



## **Independent Wealth Management in Luxembourg**

Perspective on a sector at crossroads

22 June 2018

# Key figures of the Luxembourg External Asset Managers (EAMs) sector

**94**

External Asset Managers (EAMs)

**€0.4 bn**

AuM per EAM holding a Private Portfolio Manager license (Art. 24-3)

**+ 2,000**

EAM employees located in Luxembourg

**80%**

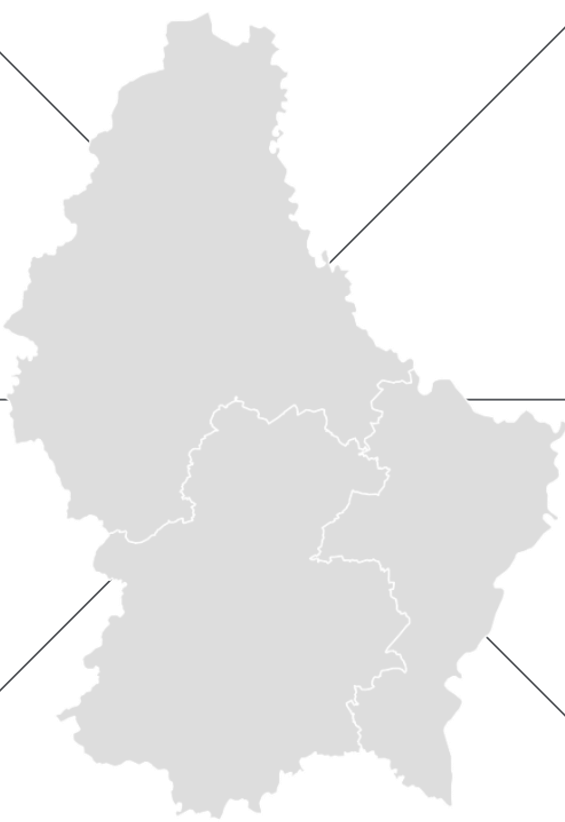
AuM placed in discretionary portfolio management mandates

**€30 bn**

Luxembourg EAM Assets under Management (AuM) in 2017

**€40 bn**

Booked by EAMs at Luxembourg based banks



Sources: CSSF, ABBL, Deloitte analysis

# Overview of today's presentation

- **Deloitte** and the **ALPP** are pleased to present the results of the study, providing a **perspective on the Luxembourg External Asset Managers (EAMs)** sector
- The study **sheds light on how independent players in Luxembourg** have fared in face of current changes in the wealth management industry and **highlights the success factors** that in our view will allow EAMs to thrive in the future
- The analysis is based on **financial and volume data** from the **ABBL** and **CSSF**, as well as on qualitative **interviews** with EAMs

## Today's agenda...

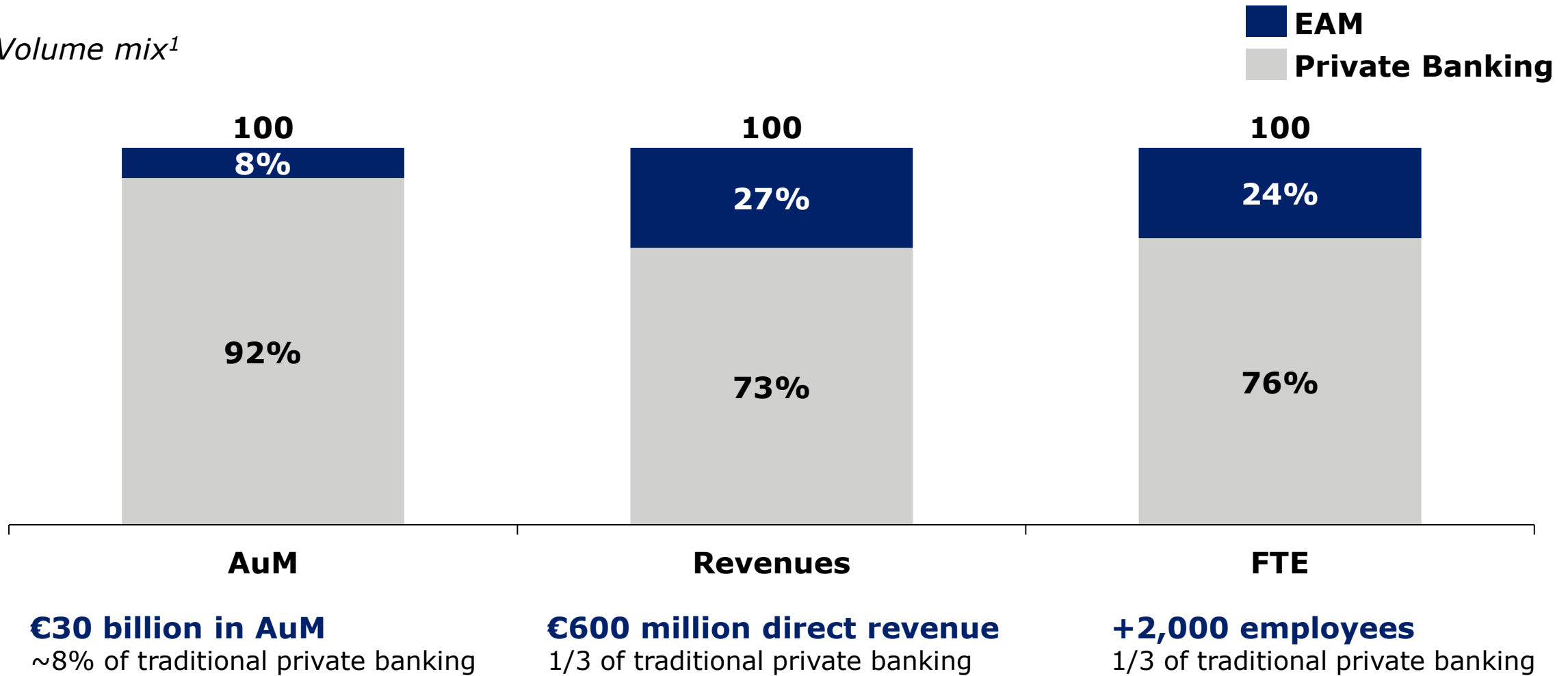
**EAMs as a strategic sector**

**EAMs current state of play**

**Future model for EAMs**

Overall, EAMs bring a significant contribution to the Luxembourg financial sector and the wealth management industry

Volume mix<sup>1</sup>

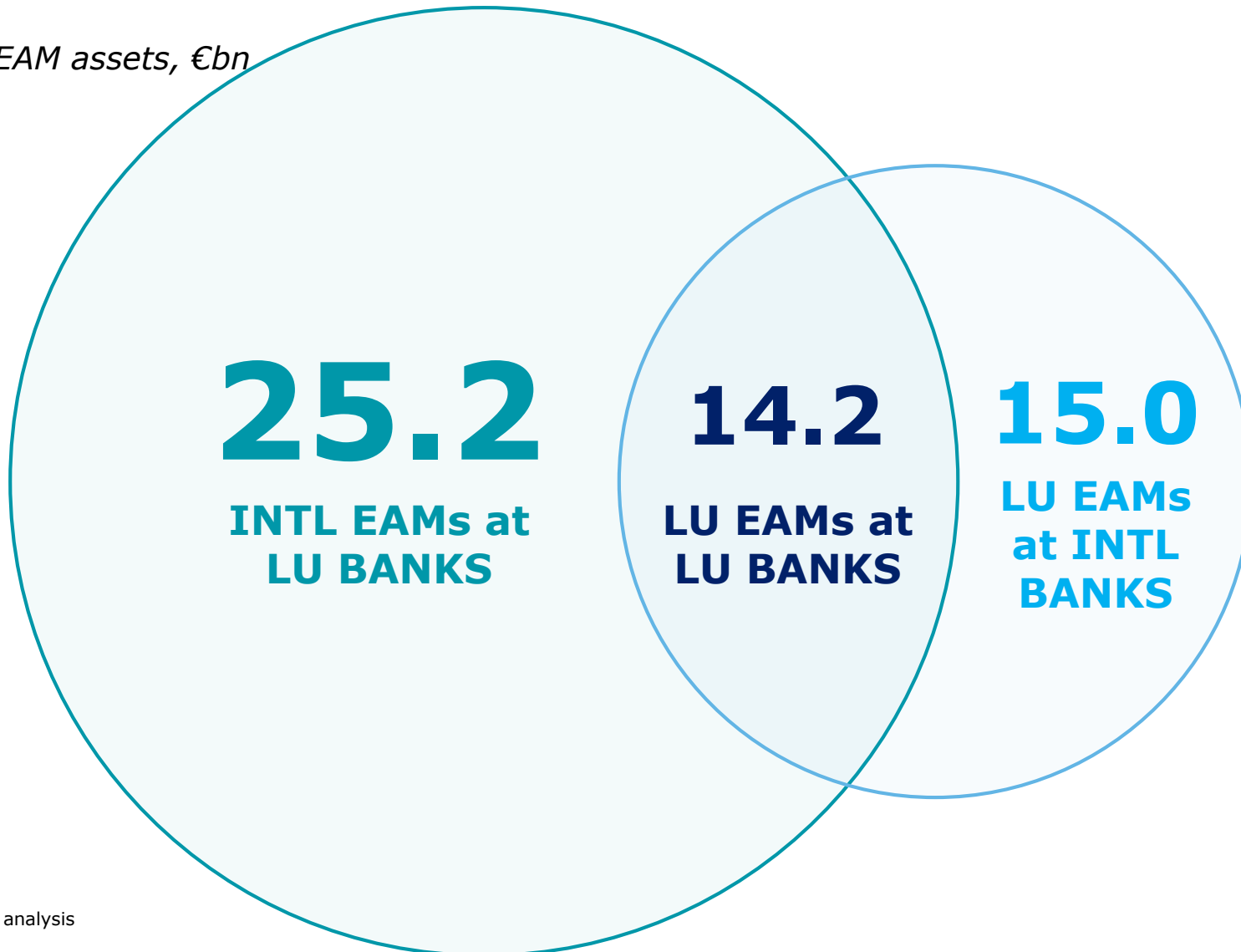


Notes: (1) Based on latest available data.

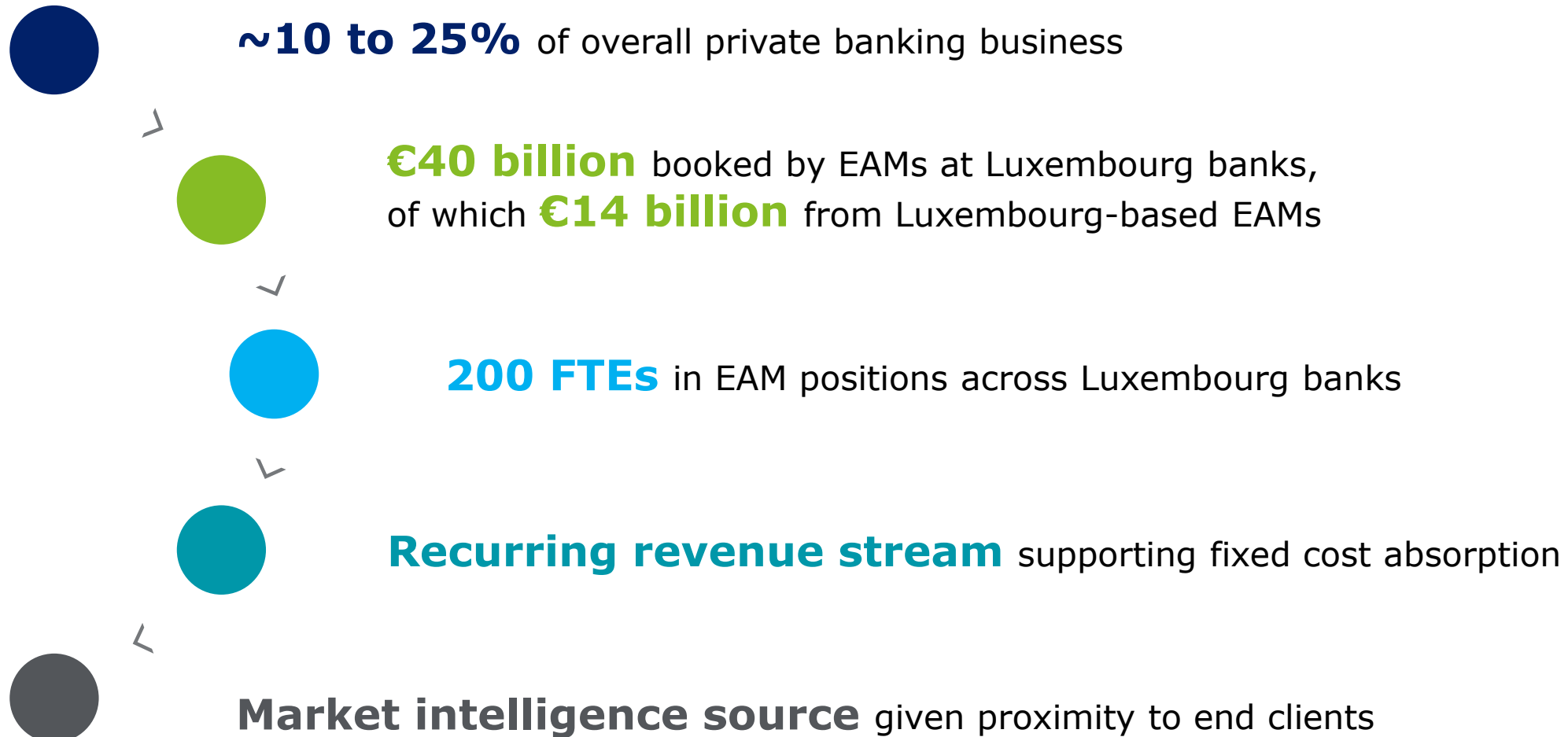
Sources: ABBL, CSSF, Deloitte analysis

Luxembourg EAM represent a significant part of local depositary banks' total EAM asset volume ...

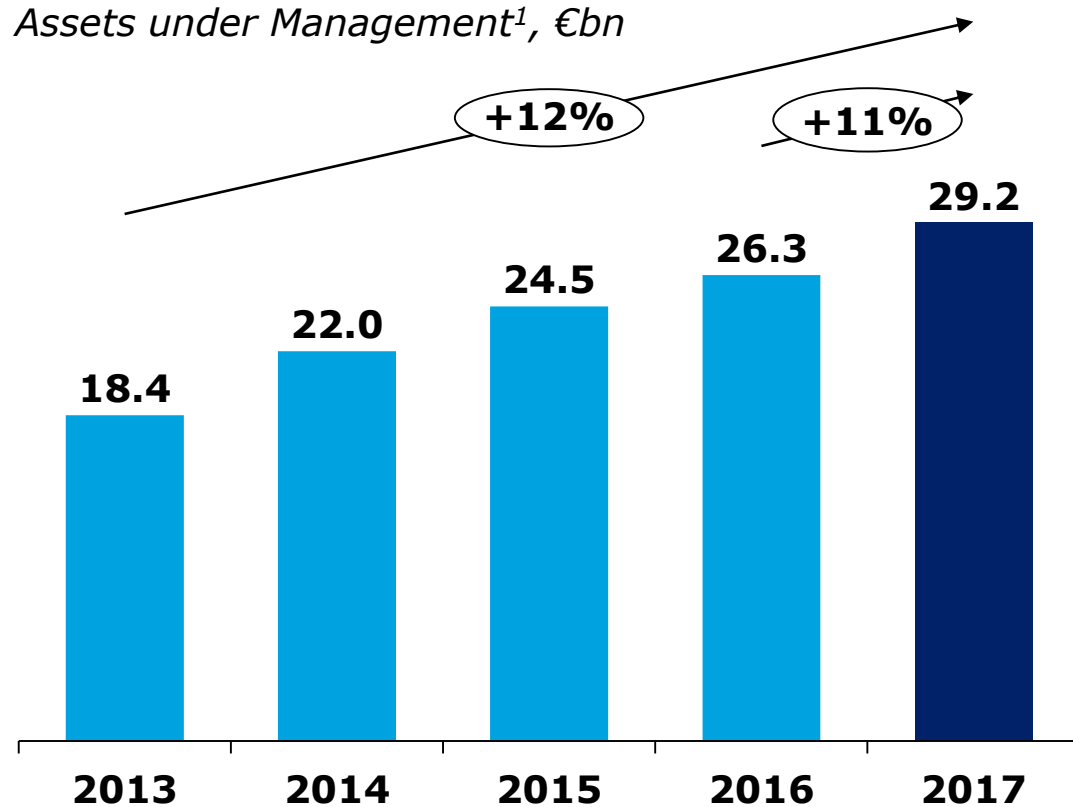
*LU banks and LU EAM assets, €bn*



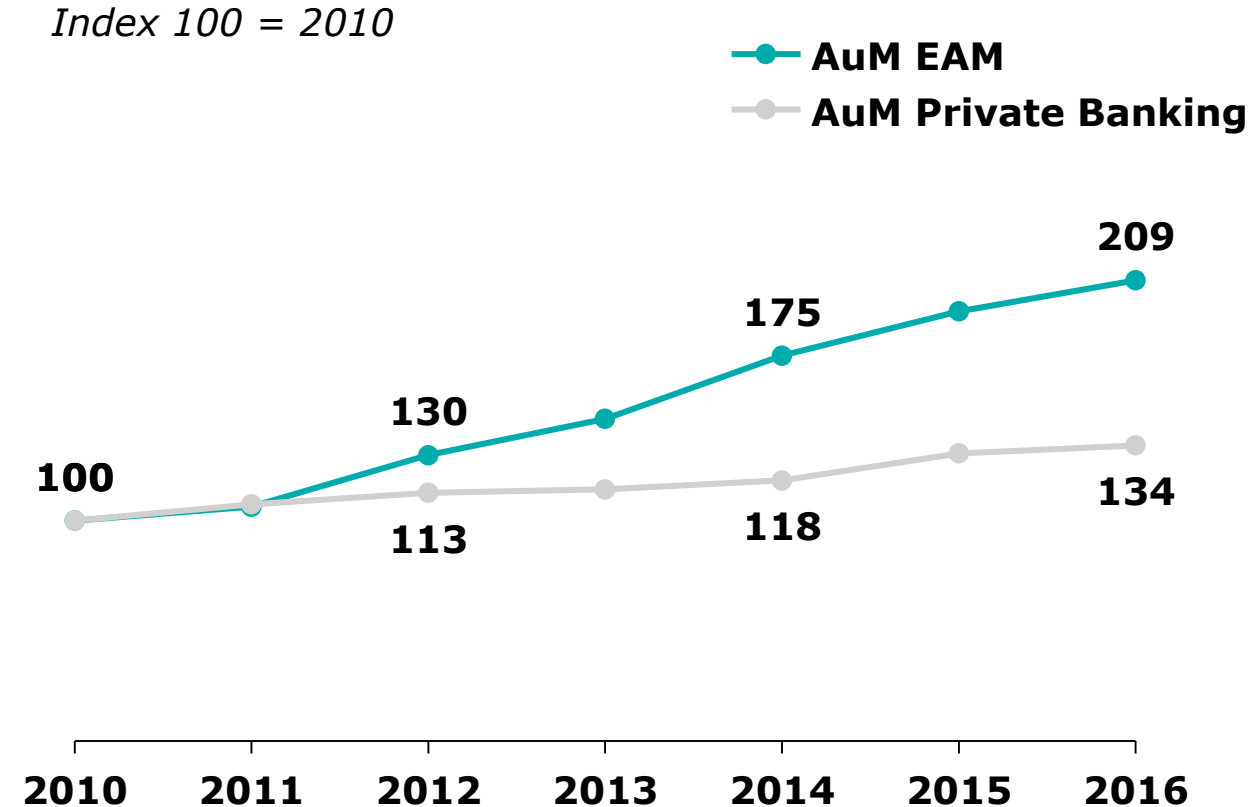
...and are a source of recurring business and market intelligence for banks



In recent years, EAMs have posted above market growth in terms of volume ...



**€0.4 billion AuM per EAM**  
 holding a Private Portfolio Manager License (Art. 24-3)



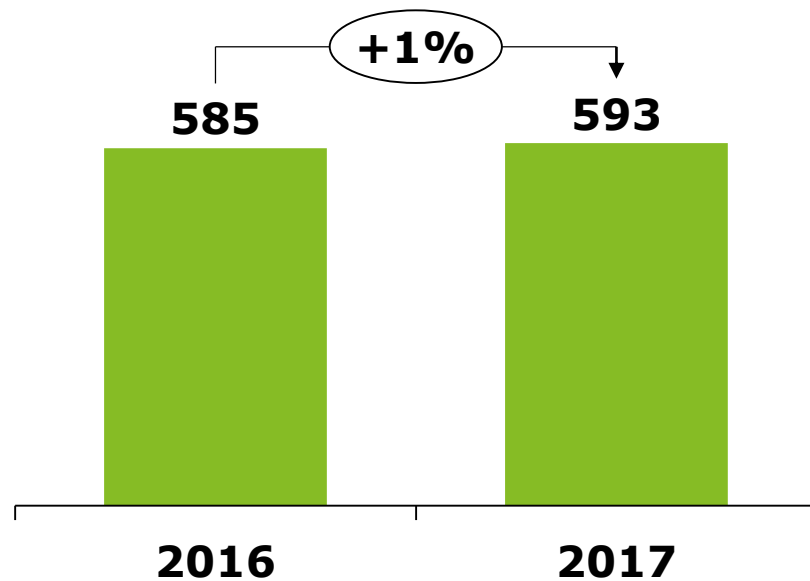
**EAM AuM growth is X 2.6 higher**  
 than the overall Private Banking AuM growth

Notes: (1) EAM holding the Private Portfolio Manager license (Art. 24-3).

Sources: ABBL, CSSF, Deloitte analysis

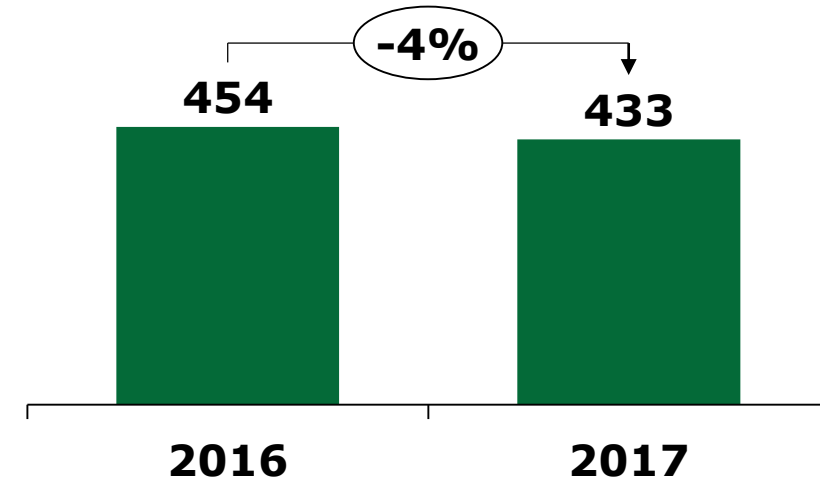
...and have improved their financial performance in spite of general commercial challenges in the Wealth Management space

Total revenues, €mm



**~2% RoA and ~17% net profit margin**  
below the Luxembourg private banking margin ~22%

Total operating expenses, €mm



**~75% Cost-to-Income ratio**  
below the Luxembourg private banking ratio ~80%



MiFID II has brought about significant change and challenges to EAMs, impacting mainly three areas



**Remuneration and pricing model**

**Significant revenue at risk**



**Operating model**

**Rationalization of depositary and brokerage network**



**Investment services and vehicles mix**

**DPM** ↗  
**Funds / Packaged vehicles** ↗

MiFID II has brought about significant change and challenges to EAMs, impacting mainly three areas



## Remuneration and pricing model

- Up to **40-50% of revenue erosion**
  - Loss of trailer fees and transactional retrocessions
  - Most of the time not offset by increase in management fee
- **Pricing renegotiation** with depositary banks may provide some mitigation
- Increase in **break-even size** and further drive toward consolidation / partnerships

MiFID II has brought about significant change and challenges to EAMs, impacting mainly three areas



## Operating model

- Continued **reliance on depositary banks** for operational reporting purposes, though some invest in-house
- Increased regulatory and client reporting may lead to **rationalization of brokerage and depositary banking network**
- Efforts towards compliance tend to have **slowed down business development**
- **Increase of client size** thresholds up to **€ 0.5 to 1 million** of investable assets

MiFID II has brought about significant change and challenges to EAMs, impacting mainly three areas



## Investment services and vehicles mix

- Stringent suitability rules **challenging advisory activity**
- Investment service shift toward **discretionary portfolio management**
- **Increasing use of packaged instruments** to minimize operational requirements and secure new revenue streams
  - Continued use of life insurance products
  - Development of investment funds

# EAMs still rely on manual work and processes whilst digitization levels remain low

Maturity **++++**

**...with limited support of new technologies**

## High reliance on workforce...

**Staff costs vs. other operating expenses**

**55%**



**Total employment**

**2,440**



**Front end (RM side)**

**++++**

**Front end (Client side)**

**++++**

**Portfolio Management System**

**++++**

EAMs will have to adapt their operating model to deal with current regulatory and technological changes in their ecosystem

### Current model

- Value of **traditional client relationship**
- Investment approach largely based on **3<sup>rd</sup> party fund selection**
- **Advisory** services and **joint investment decision making**

### Future model



**Asset management expertise  
and own funds**



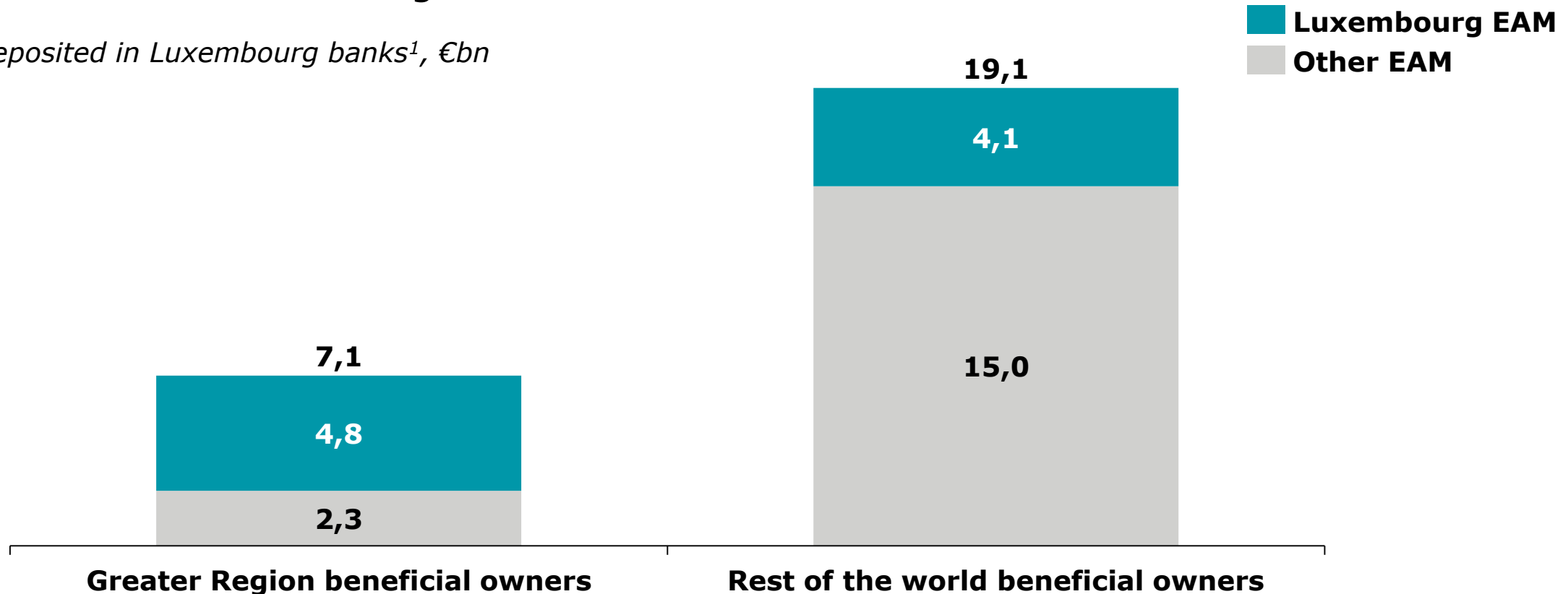
**Digital capabilities**



**Operational innovation and automation**

Luxembourg is already an attractive, stable and secure depositary location choice for international EAM assets managed abroad...

*EAM assets deposited in Luxembourg banks<sup>1</sup>, €bn*



**€ 15 billion in international assets**

(outside Greater Region) deposited in Luxembourg banks but managed abroad

Notes: (1) Assets deposited in Luxembourg banks only, excluding life insurance.

Sources: ABBL, CSSF, Deloitte analysis

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...and is well positioned to continue helping EAMs facing future challenges and to support their transitioning towards the future independent wealth management model

**Quality of the banking service infrastructure**

**“Luxembourg WM Toolbox” and cross-border services**

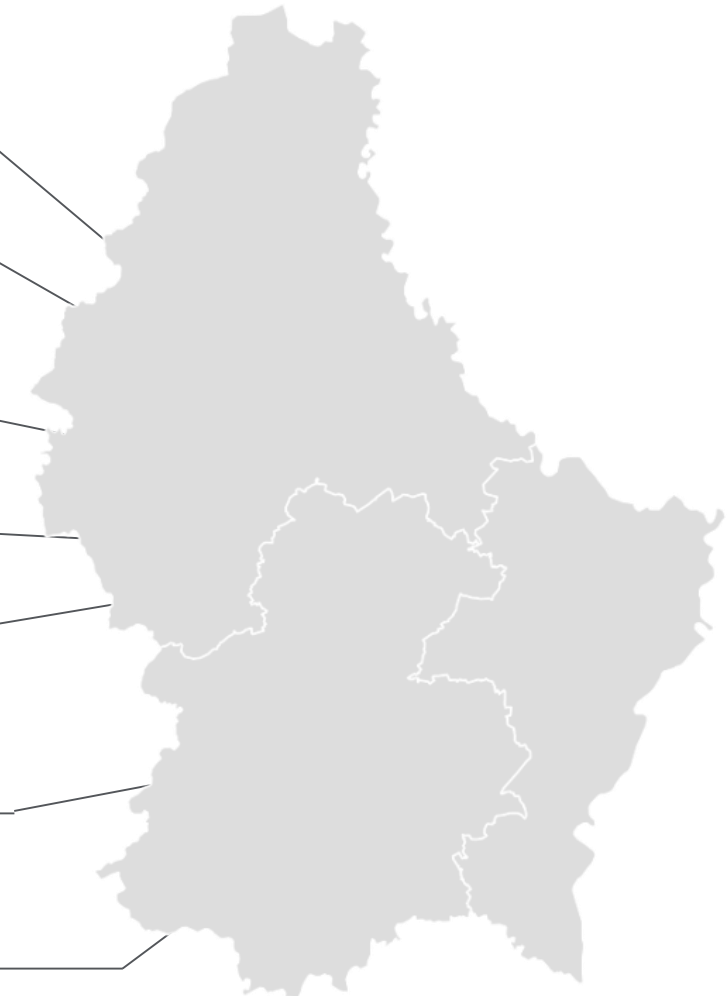
**Proximity of regulator and sustainable agenda**

**UCITS and AIF servicing capabilities**

**Flexible open-architecture model**

**Development of tech providers (FinTechs, Support PSF)**

**Solid ecosystem of skilled Financial Sector service providers**





# Summing up

- **Significant direct contribution of EAMs** to the Luxembourg financial sector
- **Key sector for Luxembourg depositary banks** providing recurring business and market intelligence
- **Above market growth in terms of volume** and improvement of the financial performance
- **Key regulatory challenges** impacting business and operating models
- **Technological challenges** with a growing need to adapt and digitize middle/back and also front activities
- **Inevitable shift towards the “future model”** which can be supported by Luxembourg’s strengths and capabilities





# Thank you

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