

# THE FUTURE OF THE FINANCIAL INDUSTRY IN LUXEMBOURG

How tackling four critical themes will strengthen  
the country's position as a unique financial marketplace





**Nicolas Mackel**  
CEO  
Luxembourg for Finance

The numbers relating to Luxembourg's financial industry tell a story of impressive success: EUR 5.5 trillion in Luxembourg fund AuM, up by 10% in the first 7 months of 2021 alone. First for sustainable bonds and sustainable funds in Europe. Job creation has also seen a steady growth over the last decade. Brexit relocations have confirmed and consolidated Luxembourg's role in a number of activities and added value in others. Luxembourg will aim to continue playing out its main strength as a competence centre for multi-jurisdictional financial services.

Since the global financial crisis, we have successfully managed the shift from mostly back-office functions, towards more middle- and front-office facing activities. However, climbing the value chain comes with challenges, in particular on the talent side, where we will have to make sure our industry finds the right talent to pursue new activities.

Sustainable finance and digitalisation are the two main vectors of change for the years ahead and Luxembourg is already well-positioned to not only be a leader in these segments, but to also make a positive contribution and thus help finance a more resilient and sustainable economy.

## NOTES FOR THE READERS



**John Psaila**  
CEO  
Deloitte Luxembourg

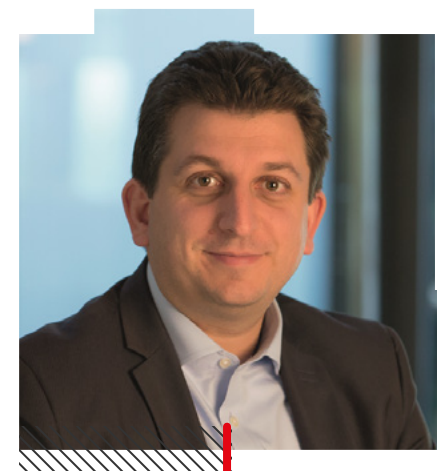
In recent years Luxembourg has successfully established itself as a powerful financial centre, developing a unique expertise to attract and serve a wide variety of global players.

Today, the Luxembourg financial industry is at a crossroad and building tomorrow's success requires making the right decisions; those that will position it as a vital player in the international landscape.

In response to the questions posed by the industry, we are proud to present this report. It aims to shed light on the fundamental themes to consider in order to continue building a thriving financial centre, one that addresses both future challenges such as sustainability, and fully embraces innovation.

Thank you to all who contributed to this report, adding unique insights to our own reflections.

Enjoy the read.



**Pascal Martino**  
Banking Leader  
Deloitte Luxembourg

Which building blocks will be used to forge the future success of Luxembourg's financial centre? How will the country address challenges such as talent competition within the FSI sector? How will it seek to reinforce its position as a one-of-kind, cross-border centre of excellence, internationally recognised and adopted by major stakeholders?

With this report, we explore the various paths and options that lie ahead for the industry. We provide scenario-based models examining the pivotal themes that will enable Luxembourg to strengthen its position while making the bold moves that will support its growth and international outreach.

## METHODOLOGY AND LIMITATIONS

### Methodology —

#### Scope

The study focuses on Luxembourg and the financial services industry (FSI). The following industry players are included in the study: funds (investment management, real estate, and private equity), banking (private, retail, and corporate), insurance (life, non-life, and reinsurance), payment companies, and FinTechs.

#### Approach

This report is the outcome of a qualitative approach followed to gather an in-depth understanding of the future of Luxembourg's financial industry. In particular, it is the aggregated result of the following:

- A survey on “The future of the Luxembourg financial services industry” conducted between January and April 2021 across +170 actors in the FSI active in the Luxembourg market;
- Open-end remote interviews with market players, including banks, payment firms, FinTechs, investment management firms, private equity and real estate companies, insurance firms, service providers, and FSI associations; and
- Desk research, data collection, and market intelligence.

Information presented in this report, including the impact assessment of the different themes, is the result of a comprehensive analysis that included brainstorming sessions with senior industry experts and interviews with financial associations and the senior management of key financial players in Luxembourg.

### Limitations —

The present document solely intends to provide a snapshot of the market driving forces, the challenges and trends in the Luxembourg economy, and the continued positioning of Luxembourg as a financial hub in the coming years.

The points of view expressed in this document are the result of the aggregated qualitative feedback gathered through the channels mentioned in the methodology note. Therefore, this report does not intend to provide an absolute and exhaustive assessment.

For the purpose of the report, only the most impactful factors that emerged are further considered to define the themes of interest to the study and for the definition of the future scenarios.

The present document may include advice and recommendations, but all decisions in connection with the implementation of such advice and recommendations shall not be the responsibility of Luxembourg for Finance or Deloitte Luxembourg.

## AGENDA

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summary** —

A **value proposition**  
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# Executive summary

Customer perspective is key to  
strengthen Luxembourg's position  
in the financial marketplace.

## EXECUTIVE SUMMARY

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**Luxembourg is recognised as a leading global financial centre and will continue to strengthen this position through a focus on the customer perspective. This will manifest through four critical themes: internationalisation, innovation, sustainability, and talent<sup>1</sup>.**

Despite global challenges, Luxembourg's economy continues to remain stable and resilient, and GDP growth stands well above the EU average. For this reason, the maintenance and growth of its competitive strengths are critical to the economy.

To understand future critical trends, Deloitte Luxembourg, on behalf of Luxembourg for Finance, conducted a survey on "The future of the Luxembourg financial services industry"<sup>2</sup> and ran open-ended, remote interviews with market players. This analysis saw the rise of an unanimous view: it is critical that Luxembourg's financial industry continues to develop an enhanced client-focused perspective in order to maintain and mature its competitive positioning.

The key drivers for growth that emerged encompass these four themes:

- Internationalisation: Luxembourg's FSI must continue to emerge as a cross border centre of excellence worldwide to attract more international investors;

- Innovation: Technology must push the innovation of products, services, and models, becoming a core pillar of the financial services' strategy, not just an enabler;
- Sustainability: Luxembourg's FSI must strengthen its position as the global hub for sustainable and impact investing with integration of purpose driven models; and
- Talent: Luxembourg's attractiveness for specialised skills and cross-border expertise must increase thanks to a focus on the human aspect.

Considering these four critical themes and the aggregated view of market players gathered through the survey<sup>2</sup>, the future ambitions of the financial industry are identified in a rewired value model: a future scenario where the FSI is focused on providing long-term added value for society by investing in the aforementioned themes with a customer-centric perspective.

To champion the FSI's ambitions for the future and to support the competitive positioning of Luxembourg

going forward, a number of concrete and immediate actions need to be undertaken today. These actions include the enhancement of international frameworks, the promotion of digital innovation, FinTechs, and technological investments, incentives towards green and sustainable finance, and attractive packages to anticipate future talent gaps.

Additional trends and considerations, that did not emerge in the survey<sup>2</sup>, will remain relevant for the future, such as the open talent economy, harmonised regulations, and the adoption of sustainable finance in low-income countries. The Luxembourg FSI already has a number of differentiating factors that will enable it to master these trends and its future transition, such as being a key gateway to serve European clients with strong expertise in cross-border finance, its pool of multilingual and international talent, its economic and political stability, its business friendliness, and its comprehensive industry toolbox.

1. Source: Deloitte internal analysis

2. Survey on "The future of the Luxembourg Financial Service Industry" conducted between January and April 2021 across actors in the Financial Services Industry active in the Luxembourg market and promoted by Luxembourg for Finance and Deloitte



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# Introduction

The Luxembourg ecosystem is  
recognised worldwide for its long-term  
resiliency and predictability.



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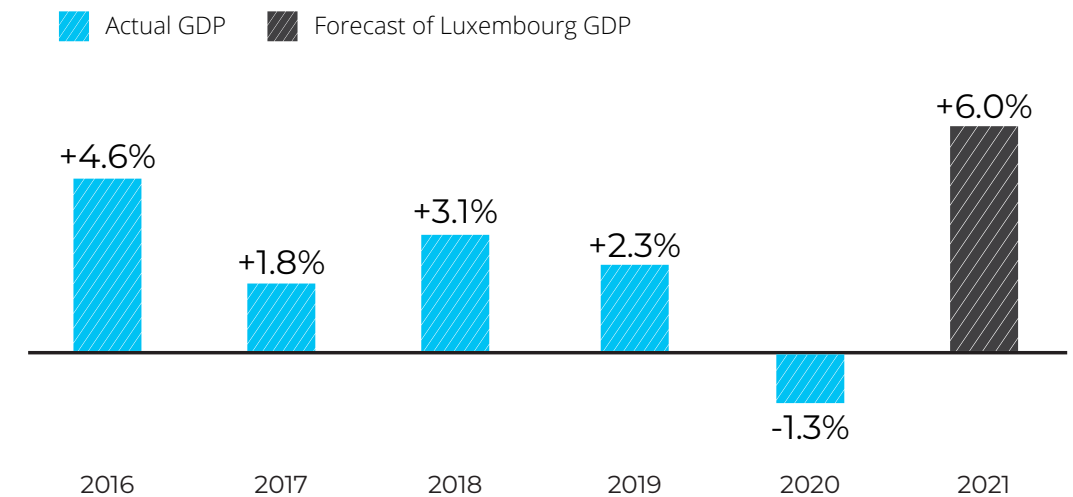
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The  
Luxembourg  
economy:  
contribution  
from the  
financial sector

The overall  
Luxembourg  
economy is growing,  
significantly  
supported by the  
financial sector  
that represents a  
key strength and  
contributor.

## REAL GDP GROWTH (ACTUAL AND FORECAST)<sup>1</sup> IN LUXEMBOURG

- The overall GDP of the country has been steadily growing in recent years, with the annual GDP growth rate averaging 4% between 2008 and 2019.
- The COVID-19 pandemic of 2020 resulted in a growth reduction of -1.3% of the Luxembourg GDP, but the shock was less pronounced than for other EU countries. As a matter of fact, the EU average contraction stood at -7%<sup>1</sup>. Despite the global health crisis, Luxembourg expects a consistent recovery from 2021 onwards with +6.0% GDP growth, as per the latest forecast and relying on the implementation of the vaccination campaign<sup>1</sup>.
- Moreover, the Luxembourg political scene is renowned for preserving a stable fiscal system and strong fiscal governance through low public debt and tax revenues in line with EU average<sup>2</sup>. As a matter of fact, the government surplus in Luxembourg was 2.4% of GDP in 2020, well above the EU's -3% deficit threshold<sup>3</sup>.



1. Source: The Economist Intelligence Unit (March 2021), Statec, Deloitte analysis

2. Source: Country report Luxembourg 2020. European Commission

3. Source: STATEC, LFF website

4. Source: Ambitions 2025: Shaping a sustainable future, LFF 2020

5. Source: Eurostat

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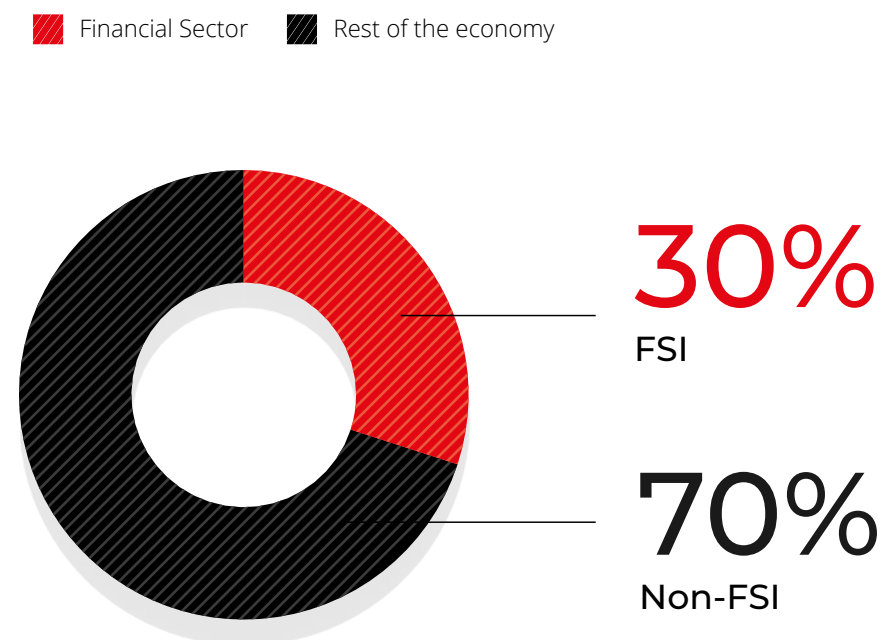
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The  
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The growing  
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## CONTRIBUTION OF THE FSI TO GDP IN LUXEMBOURG<sup>1</sup>

- The FSI's contribution to the Luxembourg economy accounts for 30% of the national GDP<sup>4</sup>, while in other European countries the FSI proportion is stable at 5%. It has also grown faster than in other European countries as the average growth rate in Luxembourg has been close to 4% since the financial crisis, compared to 0.4% in the rest of the continent.
- Moreover, with more than 12% of the national workforce employed by the financial sector<sup>4</sup>, the industry remains a critical pillar of the national economy<sup>5</sup>.
- Considering this important share, supporting the financial sector and defending its complexity remains a top priority for the Luxembourg government. The steps taken by the financial sector towards innovation, digital transformation, and the green transition are fundamental for future growth of the Luxembourg financial sector<sup>2</sup>.



1. Source: The Economist Intelligence Unit (March 2021), Statec, Deloitte analysis
2. Source: Country report Luxembourg 2020. European Commission
3. Source: STATEC, LFF website
4. Source: Ambitions 2025: Shaping a sustainable future, LFF 2020
5. Source: Eurostat

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The  
Luxembourg  
economy: focus  
on the financial  
ecosystem

The financial sector  
is composed of  
many stakeholders,  
all with different  
needs, that must be  
strategically assisted  
and addressed in the  
future.

FINANCIAL ECOSYSTEM\*

Description <sup>1</sup>	Needs <sup>1</sup>
<p>The financial ecosystem* is composed of two categories: the customers and the financial service providers. The first category includes the individual end investors (B2C model) such as: retail investors, private investors, and high-net and ultra-high-net worth individuals.</p> <p>It also encompasses the corporate investors (B2B model) including institutional investors and all types of corporates, such as: transportation, communication, and construction companies that need to connect with financial service providers.</p> <p>For what concerns the latter category, there is a diverse ecosystem of players in Luxembourg including all financial institutions who are recipient of services (B2B2C model) such as: banks (private, retail, and corporate), funds (investment management and real estate and private equity), payment institutions, insurance companies (life, non-life, and reinsurance) and FinTechs.</p> <p>Ancillary players are out of scope of this report. However, their views have been captured in the survey<sup>2</sup> in order to exhaustively assess the financial ecosystem as much as possible.</p>	<p>The two categories of actors that populate the financial ecosystem, are characterised by different needs.</p> <p>International FSI players come to Luxembourg attracted by the comprehensive offering, the deep expertise, and the international connections. Their needs focus on:</p> <ul style="list-style-type: none"><li>– Receiving cross-border assistance for their investments and multi-jurisdictional expertise for their sophisticated portfolios;</li><li>– Having a client-centred relationship leveraging on advanced technology;</li><li>– Having access to innovative products and services including sustainable and green investment offerings; and</li><li>– Receiving the assistance of multilingual and multicultural experts.</li></ul> <p>On the other hand, players in the financial industry are attracted to Luxembourg thanks to its business-friendly environment. Their needs focus primarily on:</p> <ul style="list-style-type: none"><li>– Having access to the EU market for active cross-border business;</li><li>– Ensuring that technological innovation is embedded in the services they offer;</li><li>– Developing sustainable products for end investors; and</li><li>– Ensuring that their talent base has cross-border expertise, is fulfilling the sophisticated needs of clients, and can provide added value to them.</li></ul>

\* For the purpose of the study, only the implications for customers and core FSI players are considered to define the future ambitions.

1. Source: Deloitte internal analysis

2. Survey on “The future of the Luxembourg Financial Service Industry” conducted between January and April 2021 across actors in the Financial Services Industry active in the Luxembourg market and promoted by Luxembourg for Finance and Deloitte

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# A value proposition for the financial ecosystem

Four critical themes to consider in order  
to better serve customers in the future.



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How should  
investors' needs  
be addressed  
in the future?

We conducted a  
survey across FSI  
actors active in  
Luxembourg to  
discover their views.

LUXEMBOURG FSI PULSE SURVEY

To gain an in-depth understanding of the future of Luxembourg's financial industry, Deloitte Luxembourg, on behalf of Luxembourg for Finance, conducted a survey, interviewing +170 actors active in the country's FSI. To read the market pulse, a qualitative approach was followed and among the questions raised, the following defined the critical enablers that will allow the industry to better meet customers' needs in the future and to continue creating a valuable proposition:

Questions	Extract with aggregated answers
<b>For which financial services activities do you think Luxembourg is most recognised today?</b>	Luxembourg is a centre of excellence mainly for its activities in investment management and the funds industry, wealth management and private banking, insurance, and reinsurance. Its positioning as a FinTech and as a sustainable finance hub consolidates this opinion.
<b>What services will differentiate Luxembourg in the future?</b>	Fund distribution and wealth management will remain strong, along with the unique cross-border expertise of its workforce and its ability to serve sophisticated niches. Other strategies that will differentiate its positioning include innovation, digitalisation and technology capabilities, coverage of the entire value chain as a 'one-stop-shop', and sustainable finance offerings.
<b>What competitive differentiators will truly distinguish Luxembourg from other financial centres in these segments and sectors?</b>	The main competitive differentiators include the unique stable ecosystem from a political, social, economic, and legal point of view that favours financial players and Luxembourg's positioning as a gateway to the European market. The overall reactivity and pragmatism of all the key stakeholders, along with a favourable regulatory framework, facilitates collaboration and encourages partnership. These, combined with the skilled and talented workforce, are key factors for the innovation of the industry and its offerings.
<b>Have you grown your Luxembourg business in the last 3 to 5 years? Why have your clients chosen Luxembourg today?</b>	All respondents stated that their business has been growing in the last 3 to 5 years, with the exception of one respondent who answered negatively.  The key factors that incentivise clients to invest in Luxembourg are linked to the reputation and the stability of its legal, political, economic, and social ecosystem that gathers extremely qualified and multicultural talent. The cross-border and sustainable finance expertise, with the wide range of sophisticated products and services, are also listed as key factors.

1. Source: Please refer to "Methodology" note for further details

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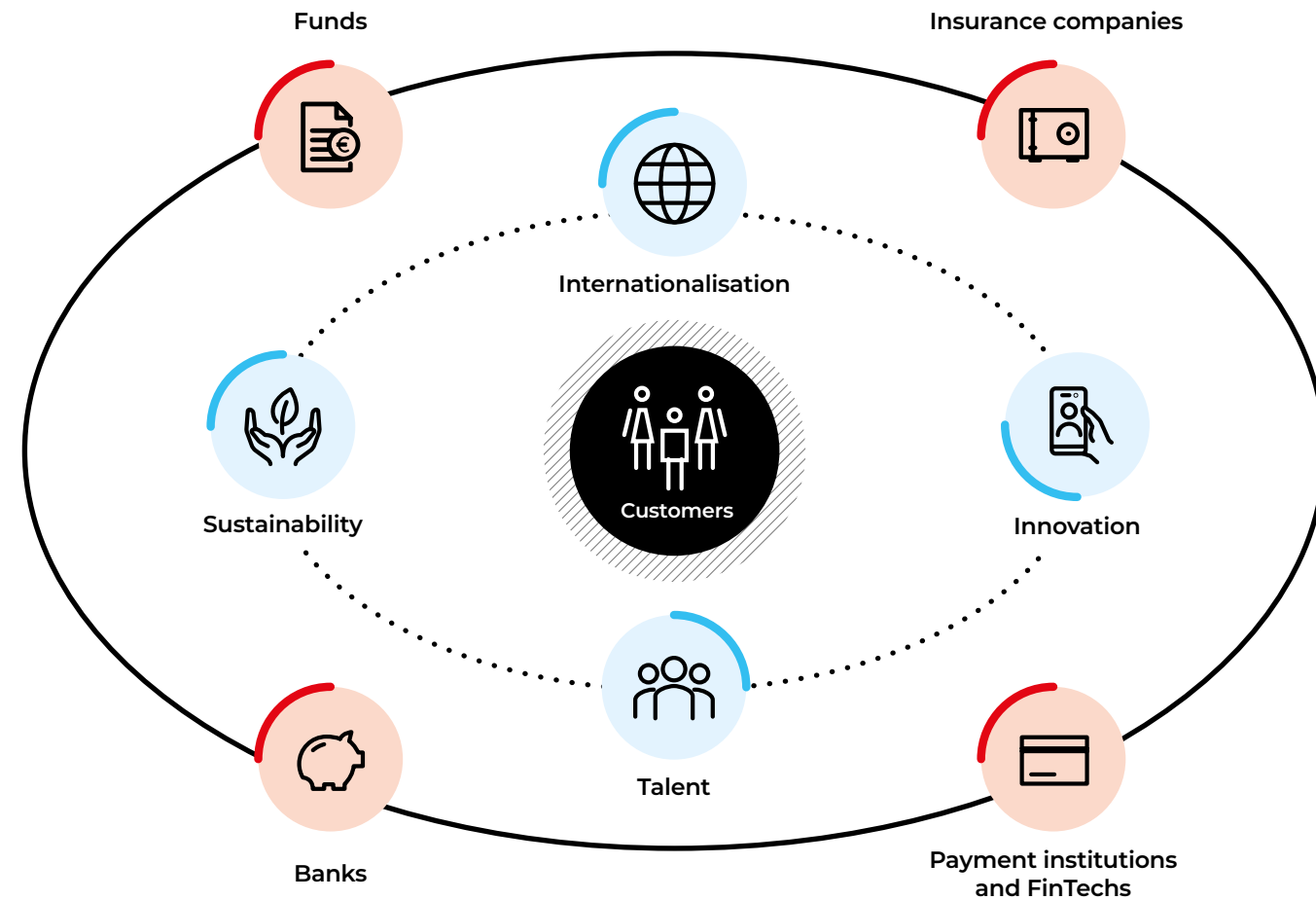
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How should  
investors' needs  
be addressed  
in the future?

Internationalisation,  
innovation,  
sustainability, and  
talent are critical  
enablers to further  
strengthen  
Luxembourg's  
position.

## FINANCIAL ECOSYSTEM\*

Based on the outcome of this study, the following four themes emerged as critical in order to better serve customers in the future: internationalisation, innovation, sustainability, and talent.



(\*) For the purpose of the study, only the implications for customers and core FSI players are considered to define the future ambitions.

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Critical themes for the future: major trends and challenges

**Internationalisation: The FSI sector will maintain its source of differentiation by strengthening its strategic position as a global centre of excellence.**

INTERNATIONALISATION<sup>1</sup>

## Ambitions



In tackling the theme of internationalisation, the Luxembourg FSI should aim to:

- Strengthen its role as a cross-border centre of excellence through developing its plug-and-play model and financial expertise;
- Attract more and more international investors thanks to its sophisticated toolkit catering to all customers' needs; and
- Increase its competitive edge over other EU financial hubs with its stable social, political, and economic environment.

## Trends



A number of current trends can be identified that may support future ambitions such as:

- Luxembourg's business-friendly environment which is working in favour of the development of the financial centre;
- The entire service network is established to support cross-border activities for investors diversifying their portfolios; and
- The emerging evolution of services and capabilities around new asset classes will differentiate Luxembourg in the approaching decade.

## Challenges



Conversely, some considerations emerged that might pose a challenge for reaching those future ambitions. These include:

- A majority of Luxembourg's financial services leaders expressed concern over the risk of fragmentation of the EU single market<sup>2</sup>;
- The EU's increasing regulatory agenda; and
- The reduction of local regulatory flexibility across the EU while transposing and enforcing EU requirements.

1. Source: Deloitte internal analysis

2. Source: Covid-19: the new normal, LEO.2020

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## Critical themes for the future: major trends and challenges

**Innovation: Pushing innovation of products, services, and models through technological capabilities will be at the core of any winning strategy.**

## INNOVATION<sup>1</sup>

### Ambitions —



In tackling the theme of innovation, the Luxembourg FSI should aim to:

- Continue to push innovation and enable digital evolution through a robust, dynamic, and supportive ecosystem;
- Assess digital maturity to identify existing gaps for developing end-to-end digitalisation of the client experience; and
- Focus on platformisation to mutualise costs, develop AI and machine learning for process automation, utilise DLT for transparency<sup>2</sup>, and capitalise on cloud and new data to uncover customers' insights and needs in order to improve client and employee experience.

### Trends —



The current trends that may support the focus on innovation are:

- Digital is not a “nice to have” anymore, but is a vital investment to survive and thrive in this current environment. The COVID-19 pandemic served as a catalyst and a major accelerator for digital transformation across the industry<sup>3</sup>;
- New ways of working are gaining territory with increasing use of digital solutions and remote working for FSI players; and
- Technology and digital usage are increasing and are a new part of day-to-day life for consumers.

### Challenges —



However, some factors might challenge the push for innovation. These include:

- Not all actors are ready to master the radical business model changes driven by digital and open economy;
- Progress (i.e. on blockchain) is slowed down by lack of skills needed to fully grasp and leverage on the technologies; and
- Prevalence of a reactive approach towards innovations and customers' demands (i.e. for tokenisation).

1. Source: Deloitte internal analysis

2. Source: Forging new pathways – the next evolution of innovation in financial services, World Economic Forum, 2020

3. Source: Covid-19: the new normal, LEO.2020



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# Critical themes for the future: major trends and challenges

**Sustainability: Responding to the increasing demand for sustainability by leading on green investments with integration of purpose driven models will be critical for the future of Luxembourg FSI.**

## SUSTAINABILITY<sup>1</sup>

### Ambitions —



In tackling the theme of sustainability, the Luxembourg FSI should aim to:

- Lead on sustainability standards with integration of purpose-driven models and responsible governance;
- Sustain the increasing demand for sustainable investments with broader ESG offerings; and
- Offer 'ESG by Design' by placing sustainability at the heart of strategies and corporate culture<sup>2</sup>: financial performance cannot be divided from environmental and social performance<sup>3</sup>.

### Trends —



The current trends that might support future ambitions surrounding sustainability are:

- A shift in consumer sentiment following a growing accountability of their choices and their impact on the ecosystem;
- A new generation of consumers is demanding players to renew their product offerings towards more inclusive investments and have concrete strategies in terms of corporate sustainability; and
- Investors who are also accelerating capital flow towards sustainable funds<sup>4</sup> with higher expectations on verifiable impact investing.

### Challenges —



Nevertheless, some considerations might pose a challenge for sustainable transition. In fact, while most players are aware of the need to transform, some find it challenging to integrate this reality into their core business<sup>5</sup>. Moreover, conscious consumers expect FSI players to take an active role (respecting the regulatory agenda is not sufficient) and firms that cannot harness the shift in consumer sentiment will miss business opportunities for sustainable alternatives.

1. Source: Deloitte internal analysis

2. Source: Briefing: Ethical use of AI in finance, The Finance Innovation Lab. 2018

3. Source: Covid-19: the new normal, LEO. 2020

4. Source: The Sustainable transformation, Deloitte. 2020

5. Source: Leading the Sustainability Transformation, Deloitte The Netherlands. 2021

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# Critical themes for the future: major trends and challenges

**Talent: Pivotal to the success of the marketplace is the positioning of Luxembourg as a destination of choice for international talent.**

## TALENT<sup>1</sup>

### Ambitions



In tackling the theme of talent, the Luxembourg FSI should aim to:

- Attract and retain a skilled workforce with much-needed expertise by nurturing and emphasising the human aspect;
- Ensure flexible organisational structures and agile teams that can implement solutions before they become obsolete; and
- Leverage on streamlined working methods to improve the customer experience and fulfill customers' expectations.

### Trends



The current trend that may impact the search for talent is the decreasing attractiveness of working in FSI as young professionals are less interested in a lucrative career and instead lean towards roles with a wider impact on societal issues<sup>2</sup>, with purpose and culture as major decision factors<sup>3</sup>. However, FinTechs and sustainable finance provide opportunities to get young and skilled talents interested in financial services roles.

### Challenges



The recent fast growth pace of FSI, created a demand for talent that human resources departments could not cope with and thus led to talent gaps for specific expertise (i.e. IT and sustainability competences), not available at suitable costs. Additionally, the financial services market also competes with other sectors (i.e. emerging technology giants) for recruiting.

1. Source: Deloitte internal analysis

2. Source: Leading the Sustainability Transformation, Deloitte The Netherlands. 2021

3. Source: Banks? No thanks!, The Economist, 2014



# 03

## What the **future** **of Luxembourg FSI** might look like —

Players in the financial industry must focus on providing long-term added value for society by the identified themes.

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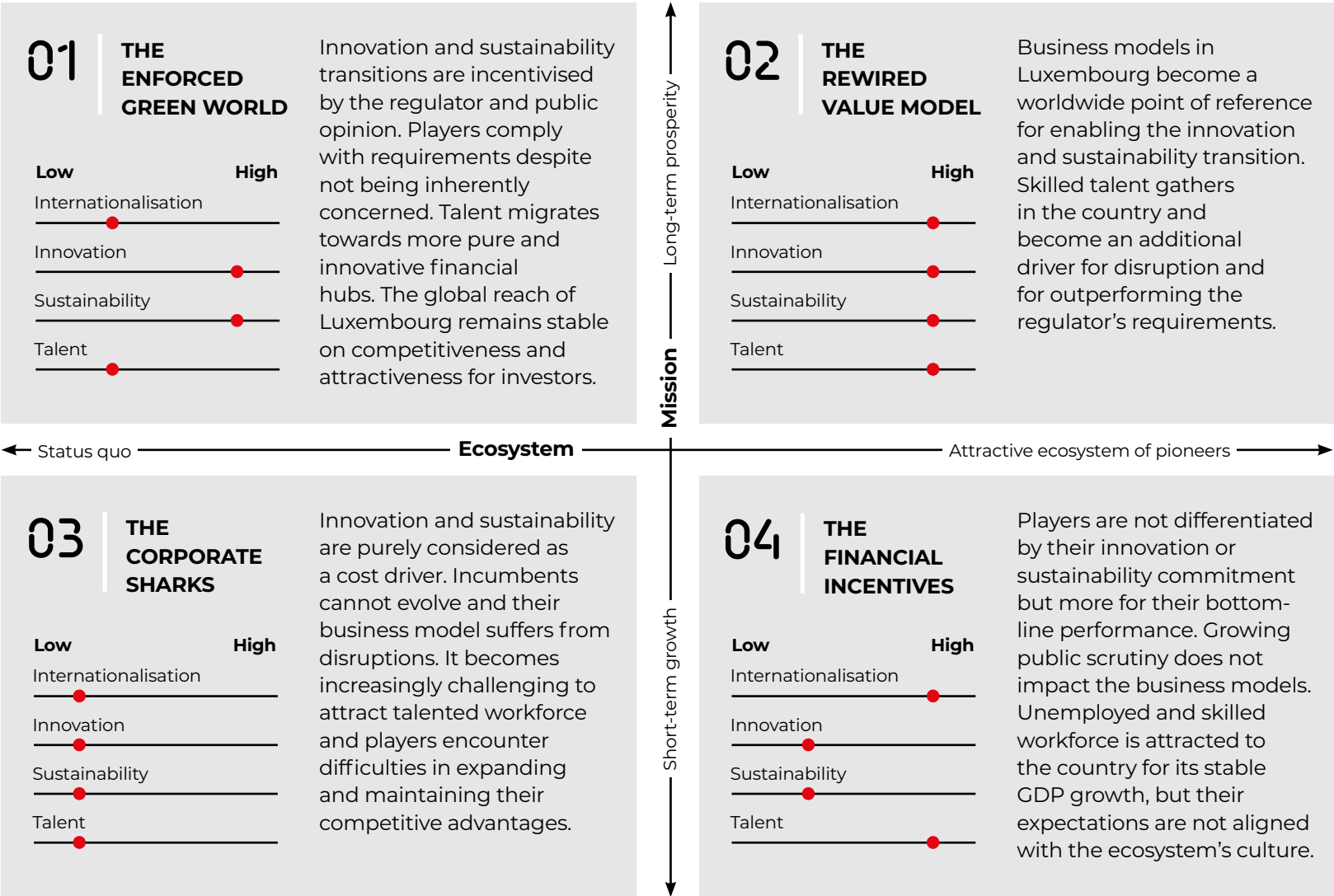
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# Potential scenarios for the future

According to how the financial ecosystem will react towards the four themes identified, the future of Luxembourg's FSI might evolve into one of the following scenarios:

## POTENTIAL SCENARIOS OF LUXEMBOURG'S FINANCIAL ECOSYSTEM<sup>1</sup>



1. Source: Deloitte internal analysis



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Towards  
which  
scenario is  
Luxembourg  
heading?

The responses  
gathered through  
the survey<sup>1</sup> provided  
a unanimous  
perspective on which  
of the four scenarios  
the financial  
ecosystem is moving  
towards.

LUXEMBOURG FSI PULSE SURVEY

Questions	Extract with aggregated answers
<b>What would be the 3 “bold plays” that Luxembourg should launch to support players’ positioning across the EU?</b>	The answers have a multidimensional reach that include: extending the reach of the market while strengthening the impact at EU level; improving collaboration among stakeholders and developing solutions and best practices to enhance the offering; defining clear incentives to attract the needed talent; positioning as the go-to hub at European level for FinTechs and sustainable investing; and lightening the regulatory framework.
<b>Which new initiatives will help Luxembourg maintain the reputation of a modern legal framework?</b>	The legal and regulatory framework in Luxembourg should evolve to become the main enabler for FinTechs and sustainable finance development. A revised framework should support the adoption of new technologies and platformisation, reduce the administrative obligations, improve transparency, and become more supportive of sustainable finance by leading its taxonomy and supporting its implementation.
<b>Which key measures must be taken by Luxembourg to retain and attract new talent in the future?</b>	Talent attraction to Luxembourg would be facilitated by reasonable housing costs, improved schooling offering, competitive incentives (not only fiscal but also in the recreational and cultural offerings of the country), and enhanced infrastructure connections to other European capitals. Positioning as the number one FinTech hub in Europe would facilitate encouraging experienced talent leaving London as a consequence of Brexit.
<b>Which actions are you taking in the sustainable finance area?</b>	From an intra-organisation point of view, respondents are engaging by promoting awareness, cultural change, and development of expertise in the subject through trainings. They also ensure that their business model is aligned with ESG factors and that KPIs are monitored to ensure consistency with the key values. From an external point of view, respondents are implementing best practices and sharing them through working groups. They are also consistently increasing service and product offerings including ESG factors within advisory and investment processes.

1. Source: Please refer to “Methodology” note for further details

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Towards  
which  
scenario is  
Luxembourg  
heading?

The responses  
gathered through  
the survey<sup>1</sup> provided  
a unanimous  
perspective on which  
of the four scenarios  
the financial  
ecosystem is moving  
towards.

LUXEMBOURG FSI PULSE SURVEY

Questions	Extract with aggregated answers
<b>Which initiatives would you recommend Luxembourg prioritising?</b>	Among the several initiatives that Luxembourg should prioritise, the promotion of a legal framework and a cultural change that supports technological progress, innovation of products and services, and the commitment to sustainable finance is critical. Ensuring that Luxembourg remains attractive to top international talent is also pivotal for the growth of the industry.
<b>Which segments of financial technologies and digitalisation do you prioritise, and which initiatives would you like to see implemented in Luxembourg in this area?</b>	Respondents are focusing on key segments such as open banking and blockchain innovation, progress on digitalisation of the full value chain, and the use of RPA to optimise processes and improve efficiency. The initiatives that should be prioritised include the reform of the fiscal framework to support businesses through innovation and to incentivise different stakeholders to cooperate.
<b>What will Luxembourg's financial industry look like in 2030?</b>	The FSI will be more agile, vibrant, technologically-oriented, innovative, and sustainable. Its offering will be diversified with high value added services specialised to serve more demanding niches of clients. The technology progress will enable the mutualisation of resources and an end-to-end, fully digital offering that will not shy away from sustainable products, fostered by the legal framework, enhanced cross-border toolbox, and pool of international specialists.

1. Source: Please refer to "Methodology" note for further details

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## The future ambitions of Luxembourg FSI

**Considering the  
voice of the industry<sup>2</sup>  
and its response  
to the four critical  
themes identified,  
the ambitions for the  
future seem to lean  
towards the rewired  
value model.**

## THE FUTURE AMBITIONS OF LUXEMBOURG 'S FINANCIAL ECOSYSTEM<sup>1</sup>

### The rewired value model —



Through the qualitative approach<sup>2</sup> followed to identify the potential future scenario of Luxembourg's financial industry, most of the views collected from the FSI market participants in Luxembourg are inclined to believe that the FSI ambitions for the future may lean towards the rewired value model. In fact, the four themes of internationalisation, innovation, sustainability, and talent received considerable emphasis from the majority of respondents.

The rewired value model is a future scenario where players in the financial industry are strongly focused on providing long-term added value for society. In this context, Luxembourg positions itself as one of the major global financial hubs for sustainability and innovation thus attracting international investors with more and more sophisticated needs. FSI actors are leading the transition to 100% sustainable activities, new market potentials are discovered, and technology enables fully efficient and end-to-end digital processes. In this scenario, the most talented minds are attracted to Luxembourg, with the country retaining a skilled and experienced workforce from all over the world.

1. Source: Deloitte internal analysis

2. Source: Please refer to "Methodology" note for further details

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High-level  
description and  
implications

The rewired value  
model is the optimal  
future scenario that  
aims at providing  
long-term added value  
for society.

THE REWIRED VALUE MODEL<sup>1</sup>

High-level  
description



The outlook according to the rewired value model foresees investments being allocated to structural changes with long-term impacts on the value chain, business models, and overall competitiveness. Actors will drive the sustainability transition as true, strong believers of giving back to society and building back better<sup>2</sup>, while reflecting on sustainable drivers of growth that ensure long-term and equally shared strategic prosperity. Moreover, the best global talents are attracted providing the capabilities needed to lead the digital innovation while the country strengthens its reputation for fully complying with the regulator's requirements and societal expectations.

Implications of the key themes for the financial ecosystem

Customers (B2B and B2C)



The rewired value model brings several implications for FSI customers. First of all, more international customers are attracted by sustainable investment and ESG strategies, as well as by innovation in products and processes. Moreover, customers benefit from numerous high value added, innovative, and end-to-end digital experiences with full customisation, and solutions tailored to specific needs. Considering their satisfaction with the services they receive, customers have a high willingness to pay for differentiated, inclusive, and sustainable products and services. Finally, customers also benefit from highly qualified, skilled, multilingual and multicultural talent that manages their complex business needs.



Players (B2B2C)

Business models of FSI players in Luxembourg become the point of reference for cross-border business in the rewired value model, where Luxembourg is leveraged as an EU platform. Companies are incentivised to cooperate with new entrants and begin partnerships to discover new market potentials, enable mutualisation to optimise resources, and implement fully digital end-to-end processes. Therefore, talent retention and recruiting is not a systemic challenge as skilled talents gather in the country and fill the talent gaps, thus becoming an additional driver for business innovation, offering the needed capabilities to lead the digital and sustainable innovation.

1. Source: Deloitte internal analysis  
2. Source: The Global Competitiveness Report, World Economic Forum, 2020



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# Immediate call for actions

While detailed actions are dependent on the individual positioning of each player, some other critical fields can be clearly actioned today to move in the direction of future goals.



## Internationalisation<sup>1</sup>

- Ensure competitiveness, monitor peers, close gaps, and plan moves;
- Strengthen branding and marketing campaigns, protect the brand of the country;
- Strategic positioning by challenging the status quo, setting ambitions, and identifying how to differentiate;
- Support competitive positioning on new asset classes;
- Address the new ways of consuming products (i.e. insurance);
- Understand the reasons why some actors experience difficulties to thrive; and
- Promote a business culture that rewards entrepreneurship, a will to embrace change, and strong knowledge-generation sector.



## Innovation<sup>1</sup>

- Invest more intensively in technology to make FSI more customer oriented<sup>3</sup>;
- Tackle cost drivers by pushing towards the creation of mutualised platforms;
- Promote the creation of a fully integrated ecosystem that covers the full value chain;
- Opt for an open architecture model that encourages optimisation of cyclical and complex activities;
- Incentivise collaboration between challengers and traditional players;
- Partner with authorities to accelerate cloud development<sup>4</sup>;
- Multiply channels for sourcing innovative solutions and ensure private funding to stimulate innovation<sup>5</sup>; and
- Enhance long-term thinking capacity and create policy frameworks to advance the adoption of digital technologies<sup>6</sup>.



## Sustainability<sup>1</sup>

- Engage and embrace ESG initiatives to position as global leader;
- Promote cultural change to integrate greater social motivations in finance<sup>3</sup>;
- Create financial incentives for companies to engage in sustainable and inclusive practices;
- Formalise an ambitious strategy for sustainable investing;
- Build on EU taxonomy to develop new frameworks for sustainable financial products<sup>5</sup>; and
- Increase cooperation and synergies between working groups to boost coordination as engine of the Luxembourg financial hub<sup>2</sup>.



## Talent<sup>1</sup>

- Devise a strategic position on the open talent economy
- Rethink labour laws for the new economy which calls for new work standards<sup>6</sup>
- Explore feasibility in terms of harmonisation of indexation;
- Plan for future skills gaps and align firm and sector efforts
- Update in education systems to graduate with job-ready skills<sup>6</sup>
- Improve attractiveness for global talent by adjusting real estate costs;
- Introduce attracting measures for hires of strategic or scarce profiles;
- Scale up reskilling and upskilling in emerging skills<sup>6</sup>; and
- Promote the work on sustainability and societal impact to attract graduates seeking a career with a wider impact on society and societal issues.

1. Source: Deloitte analysis

2. Source: The rocky relationship between FinTechs and Banks – what are the challenges?, Arendt and ABBL. 2021

3. Source: Briefing: Ethical use of AI in finance, The Finance Innovation Lab. 2018

4. Source: Covid-19: the new normal, LEO. 2020

5. Source: Ambitions 2025: Shaping a sustainable future, LFF 2020

6. Source: The global competitiveness report, World Economic Forum, 2020

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# Differentiating factors of the financial sector

The future ambitions of the financial industry in Luxembourg will be supported by several existing differentiating factors within each theme.



## Internationalisation

- Luxembourg's FSI aims to strengthen its worldwide reputation as a cross-border centre of excellence to attract more international investors. Some existing characteristics will support this ambition. For instance, Luxembourg is consistently rated AAA by the three major credit-rating agencies. The country is also strategically located at the heart of Europe largest cross-border region with over 3 million people within a 1-hour commute.
- Luxembourg is globally renowned for its political, economic, and social stability and resilience to macroeconomic factors.
- These factors contributed to with Luxembourg's high positioning as a financial centre<sup>1</sup> in Europe and as a key gateway to the European market, offering a comprehensive range of products and services to address the end-to-end needs of international clients.



## Innovation

- Technology will incentivise the innovation of products, services, and models, becoming a core pillar of the financial services' strategy, not just an enabler. This will be possible thanks to the strength of Luxembourg, that has evolved from an agriculturally-based country to a financial hub in just a few decades.
- Luxembourg lies second place in technology adoption (demand for digital products and services)<sup>1</sup> in the world. The country hosts numerous FinTechs and start-ups offering a business-friendly environment with customised set-up assistance.
- The Government constantly supports technological and digital progress, with incentives for product, services, and market evolution.



## Sustainability

- The Luxembourg FSI will strengthen its position as the global hub for sustainable and impact investing with integration of purpose-driven business models. Currently, Luxembourg already enjoys a competitive positioning in this market, being among the pioneers of sustainable finance and has the largest market share of listed green bonds in the world<sup>1</sup>.
- FSI players in Luxembourg are consistently integrating sustainability matters into their business model with the aim of transforming the Lux FSI as ESG center of excellence in Europe.
- Luxembourg benefit of a growing ESG ecosystem composed by various players all working towards common targets defined by the EU Action Plan.



## Talent

- Luxembourg's attractiveness for specialised skills and cross-border expertise will increase thanks to a focus on the human dimension. Currently, Luxembourg's pool of talent is extremely rich and diverse, and leveraging on it in the future will be crucial.
- Luxembourg is renowned for its multicultural and international workforce originating from 180 countries<sup>1</sup>. Moreover, the workforce is multilingual, with 61% speaking at least three languages.
- Highly educated and skilled talents from neighboring countries, the rest of the EU, and the world at large have been attracted to Luxembourg in recent years. This has ensured that a large number of cross-border experts in finance, able to address the sophisticated needs of clients, could be available.

1. Source: Global Financial Centres Index 29



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## What's next for Luxembourg's FSI? —

## WHAT'S NEXT FOR LUXEMBOURG'S FSI?

A number of additional considerations will impact or continue to impact Luxembourg's FSI and the international financial industry at large.

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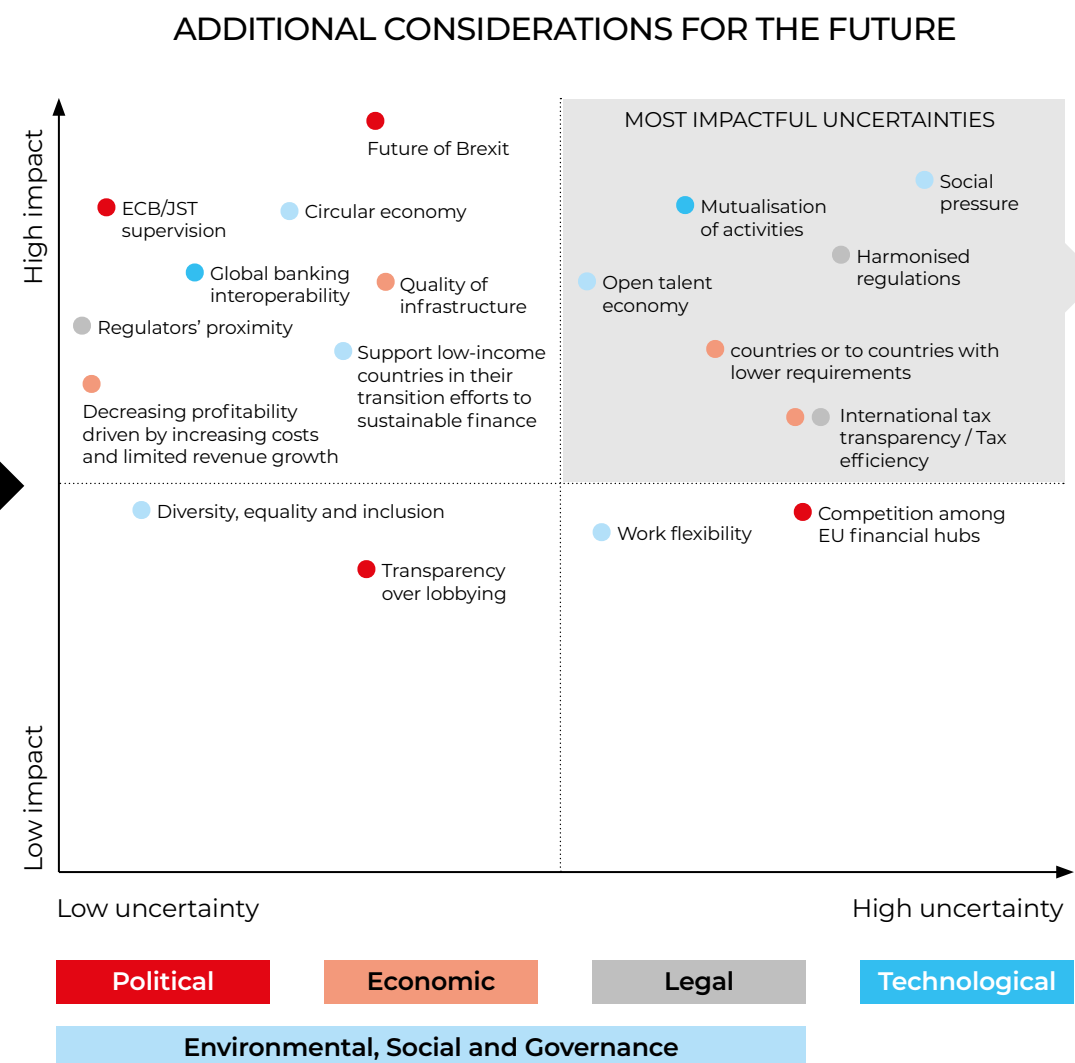
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In conclusion, as stated in the methodological note, this document does not intend to provide an exhaustive assessment. The point of view expressed within this report, is the result of the aggregated qualitative feedback gathered through the survey, the sessions with senior industry experts, and interviews with financial players in Luxembourg. As a matter of fact, there are several topics that should be considered, in addition to the critical themes that emerged.

The matrix on the right intends to provide an overview on these trends, classified according to their certainty and their impact on the FSI ecosystem. The trends are classified in five broad categories: political, economic, legal, technological, and environmental, social, and governance.

Should you wish to know more, please do not hesitate to contact the key contributors of this paper.



**Social pressure** is leaving players with no choice but adjust their business models to integrate ESG considerations.

**Mutualisation** of activities and services across actors will increase due to cost pressures and customers' wish for fully integrated, end-to-end digital experiences.

**Harmonised regulations** at EU level might create substantial positive impact, especially on financial services that are currently not passportable.

**Open talent economy** is pushing businesses to devise a strategic positioning around it as it will impact talent attraction and retention between financial hubs.

**Offshoring** to lower cost countries or to countries with lower requirements is encouraged by pressures on cost/income ratio, but might create compliance risks.

**International tax transparency** will remain a relevant topic to consider as changes in the tax framework may strongly impact the competitive advantages of certain hubs.



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# What are the consequences of taking a customer-focused perspective?

How the evolution of the financial  
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## Focus on internationalisation

**Luxembourg's FSI continues to expand outside Europe to attract more international investors.**

## INTERNATIONALISATION

While Luxembourg's geographical positioning remains an undisputed advantage, the role it plays in Europe is strengthened compared to other EU financial hubs as it enhances its leading position as the gateway to the European market. In fact, among its competitive advantages there is the availability of a full plug and play model, with a toolkit that caters to the needs of international investors, thanks to the sophisticated business knowledge of the local talent and the entire service support available for cross-border activities.

### Impact on customers (B2B and B2C)

- **More and more international clients are attracted to Luxembourg** for the high quality of diverse services provided, compared to other EU hubs;
- Customers with Luxembourg-based portfolios have **access to the EU passport**, but also benefit from the political and economic strength of the country;
- The country's general **stability, strong institutional framework, limited indebtedness, and predictability are reassuring** in the eyes of investors that want to structure their wealth in Europe; and
- Investors have growing faith that their **investments are safe** in Luxembourg as they benefit from **segregation of assets and protection from country risk**, as offered by Luxembourg.

### Impact on players (B2B2C)

- Players **increase their international reach** in terms of number of jurisdictions;
- Technological advancements in platformisation allows for a **removal of geographical borders**;
- Available branding campaigns and promotion tools on the specific added value of the industry segments allow players to **attract more international investors**;
- **More players establish themselves in Luxembourg** to benefit from the management and marketing passport in order to grow their cross-border business with international investors;
- The very attractive local ecosystem acts as an incentive to players formerly based in the UK to instead establish themselves in Luxembourg to ensure **continued access to the EU single market**; and
- Players expand their service offerings to cover the entire value chain and **position themselves globally as a one-stop-shop for investors**.

Source: Deloitte internal analysis



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## Focus on innovation

Technology becomes a core pillar of the financial services' strategy, not just an enabler.

## INNOVATION

The push for innovation makes technology a core pillar of strategies, not just an enabler. Investment in digital solutions mainly focuses on AI, big data analytics and machine learning, DLT, digital currencies, tokenisation, open banking, and mutualisation.

Industry associations, and their cooperation with regulatory authorities, play a key role in providing a high-level professional forum in which new developments and opportunities can be discussed and new market trends can be identified and understood as soon as they emerge.

## Impact on customers (B2B and B2C)

- Customers benefit from new technology that is **changing value chains, competition rules**, and ecosystems, while **fostering product evolution**;
- Investors' **demands for tokenisation** is progressively satisfied;
- As key actors of change, customers **value digital capabilities and intangibles** (i.e. transparency, integrity, etc.) over brand;
- Customers benefit from customised and **end-to-end digital experiences**;
- Mass customisation allows a level of **personalisation** which was previously associated with prohibitive costs only affordable to few investors; and
- New products are changing the industry fundamentals with lower costs and **higher customer satisfaction**.

## Impact on players (B2B2C)

- Regulatory flexibility on new technology implementation **sparks digital investments** towards a **fully-fledged integrated market**;
- Players benefit from **long-term and strategic investments** planned by the government to support business model transformations and structural disruption, including tokenisation of assets and cryptocurrency;
- Technological progress allows players to **improve their time to market and customer journey**;
- **Collaboration increases** between incumbents and challengers, with more start-ups establishing or developing in Luxembourg and leveraging on the expertise of traditional players for collaborative projects;
- Increased partnerships enable discovery of new market potentials and the **optimisation of resources through mutualisation**; and
- Advanced distributed ledger technology creates a **transparency standard**, making it easier for players to trace potential breaches and improve the auditability of data.

Source: Deloitte internal analysis

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# Focus on sustainability

Luxembourg's FSI strengthens its position as the global hub for sustainable and impact investing.

## SUSTAINABILITY

Luxembourg's position as global leader in sustainability is, in part, thanks to the active role played by the financial services industry that stepped ahead of regulation to ignite a dialogue and inspire a movement around sustainability. Substantially, for FSI players in Luxembourg, tackling the sustainable agenda does not aim to simply survive but to thrive in all three dimensions: environmental, social, and governance.

### Impact on customers (B2B and B2C)

- Investors' purchase decisions are based on the **perception of a positive impact** on society or the environment and drive value creation in the economy;
- Their strong positioning on ESG considerations, including climate change, or supporting the transition to a lower-carbon future, **expects a mutual reaction** from companies in their investment offering;
- Customers progressively benefit from a **wider choice when investing** as a growing number of players can harness their sentiment shift towards sustainable alternatives;
- Customers are empowered to access more opportunities and their influence is used to **accelerate progress** towards a sustainable economy; and
- As the regulator becomes more sensitive to ESG considerations, investors face **decreasing fees for qualifying investments**.

### Impact on players (B2B2C)

- Climate change has pushed businesses to the edge of a **fundamental reshaping of finance**<sup>1</sup>;
- More and more **financial flows are redirected** toward sustainable practices and products with ESG label have increased;
- Firms are fully committed to sustainable considerations as these are **fully integrated into their activities**;
- Companies are **rewarded by the government** for combatting greenwashing and for supporting the transition to sustainability;
- Companies invest in **sustainable finance trainings** to upskill staff;
- Players engage and collaborate with other financial centers to **increase sustainability efforts** and develop harmonised and exhaustive frameworks; and
- The **future** of players that superficially commit to ESG matters **is compromised**.

Source: Deloitte internal analysis

1. Source: A fundamental reshaping of finance, BlackRock.

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# Focus on talent

Luxembourg's attractiveness for specialised skills and cross-border expertise increases thanks to cultural change.

## TALENT

Talent gaps that existed especially for specific competences in IT and sustainability are filled by addressing the high cost of living, real estate costs, schooling, transport solutions, taxation frameworks, working permits, and lack of attractiveness to the cultural and social life in Luxembourg, which were identified as some of the major causes of recruiting and retention challenges. In practice, a cultural change puts humanity back at the center of recruitment, through nurturing and supporting a change of perception of the human dimension.

### Impact on customers (B2B and B2C)

- Customers have higher expectations and **require 24/7 and digital availability**;
- Customers **benefit from new ways of working** with increasing use of digital solutions and dynamic working methods – actively accelerated by the COVID-19 crisis;
- The **customer experience is improved** through streamlined processes and integrated tools; and
- The **human centred design of products and services** ensures an increased customer satisfaction.

### Impact on players (B2B2C)

- Luxembourg actors set a standard for the **open talent economy**;
- Players invest consistently to **nurture the needed capabilities** across new asset classes for their talent to ensure that the service support for sophisticated business needs can continue to exist in Luxembourg;
- The **inclusion of considerations on the wider impact** of the FSI's daily activities **on societal issues** increases the attractiveness of industry jobs to young professionals; and
- Players invest in **restructuring their teams to ensure they have the agility needed** to avoid their solutions becoming obsolete before they are implemented.

Source: Deloitte internal analysis



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