# THE STATE OF THE FINANCIAL SECTOR IN LUXEMBOURG

**KEY FIGURES 2011-2021** 



THE STATE OF THE FINANCIAL SECTOR IN LUXEMBOURG



SUMMARY

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DISCLAIMER AND DEFINITIONS



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# SUMMARY

# SUMMARY

Luxembourg's financial services sector<sup>1</sup> saw steady growth between 2011 and 2021. The overall number of employees grew 2.5% per annum (p.a.) over the period, reaching 64,592 employed people at the end of 2021 - compared to 49,985 in 2011.

The sector's added value grew 5.2% p.a. between 2011 and 2021 due to an increase in corporate banking, the fund industry, and audit, consulting, and legal services. However, on closer inspection, this average added value growth was primarily due to a more robust performance between 2011 and 2016, with 2017 to 2020 showing a decline - including the effects of the COVID crisis.

Tax revenues from the sector grew by 5.1% p.a. during the period in scope, with all sectors contributing to this increase.

The importance of the financial sector in Luxembourg's economy is highlighted by the fact that, in 2021, this ecosystem represented approximately 14% of employees working in Luxembourg and 25% of the economy's total added value. Besides this, the financial sector added value per employee was approximately two times higher on average than the other sectors of the economy. For each job created in the financial sector in 2021, 1.1 other jobs in the general economy were created. This means that if the direct, indirect, and induced effects of the financial sector on the rest of the economy are taken into consideration, 135,519 jobs in Luxembourg were linked to the financial sector at the end of 2021<sup>2</sup>.

For the purposes of this report, the financial services sector is composed of the banking and insurance sectors, the fund industry, payments firms, and the audit, consulting, and legal firms providing services to the sector. See the methodology for further details.
 Fondation IDEA. See section 03 for further details.

# **FINANCIAL SECTOR**



## SUBSECTORS OF THE FINANCIAL INDUSTRY

#### Added value in 2021

The financial industry in Luxembourg is composed of different subsectors, each impacting the financial ecosystem in different ways.

Regarding added value, the banking sector<sup>1</sup> provided the most significant contribution, representing a 51.8% share of the overall financial industry's added value. This was followed by the fund sector's<sup>2</sup> contribution of 30.8% and the insurance sector's contribution of 13.2%. In turn, the consulting, audit, and legal services accounted for 4.2% of the financial industry's overall added value in 2021.

#### **Overall financial industry**<sup>3</sup>



1. The banking sector is composed of retail banking, private banking, banks' fund activities, and corporate banking.

2. The fund industry is composed of ManCos and investment firms plus Specialised PFS.

3. Due to the limited data available for the payments sector, which includes payment institutions (PIs) and electronic money institutions (EMIs), their contribution in terms of added value is not considered.

Sources: CSSF, the Luxembourg Banker's Association (ABBL), the Central Bank of Luxembourg (BCL), CAA, the Association of the Luxembourg Fund Industry (ALFI), STATEC, Eurostat, and the Economic and Social Council (CES)/Avis Fiscalité. 2021 data for added value and taxes extrapolated from 2011–2020 data.



#### **Employees (in thousands)**

Audit, consulting, and legal services for the financial sector saw the most prominent growth in employees between 2011 and 2021 (+5.8% p.a.), followed by the funds industry (+5.1%). Employment in the banking sector remained stable over the period, while the number of employees in the insurance sector increased marginally (+1.5 % p.a.).

The payments sector experienced substantial employment growth between 2018 and 2021<sup>4</sup> (+12.7% p.a.)<sup>5</sup>. Considering the latter, at the end of 2021, the number of people employed by the financial industry in Luxembourg reached 64,592.



Sources: CSSF, the Luxembourg Banker's Association (ABBL), the Central Bank of Luxembourg (BCL), CAA, the Association of the Luxembourg Fund Industry (ALFI), STATEC, Eurostat.

4. Employment data for the payments sector is only available for this timeframe. At the end of 2021, there were 740 employees.

<sup>5.</sup> Given that no data is available for the 2011-2017 period, the figures relating to the payments sector are not included in the employees chart to maintain data consistency. In addition, the contribution of the payments sector in terms of employees is not yet material, representing ca. 1% of financial sector employees in 2021.

## OVERALL FINANCIAL INDUSTRY

Added value (in EUR billions)



Tax revenue (in EUR billions)



At the beginning of 2020, the financial sector's added value took a hit due to the COVID-19 crisis. Nevertheless, this hit was offset throughout the year thanks to the banking and insurance sectors' contribution. By the end of 2021, the overall financial sector's added value had grown by 16% compared to 2020.





Fund activities not performed by banks

Sources: CSSF, the Luxembourg Banker's Association (ABBL), the Central Bank of Luxembourg (BCL), CAA, the Association of the Luxembourg Fund Industry (ALFI), STATEC, Eurostat, and the Economic and Social Council (CES)/Avis Fiscalite. 2021 data extrapolated from 2011–2020 data.

Insurance

While overall tax revenue generated by the financial sector increased at 5.1% p.a. across the board, the banking sector contributed the most in absolute terms, experiencing an increase of 7.4% p.a. from 2011 to 2021.



Sources: CSSF, the Luxembourg Banker's Association (ABBL), the Central Bank of Luxembourg (BCL), CAA, the Association of the Luxembourg Fund Industry (ALFI), STATEC, Eurostat, and the Economic and Social Council (CES)/Avis Fiscalite. 2021 data extrapolated from 2011–2020 data.

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The total banking sector comprises retail banking, private banking, banks' fund activities, and corporate banking.

Between 2011 and 2021, the banking sector experienced growth in both added value (4.0% p.a.) and taxes paid (7.4% p.a.). In parallel, the number of employees remained stable, with only a slight decrease (-0.3% p.a.). This results from several factors, including the reduction in the number of banks — especially in recent years, falling from 142 banks in 2017 to 124 in 2021 — and the sector's digital transformation.

The entire banking sector's performance was noticeably weaker between 2017 and 2020 than in prior years, as new competitors, low-interest rates, and increasing regulatory constraints resulted in higher pressure and lower revenues. The cost-to-income (C/I) ratio also grew from 49% to 60% due to higher operating expenses.

In 2021, the banking sector experienced growth in balance sheet size and net profits. The balance sheet increase (+12% compared to 2020) was largely due to an increase in deposits from investment funds, corporates, and households. Net profits rose by 30% compared to 2020, thanks to the contribution of fee and commission income and the decrease in risk provisioning<sup>6</sup>.

The positive results were partially offset by the growth in general expenses (+10% in 2021), of which a significant portion was the increasing cost of regulation.

#### **Employees (in thousands)**

The number of employees in the banking sector remained stable between 2011 and 2021, slightly decreasing in absolute terms (-2.7% for the whole period), of which the main drivers were banks' fund activities (-1.9% p.a.), followed by private banking (-0.2% p.a.) and retail banking (-0.1% p.a.).

In 2021, the banking sector saw a drop of approximately 100 full-time equivalents (FTEs) compared to 2020.





Sources: CSSF, ABBL and BCL.



## **±02** TOTAL BANKING SECTOR

#### Added value (in EUR billions)

While corporate banking's added value grew 16.5% p.a. between 2011 and 2021, all other segments declined over the same period.

Corporate banking represents a wide range of activities generating high added value that have grown steadily in recent years. Those activities include, among others, trade finance, cash management, deal structuring (structured/syndicated loans), services to PE-RE funds and head office functions.

#### Tax revenue (in EUR billions)

Tax revenue paid by the banking sector rose by 7.4% p.a., with corporate banking contributing the most (13.8% p.a.), followed by banks' fund activities (5.8% p.a.). In comparison, taxes paid by the private banking segment only experienced a slight rise (0.2% p.a.) while retail banking taxes remained stable.









Source: CSSF. 2021 data extrapolated from 2011-2020 data.

Sources: CSSF, ABBL and BCL. 2021 data extrapolated from 2011-2020 data.



#### **Evolution in the number of banks**

The number of banks' evolution reflects the banking industry's ongoing consolidation trend. This trend has been partially compensated in the last five years by the inflow of new players due to Brexit.



2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021

Number of banks in 2021	124	-4 entities compared to 2020
Market exit	8	+6 cessation of activities +1 merger +1 transfer of activities
Market new entries	4	+3 corporate banks +1 depositary bank

Sources: CSSF and ABBL



#### **Employees (in thousands)**

The number of employees in private banking fell by 0.2% p.a. (-2.3% in total) between 2011 and 2021. This fluctuation was due to the sector's number of affluent clients decreasing, which meant fewer relationship managers were needed. In contrast, the sector's digital transformation caused employee numbers to fall in operations and back-office functions. These trends were partially offset by a growing number of employees working within internal control functions.



Sources: CSSF, ABBL-KPMG Private Banking survey, and ABBL.

#### Added value (in EUR billions)

Between 2011 and 2018, the private banking sector's added value remained stable. The considerable drop in added value between 2018 and 2021 was predominantly due to the restructuring of significant players in the industry, including M&A, a refocus on core businesses or the wind-down of non-core businesses, and "branchification".

Sources: CSSF, ABBL-KPMG Private Banking survey, and ABBL. 2021 data extrapolated from 2011–2020 data.

#### Tax revenue (in EUR billions)

Sources: CSSF, ABBL-KPMG Private Banking survey, and ABBL. 2021 data extrapolated from 2011–2020 data.







#### Assets under management (AuM) per wealth band (in %)

Clients with assets over EUR 20 million represented 59% of the total AuM in 2021. Clients with assets under EUR 1 million steadily fell between 2011 and 2021.

Sources: CSSF, ABBL-KPMG Private Banking survey, and ABBL. 2021 data extrapolated from 2011–2020 data.



#### Revenue margin (in basis points or bps)

The revenue margin evolution between 2011 and 2021 is further evidence of the pressure on margins in the sector, falling by 2.9% p.a.

Sources: CSSF, ABBL-KPMG Private Banking survey, and ABBL. 2021 data extrapolated from 2011–2020 data.

#### C/I ratio (in %)

The C/I ratio has slightly improved in recent years due to the increase in AuM and related profits, while partially offset by the increase in operating costs.

Sources: CSSF, ABBL-KPMG Private Banking survey, and ABBL. 2021 and 2018 data extrapolated from the previous years' figures.

#### AuM in Luxembourg (in EUR billions)

From 2011 to 2021, AuM grew by 6.9% p.a., driven primarily by Brexit, financial market performance and the overall industry drive to focus on ultra-high-net-worth individuals (UHNWI), thereby improving the value proposition for this client category.

Sources: CSSF, ABBL-KPMG Private Banking survey.









Retail banking remained relatively stable between 2011 and 2021, with employees decreasing by 0.1% p.a. and added value by 3.4% p.a. However, its tax revenues remained stable between 2011 to 2021.

#### **Employees (in thousands)**

Sources: CSSF, ABBL and BCL.



While retail banking's added value remained relatively stable between 2011 and 2018, it dropped to EUR 0.5 billion in 2020 mainly due to the COVID-19 crisis.

Sources: CSSF, ABBL and BCL. 2021 data extrapolated from 2011-2020 data.

#### **Tax revenue (in EUR billions)**

Sources: CSSF, ABBL and BCL. 2021 data extrapolated from 2011-2020 data.

#### C/I ratio (in %)

Retail banking's C/I ratio remained stable overall. However, following a rise in 2018, it began falling, reaching 60% in 2021. The 2018 bump was driven by one-off events, such as increased expenses related to technology investments, the accounting reclassification of profit and loss items, and others.

Sources: CSSF, ABBL and BCL.











Corporate banking's performance has oscillated over the last decade. Initially experiencing growth in employees between 2011 and 2014, it began to decline from 2015 onwards, with 2021 seeing 9,600 people employed in the subsector. However, for the entire period under analysis, this segment's employment increased by 1.0% p.a.

Added value increased exponentially from 2011 to 2021, representing a rise of 16.5% p.a. While briefly stalling in 2017 and 2018, added value started rising again from  $2019.^3$ 

Taxes paid in the corporate banking sector also grew by 13.8% p.a. between 2011 and 2021.



#### 2.6 26 1.3 , +16.5% p.a. 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2011





#### Tax revenue (in EUR billions)

Added value (in EUR billions)

**Employees (in thousands)** 

Sources: CSSF, ABBL and BCL.

Sources: CSSF, ABBL and BCL. 2021 data extrapolated from 2011-2020 data.

Sources: CSSF, ABBL and BCL. 2021 data extrapolated from 2011-2020 data.

#### Banking services to corporates under pressure

The interest rate on outstanding corporate loans (in %)

3. This increase should be considered in light of the methodology used to calculate corporate banking's added value (i.e., equal to the added value not included in the other subsectors). This cluster represents a wide range of activities (e.g., trade finance, corporate lending, treasury management, cash management and head office functions) that has grown steadily in recent years.



The number of payment institutions (PIs) and electronic money institutions (EMIs) grew by 16% p.a. between 2011 and 2021 to reach 13 and 9 firms, respectively. This growth is due to Brexit, as well as the acceleration of Luxembourg's digital transformation and its well-known support of cross-border businesses, in terms of infrastructure and regulatory framework.

The vigorous development of e-commerce and payments solutions was driven by the continuous improvement of new technologies and growing end-customer demand. Pls' total balance sheet increased in 2021 by 52% compared to 2020, reaching EUR 3.2 billion, whereas EMIs' amounted to EUR 4.2 billion, a 12% rise compared with 2020.



2021
113 EUR billion
87 EUR billion
200 EUR billion

Source: CSSF.

#### Number of employees: PIs & EMIs

In 2021, one new PI was authorised and employment in PIs increased by 28% compared to 2020. In turn, the number of EMIs remained stable and employment grew by 10%.

Source CSSF Annual reports and Newsletters.



## FUND INDUSTRY

Between 2011 and 2021, Luxembourg's fund industry experienced limited but steady growth in the number of employees (2.3% p.a.) and in added value (1.5% p.a.). While corporate tax and taxes paid on salaries remained stable, the subscription tax paid by the sector grew at 7.6% p.a. during the period under analysis.

This consistent growth was predominantly driven by specialised professionals of the financial sector (PFS), authorised investment fund managers (ManCo) and investment firms. Combined, these subsectors' employees increased by 5.1% p.a. and their added value by 4.7% p.a. between 2011 and 2021.

The overall industry was quite resilient in the face of the pandemic, quickly bouncing back to almost EUR 6 trillion AuM at the end of 2021, with the total number of employees and added value remaining stable overall.

#### **Employees (n thousands)**<sup>7</sup>

Sources: ALFI and CSSF.





Fund activities of banks

ManCos and investment firms

7. As explained in the definition section and methodology appendix, banks' fund activities are only included in this report's fund industry section for illustrative purposes. However, their impact in terms of employment, added value and taxes are only counted once in the financial industry overview.

## FUND INDUSTRY

#### Added value (in EUR billions)

In terms of added value, fund activities of banks experienced a slight fall between 2011 and 2021 while the industry overall increased thanks to the contribution of ManCos, investment firms and specialised PFS. The activities of ManCos, investments firms and specialised PFS grew in 2021 thanks to an increase in assets under custody, which subsequently strengthened fee and commission income. The sector's overall performance was positive in terms of net results, including a 49% increase for investment firms and an 8.9% increase for specialised PFS compared to 2020.

Sources: ALFI and CSSF. 2021 data extrapolated from 2011-2020 data.



#### Tax revenue (in EUR billions)

Tax revenues remained stable between 2011 and 2021. This includes corporate tax and income tax on salaries but excludes the subscription tax – whose evolution is presented on page 19.

Sources: ALFI, CSSF and CES. 2021 data extrapolated from 2011–2020 data.



#### Number of funds (in units)

The number of funds fell by 1.0% p.a. from 2011 to 2021. After experiencing a hike in 2016, it decreased reaching 3,492 units in 2021.

Sources: ALFI and CSSF.





#### **Net AuM (in EUR billions)**

The net AuM increased by 10.8% p.a. between 2011 and 2021. Source: CSSF.



#### AuA growth (in EUR billions)

In 2018, assets under administration (AuA) experienced a significant drop, predominantly due to a decline in market performance rather than net sales. From 2012 to 2020, there was an average drop of 1.8% p.a., with net sales increasing by 2.2% p.a. and market performance falling by 5.7% p.a.

In 2021, however, AuA growth more than tripled compared to 2020, with both net sales and market performance showing strong increases.

Sources: ALFI and CSSF.

#### Subscription tax (in EUR millions)

While the amount of subscription tax ("taxe d'abonnement") paid by the fund's industry saw an increase in absolute terms during the period 2011-2021, its burden as a percentage of the industry's AuM has slightly decreased. This is mainly due to specific rate reductions and exemptions that have been introduced over the years, which contributed to decreasing the overall tax burden on the net assets of funds.

Those reduced rates and exemptions aimed at attracting and developing specific categories of investment funds. Initially, this implied lower returns per net asset, but they eventually resulted in an increased AuM for the industry, with the subscription tax revenue growing at 7.6% p.a. between 2011 and 2021. These legislative changes are the result of a proactive policy allowing Luxembourg to face heightened competition at the global level.

Sources: 2011-2020, CES – Conseil économique et social (Luxembourg Gouvernement). 2021, Chambre des Députés, Grand Duché de Luxembourg.





## INVESTMENT STRUCTURING VEHICLES

Luxembourg is well known as an international investment structuring hub, hosting many investment structuring vehicles, such as Part II funds, SIF, SICAR, SPF and Soparfi. They play an integral role in the country's financial ecosystem and represent a significant source of tax revenue, especially Soparfi.

Soparfi are Luxembourg holding companies whose corporate purpose is to hold equity investments. Their legal status is generally S.à r.l., S.A. or S.C.A., and they are used for different kinds of financial activities such as alternative investments, including real estate and private equity, among others.

In 2021, Soparfi represented the most significant contribution to Luxembourg's overall revenue in almost all direct taxes:

- 27% of total corporate income tax (Impôt sur le revenu des collectivités: IRC), followed by banks' contribution of 22%.
- 24% of total communal business tax (Impôt commercial communal: ICC), followed by banks' contribution of 23%.
- 74% of total net wealth tax (Impôt sur la fortune: IF) followed by banks' contributions of 4%.

This demonstrates the importance of the financial sector to Luxembourg's economy —including investment structuring vehicles and particularly Soparfi — in terms of tax revenue.

# INSURANCE

Between 2011 and 2021, the insurance sector in Luxembourg saw several shifts in terms of added value and taxes. Despite these changes, the number of employees increased by 1.5% p.a., while tax revenues grew by 10.4% p.a. Added value remained stable overall, showing a slight increase and positive results, especially in 2021.

The activities and results of both life and non-life insurance firms saw strong results in 2021, with non-life insurance's technical results, in particular, improving materially over the year. This is due to incumbent and new market players' efforts to develop their portfolios and increase profitability.

The life insurance sector also broke a 10-year record for premiums in 2021, rising by 32% compared to 2020.

#### **Employees (in thousands)**

The number of employees in the life and non-life sectors saw steady growth, with both experiencing an uptick in 2018 following two years of declines.

Sources: Commissariat aux Assurances (CAA)





Non-life insurance

Life insurance

# INSURANCE

#### Added value (in EUR billions)

The overall added value remained stable between 2017 and 2020, despite fluctuations. Both sectors' material increase in 2021 was estimated using the "net profit after tax"<sup>5</sup> as a proxy, as not all data is currently available to determine 2021's added value. This growth is primarily due to the notable increase in gross premiums (+14.4%) and net profit (+197.6%) in the non-life business in 2021 compared to 2020.

Source: CAA. 2021 data extrapolated from 2011-2020.



#### Tax revenue (in EUR billions)

Tax revenue generated by the insurance sector grew by 10.4% p.a. overall. The life sector saw the most significant increase (+14.2% p.a.) between 2011 and 2021, while the non-life sector grew by 5.8% p.a.

Source: CAA. 2021 data extrapolated from 2011-2020 data.



Life insurance

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From 2011 to 2021, audit, consulting and legal firms providing services to the financial sector saw significant growth, increasing their contribution to the financial industry.

Regarding the number of employees, audit, consulting and legal services grew 5.8% p.a. In comparison, added value increased 9% p.a., representing 4.2% of the financial sector's overall added value in 2021.

Since 2011, tax revenues generated by this sector have risen 8.0% p.a., in line with the sector's added value increase.

During the COVID-19 crisis, these services continued to grow, proving the sector's resilience.

#### **Employees (in thousands)**



#### 2011 10,946 2013 11,708 2014 13,148 2015 11,079 2015 15,046 15,06

Consulting, audit and legal services

Sources: STATEC. Luxembourg for Finance (LFF) 2019 report.



#### Tax revenue (in EUR billions)



# THE ROLE OF THE FINANCIAL SECTOR IN THE ECONOMY



#### **Employees (in thousands)**

Source: LFF calculations based on Statec



Rest of economy

#### Added value (in EUR billions)

Source: Deloitte calculations based on Statec





#### 133 20 131 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 Financial sector Rest of economy

#### Added value per employee (in EUR thousands)

The financial sector added value per employee is approximately two times higher on average than the other sectors of the economy.

Source: LFF & Deloitte calculations based on Statec

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#### Trickle-down effect on the rest of the economy (in number of employees)

Direct, indirect, and induced employment in the financial sector<sup>1</sup>.



- Indirect effects (IDEA)
- Induced effects consumption (IDEA)
- Induced effects investments (IDEA)
- Total

The direct financial employment estimated by Luxembourg for Finance (LFF) equals to 64,592 people. This number was used as a starting point by IDEA to infer indirect (via suppliers and "suppliers of suppliers") and induced employment (via remuneration of the financial sector and its investments and those of its suppliers).

Indirect effects add 52,348 jobs to financial employment. These effects are related to the various providers to the financial sector. Financial services incorporate multiple inputs, mainly from "Professional, scientific and technical services" (e.g. engineers, architects, accountants, tax advisors, advertisers or researchers), "Administrative and support service activities" (e.g. buildings, administrative support or security) and the "Information and communication" branch (information production and distribution activities, provision of means for the transmission or distribution of these products, IT and communication activities, data processing, etc.). Financial companies' various intermediate consumptions in the other sectors (estimated based on the matrix of inputs and outputs for 2019 made by STATEC) result in added value and to additional related jobs in those sectors.

The estimated impact of 52,348 jobs not only includes the knock-on effect from which the providers of the financial sector benefit (37,013 additional jobs), but also the effect on "suppliers of suppliers" ("second-round" effect, estimated at 15,335 additional jobs). The direct suppliers of the financial sector indeed acquire inputs from other providers as well, resulting in the creation of new added value and additional jobs.

Sources: LFF, Adem, CES, CLEISS, STATEC, IDEA calculations.

1. Update of Fondation IDEA Decryption n°2, July 2019, https://www.fondation-idea.lu/wp-content/uploads/sites/2/2019/07/IDEA\_Decryptage2\_emploi-secteur-financier.pdf.

### THE ROLE OF THE FINANCIAL SECTOR IN THE ECONOMY

The financial sector also paid more than 6 billion euros in remunerations in 2021, which fosters consumption and thus creates supplementary added value. These **induced effects related to consumption** bring about 12,172 additional jobs according to IDEA estimates (including the remuneration of suppliers' employees), even considering the impacts of taxes and social security contributions, savings, cross-border purchases of concerned employees and the import content of domestic spendings.

Finally, the financial sector and its suppliers have heavily invested in 2021. Those **investment-related induced effects** result in the creation of more added value and 6,400 induced jobs.

#### In total, IDEA estimates that almost 135,519 jobs (64,592 + 52,348 + 12,172 + 6,407) have direct, indirect, or induced links to financial

activities. This is slightly more than double the "direct base" (employment multiplier slightly above 2). This is however a relatively 'conservative' estimate still. That way, savings and taxes (plus social contributions) are handled as if they were simply deadweight losses to the economy. This is of course not the case. For instance, income tax can be used to finance public employment or public investments that contribute to increase the construction sector's workforce. Yet, these impacts are not taken into account in the calculations.

# $\widehat{}$ THE STATE OF THE FINANCIAL SECTOR IN LUXEMBOUR

# DISCLAIMER AND DEFINITIONS

# DISCLAIMER

The analyses contained in this document and the underlying files are based on publicly available information complemented by industry association and individual players data, as well as assumptions based upon factors and events subject to uncertainty. This information is believed to be directionally reliable without being in all respects accurate or complete. The analyses and conclusions contained do not purport to contain or incorporate all the information that may be required to evaluate the Luxembourg financial sector. Given the high level of openness of the Luxembourg economy and the comparably high concentration on selected economic sectors, the share of the financial sector in the overall economy may be subject to relatively high volatility in future comparisons.

Additional details on the methodology and sources used in this document are included within the sections of the report and a summary is presented in the <u>Appendix – Methodology and sources</u>.

# DEFINITIONS

#### **Financial sector**

The financial sector includes the banking sector, the fund industry, the insurance sector, the payments sector, and the audit, consulting and legal firms providing services to the financial industry. Given the limited data currently available for the payments sector (PIs and EMIs), the figures related to this subsector are only disclosed on page 16 of this report.

#### Staff, employees

Total number of employees in line with the methodology of calculation followed by the CAA, the CSSF, and STATEC for the relevant sectors

#### **Added value**

Sum of net profits, staff costs and total taxes paid. It represents approximately total production minus intermediary consumption; this metric also equals the gross domestic product (GDP) contribution minus indirect taxes on products and goods (i.e., VAT and excise).

#### Staff costs

Sum of total salaries and total social contributions paid by the employer.

#### Taxes paid

Sum of corporate taxes and taxes on salaries. For fund services, the subscription tax (taxe d'abonnement) is also included.

#### **Corporate taxes**

Total direct taxes paid at the corporate level to public authorities in Luxembourg.

#### **Taxes on salaries**

Taxes paid on salaries by people employed by the institutions concerned (impôts sur le revenu).

#### **Payment sector**

The activities of Payment Institutions and Electronic Money Institutions.

#### **Private banking**

Banking activities carried out for households with AuM in a given bank above EUR 100,000.

#### **Retail banking**

Banking activities carried out for households with AuM in a given bank below EUR 100,000.

#### **Fund industry**

Activities related to the fund servicing value chain (e.g., fund administration, transfer agencies and depositary banks). The fund industry is composed of specialised PFS, ManCos, and investment firms. It should be noted that the data related to *"fund activities of banks"* is included in the fund industry section of this report for illustrative purposes only. However, their impact in terms of employment, added value and tax revenue are only counted once in the financial industry overview.

# DEFINITIONS

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#### **Corporate banking**

Activities carried out by banks, excluding private banking, retail banking and fund services. It includes trade finance, corporate lending, treasury management, cash management, head office functions and other activities not contained in the other banking subsectors.

#### Insurance

All activities carried out by life and non-life insurance companies, excluding reinsurance.

#### **Specialised PFS**

Activities carried out by companies supervised by the CSSF under the category of specialised PFS (e.g., professional depositaries of financial instruments, regulated market operators, debt recovery, professionals performing lending operations, family offices, and mutual savings fund administrators).

#### Authorised investment fund managers (ManCos) and investment firms

Activities carried out by companies supervised by the CSSF under the categories of ManCos and investment firms.

#### Audit, consulting and legal services

Activities of audit, consulting and law firms providing services to the financial sector.

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# APPENDIX - METHODOLOGY AND SOURCES





Sources

	Employment	Added value (Profit+staff cost+corporate taxes)	Tax revenue
TOTAL BANKING	<ul> <li>Sum of banking subsectors' employees</li> </ul>	<ul> <li>Sum of banking subsectors' added value</li> </ul>	<ul> <li>Income taxes: FTEs* average salary* tax rate</li> <li>Corporate taxes paid by banks (CSSF)</li> </ul>
	<ul><li>CSSF</li><li>Statec</li><li>ABBL</li><li>BCL</li></ul>	<ul> <li>Statec</li> <li>CSSF</li> <li>ABBL</li> <li>Luxembourg tax administration</li> </ul>	<ul><li>CSSF</li><li>Annual report of banking players</li><li>Luxembourg tax administration</li></ul>
PRIVATE BANKING	<ul> <li>Number of employees in private banks as reported by ABBL</li> </ul>	<ul> <li>Profit: revenues* (1-C/I)</li> <li>Staff cost: average staff cost* employment</li> <li>2021 data extrapolated from 2011–2020 compound annual growth rate (CAGR)</li> </ul>	<ul> <li>Corporate taxes: share of taxes in profit for banking* profit in private banking</li> <li>Income taxes: FTEs* average salary* tax rate</li> <li>2021 data extrapolated from 2011–2020 CAGR</li> </ul>
	ABBL Private Banking survey	ABBL Private Banking survey	<ul><li>CSSF</li><li>Luxembourg tax administration</li></ul>



Sources

	Employment	Added value (Profit+staff cost+corporate taxes)	Tax revenue
RETAIL BANKING	<ul> <li>Number of retail banking employees from ABBL survey corrected for the difference in reporting with statutory accounts</li> </ul>	<ul> <li>Profit: revenues* (1-C/I)</li> <li>Staff cost: employment* players average staff cost</li> <li>Corporate taxes</li> <li>2021 data extrapolated from 2011–2020 CAGR</li> </ul>	<ul> <li>Corporate taxes: share of tax at industry level (CSSF)* profit</li> <li>Income taxes: FTEs* average salary* tax rate</li> <li>2021 data extrapolated from 2011–2020 CAGR</li> </ul>
	• ABBL retail banking survey	<ul><li>CSSF</li><li>BCL</li><li>Luxembourg tax administration</li></ul>	<ul><li>CSSF</li><li>Luxembourg tax administration</li></ul>
BANKS' FUND ACTIVITIES	• Employees (from representative players): number of funds (from representative players)* funds in Luxembourg (weighted for banks' market share in fund industry)	<ul> <li>Profit: revenues* (1-C/I)</li> <li>Staff cost: employment* players average staff cost</li> <li>Corporate taxes</li> <li>2021 data extrapolated from 2011–2020 CAGR</li> </ul>	<ul> <li>Income taxes: FTEs* average salary* tax rate</li> <li>2021 data extrapolated from 2011–2020 CAGR</li> </ul>
	<ul><li>CSSF</li><li>Statec</li></ul>	• Statec	<ul><li>Statec</li><li>CSSF</li><li>Luxembourg tax administration</li></ul>
CORPORATE BANKING	<ul> <li>Banking employees excluded from other categories</li> </ul>	<ul> <li>Banking added value excluded from other categories</li> <li>2021 data extrapolated from 2011–2020 CAGR</li> </ul>	<ul> <li>Banking taxes excluded from other categories</li> <li>2021 data extrapolated from 2011–2020 CAGR</li> </ul>
	• CSSF	• CSSF	• CSSF



Sources

	Employment	Added value (Profit+staff cost+corporate taxes)	Tax revenue
INSURANCE	<ul> <li>Sum of life insurance and non-life insurance, excluding reinsurance</li> <li>Only employees working in Luxembourg are considered ("personnel salarié au Luxembourg")</li> </ul>	<ul> <li>Sum of life insurance and non-life insurance, excluding reinsurance</li> <li>2021 data extrapolated from "Résultats après impôt" growth rate (CAA report 2021)</li> </ul>	<ul> <li>Corporate taxes: sum of life insurance and non-life insurance, excluding reinsurance</li> <li>Income taxes: average salary* FTEs* tax rate</li> <li>2021 data extrapolated from "impôts luxembourgeois" growth rate (CAA report)</li> </ul>
	• CAA	• CAA	• CAA
FUND	<ul> <li>Sum of employees in ManCos, specialised PFS and banks' fund activities</li> </ul>	<ul> <li>Sum of ManCos, investment firms, specialised PSF and banks' fund activities</li> <li>2021 data extrapolated from 2011–2020 CAGR</li> </ul>	<ul> <li>Income taxes: FTEs* average salary* tax rate</li> <li>Corporate taxes: CSSF</li> <li>2021 data extrapolated from 2011–2020 CAGR</li> </ul>
INDUSTRY	• CSSF • ALFI • BCL	<ul><li>CSSF</li><li>ALFI</li><li>Statec</li></ul>	<ul> <li>CSSF</li> <li>Statec</li> <li>Luxembourg tax administration</li> <li>CES</li> <li>2021, Chambre des Députés, Grand Duché de Luxembourg (Subscription tax only)</li> </ul>



Sources

	Employment	Added value (Profit+staff cost+corporate taxes)	Tax revenue
MANCOS AND INVESTMENT	Number of employees in ManCos and investment firms	<ul> <li>Data as reported by CSSF</li> <li>Taxes including subscription tax (Statec) for funds administrated by ManCos and investment firms</li> <li>2021 data extrapolated from 2011–2020 CAGR</li> </ul>	<ul> <li>Income taxes: FTEs* average salary* tax rate</li> <li>Corporate taxes: CSSF</li> <li>2021 data extrapolated from 2011–2020 CAGR</li> </ul>
FIRMS	• CSSF	<ul><li>CSSF</li><li>Luxembourg tax administration</li><li>Statec</li></ul>	<ul><li>CSSF</li><li>Luxembourg tax administration</li><li>Statec</li><li>CES</li></ul>
SPECIALISED PFS	Number of employees in specialised     PFS	<ul> <li>Data as reported by CSSF</li> <li>Taxes including subscription tax (Statec) for funds administrated by specialised PFS</li> <li>2021 data extrapolated from 2011–2020 CAGR</li> </ul>	<ul> <li>Income taxes: FTEs* average salary* tax rate</li> <li>Corporate taxes: CSSF</li> <li>2021 data extrapolated from 2011–2020 CAGR</li> </ul>
	• CSSF	• CSSF • Statec	• CSSF • Statec



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