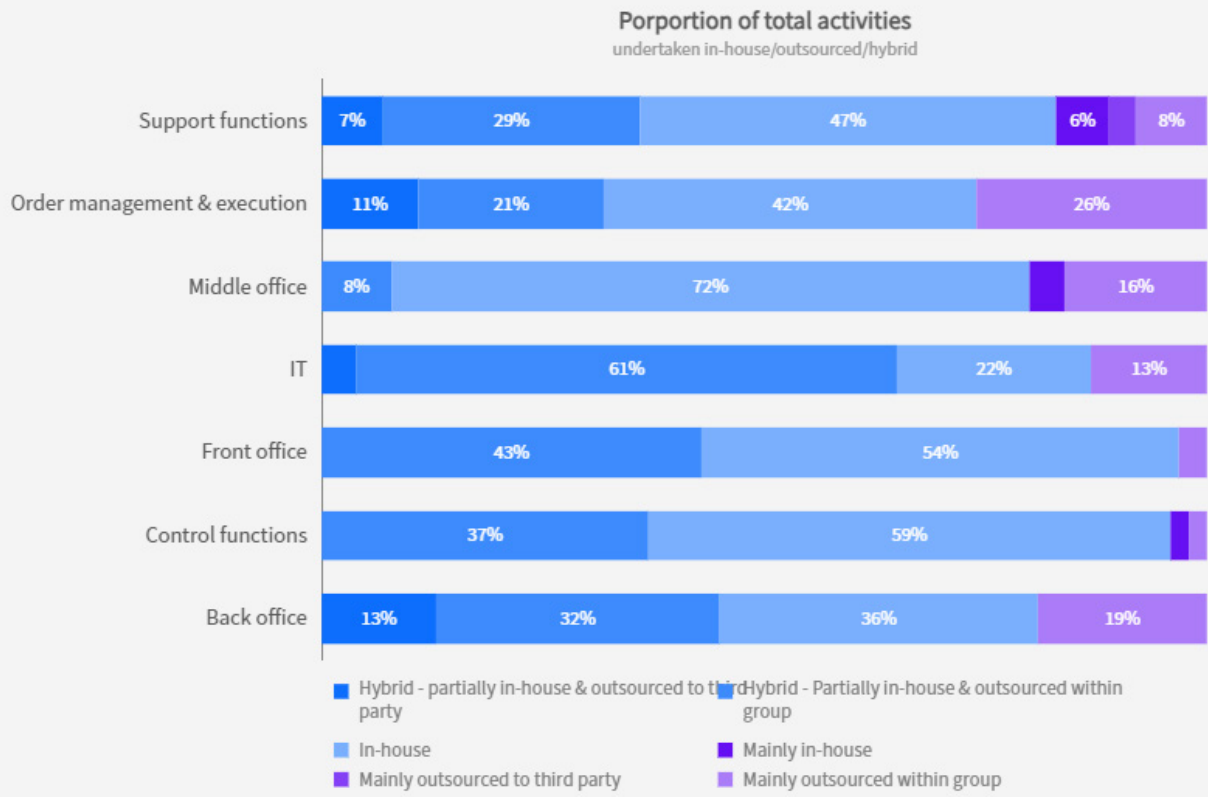
Cost-income ratio



Proportion of total activities

undertaken in-house/outsourced/hybrid, 2022







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