



Luxembourg as a Financial Hub

Exploring the “Why” Behind its Success

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ABSTRACT

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In the broad landscape of global finance, Luxembourg, despite its small size, has become a significant player alongside more traditional financial hubs such as London, Zurich, and New York. While it might not seem like a major player for an outsider and people outside of the industry, Luxembourg has indeed evolved into an essential financial center. The status was also highlighted by Backes Yuriko, Luxembourg Minister of Finance in an interview published by KPMG in June 2022 "Luxembourg's financial center remains one of the foremost financial centers in the world." (Backes, 2022) The question arises: why? This thesis is dedicated to exploring the factors that have contributed to Luxembourg's success, driven by my personal interest in this topic.

The evolution of Luxembourg from an agricultural economy to a global financial center is analyzed, considering its strategic development and smart policymaking. By looking into the mutual influence between rules, economic growth, and international financial players, this thesis aims to assist the reader in achieving a deeper understanding of Luxembourg's unique strengths and advantages. In order to understand these complexities of Luxembourg's financial success, this thesis is structured to summarize the historical, regulatory, and economic factors of the financial hub, ultimately contributing to an understanding of the "why".

Key words: financial industry, financial hub, ecosystem, euromarket

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ABBREVIATIONS

ABBL	Association des Banques et Banquiers, Luxembourg
AIFMD	Alternative Investment Fund Managers Directive
CIT	Corporate Income Tax
EBA	European Banking Authority
ESG	Environmental, Social and Governance
EU	European Union
FATF	Financial Action Task Force
FSI	Financial Services Industry
GDP	Gross Domestic Product
HNWI	High-Net-Worth-Individual
IOSCO	International Organization of Securities Commissions
UCITS	Undertakings for Collective Investment in Transferable Securities
UHNWI	Ultra-High-Net-Worth-Individual

1 INTRODUCTION

In recent decades, Luxembourg has become a major global financial center, standing out as a leading financial hub in Europe. Its evolution from mainly an agricultural economy to a thriving hub for financial services is a result of strategic development and smart policymaking. Located at the crossroads of Western Europe, Luxembourg has proven itself to be an attractive destination for financial institutions, investment funds, and international corporations seeking an optimal environment for their financial activities.

This thesis looks into the reasons behind Luxembourg's success as a global financial hub. The reason and the personal connection to this subject comes from my own role in the finance sector within Luxembourg. My work experience in the country has sparked a keen interest in understanding more about the factors that have made Luxembourg the global financial hub it is today.

This research covers the historical, regulatory, economic, and geopolitical factors that have contributed to Luxembourg's financial success. In addition to online research, interviews will also be utilized as a research method. The interviews are to be held with experts and influential individuals in Luxembourg, and I will take into account their valuable experiences and insights. These interviews will provide essential perspectives and real-world context behind Luxembourg's attractiveness and financial success.

This research also aims to highlight the specific qualities and traits that set Luxembourg apart from other financial centers like London for example. Rather than just focusing on historical factors that have made Luxembourg what it is today, the goal is also to highlight the continuous appeal that makes international businesses drawn towards Luxembourg's financial ecosystem.

By the end of this thesis, the goal is to have answered the question: why? Through this exploration of why Luxembourg is so attractive to financial institutions and international businesses, the aim is to help people better understand the importance and the unique qualities of Luxembourg.

2 OBJECTIVES AND PURPOSE OF THE THESIS

The objective of this thesis is to understand the reasons that have led to the success of Luxembourg as a financial hub. For reference, Luxembourg's GDP per capita was USD 135.61 thousand in 2023 as per IMF (International Monetary Fund). As per IMF, this amount exceeded all other countries, and the closest contestant was Ireland with a GDP per capita of USD 112.25 thousand. (IMF, 2023) To achieve this objective, I will explore the factors and dynamics that have propelled Luxembourg into its current position on the global financial stage including the historical, regulatory, economic, and geopolitical factors.

Moreover, this research aims to not only uncover the reason behind Luxembourg's financial success but also to serve as a source of insights and knowledge that can be utilized as valuable information for students or researchers for academic and practical purposes. In addition, my ambition is to gain a deeper understanding of how smart policymaking and regulatory environments can be leveraged to support economic development and grab the attention of international financial players.

I will undertake a flexible approach, engaging in interviews with experts from the financial industry and influential figures operating within Luxembourg. These interviews will provide invaluable insights and real-world experiences, highlighting the attractiveness and tiny details that underscore Luxembourg's financial success. Moreover, these interviews will add on to the credibility and authenticity of the research.

2.1 Key Research Questions

Within the broad objective and purpose of this thesis, several key research questions help me in directing the exploration of Luxembourg as a financial hub. These below questions, also mentioned in the below figure, will help me uncover the reasons behind its success and will form the backbone of the research, guiding the exploration into the aspects of Luxembourg's financial hub.

The main research question is: “What unique strengths and advantages does Luxembourg possess, and how have these factors contributed to its success?”. To dive even deeper, two investigative questions will be utilized as well; “What are the insights and experiences of key stakeholders within the Luxembourg financial industry, and how do they perceive the ‘why’ behind its attractiveness to international players?”, and “What are the challenges and opportunities that Luxembourg faces in maintaining its position as a financial hub in the future?”. These questions will be addressed through an in-depth analysis, including interviews with experts and thorough research on existing material, clarifying the factors driving Luxembourg's success in the financial domain.



FIGURE 1. The research questions. (Salmenautio, 2023)

2.2 Data Collection

To delve into the details of Luxembourg's financial success, this research adopts a two-way data collection strategy. These selected methods are designed to provide a detailed and in-depth understanding, aligning with the objectives and purpose of this thesis.

Online research: Given the broad topic and objective of this thesis, I found it useful to utilize existing material found online. This material includes publications, websites and other information that is freely accessible to the public. The credibility of these materials is ensured by only relying on information found on company websites and trustworthy sources such as Investopedia. This research method allows me to form a comprehensive theory part of the topic and helps to build an extensive overview of the “why’s”. This approach also ensures that the research is grounded on existing knowledge and information.

Interviews: To add on to the credibility and authenticity of the research I have decided to conduct in-depth interviews with experts from the financial industry and influential figures operating within Luxembourg. These interviews were conducted as an in-person interview which was recorded as well as via email. These interviews will offer invaluable insights and real-world context. The credibility of this research method is ensured by carefully choosing the interviewees. The interviewees have agreed to share their personal opinions and insights, and this information will form the backbone of this research, whereas the online research will serve as the theory part. These interviews will provide insights into the complexities of Luxembourg's financial landscape and provide perspectives behind its attractiveness to international players.

By combining these two data collection methods, I aim to create a well-rounded and evidence-based exploration of Luxembourg's financial hub. The goal is to form a deep understanding of the factors contributing to its success and continuous attraction, not forgetting about the challenges and opportunities Luxembourg and its ecosystem might face in the future.

3 EVOLUTION OF LUXEMBOURG AS A FINANCIAL HUB

Luxembourg, despite its current status as a financial hub, had humble beginnings based on its geographical location and natural resources. Its history dates back to Roman times, and its strategic position along major trade routes in Europe contributed to its early economic activity.

As stated by Lehmann in an article published in RTL Today in 2020; during the medieval period, Luxembourg developed as a prominent trade and commerce center due to its strategic location along the Alzette and Pétrusse rivers. The Counts of Luxembourg played a crucial role in fostering economic growth and trade, establishing the city of Luxembourg as a hub for merchants and traders. The development of a robust trade network facilitated the exchange of goods and capital across regions, laying the foundation for Luxembourg's economic growth. (Lehmann, 2020)

Lehmann also highlighted in the same article that before Luxembourg gained its independence, it went through different periods of being ruled by various powers, including the Holy Roman Empire, Spain, Austria, France, and the Netherlands. These times brought many changes that included the development of different industries. However, Luxembourg mostly remained a country focused on agricultural industries. There were some traditional forges and breweries, but they were spread out and quite small. About one-third of the population moved to France, Germany, or the United States to escape poverty caused by overpopulation.

After enduring domination for centuries, Luxembourg had the challenge of building its own economy. Being a landlocked country without access to the sea, Luxembourg had no other option but to connect with neighboring countries. "In 1842, Luxembourg joined the Zollverein, a German customs union led by Prussia, getting access to the growing German economy. This was a crucial moment in Luxembourg's economic history, leading to the building of railways for better trade connections." (Lehmann, 2020)

As per the article, the start of Luxembourg's industrial revolution happened in the 1840's when iron ore deposits were found in the south of the country. By the 1870's, big foundries and steel mills were built across the "minette" region. However, the Luxembourgish mineral had too much phosphorus because it had low iron content, which was a problem. The introduction of the Bessemer converter in the steel production process made Luxembourg's steel industry internationally known and reduced the reliance on German partners.

Alongside being known for steel production, Luxembourg also gained recognition for exporting roses. Between 1850 and 1900, the country exported nearly six million rose bushes, making it one of the leading producers of quality roses globally. The establishment of ARBED (Aciéries Réunies de Burbach, Eich et Dudelange) in 1911 made Luxembourg one of the world's six largest steel producers by 1914.

This economic change brought demographic shifts, with farmers moving from Oesling to work in the mines which changed social structures. Luxembourg became a country of immigration as local labor wasn't enough. Immigrants from Germany, Italy, and Portugal arrived, initially as temporary workers but eventually contributing to a permanent change in the population. By 1915, immigrants made up 15.3% of the population. (Lehmann, 2020)

It was also highlighted that during the German occupation, strict rationing and inflation caused social discontent, leading to the formation of two trade unions in 1916. However, their impact was limited, as most strikes were brutally suppressed by the German army. After the war, Luxembourg had to end its association with the Zollverein and formed an economic union (BLEU) with Belgium in 1921, continuing its reliance on foreign trade. (Lehmann, 2020)

3.1 From Industry to Finance

In the complex environment of global finance, Luxembourg is an essential player and has a financial sector that has grown exponentially over the decades. As the demands of the financial world evolved and international standards transformed, Luxembourg's financial landscape underwent significant changes. This chapter covers the historical journey, starting with the evolution of Luxembourg's financial

regulatory framework and its international integration from the 1960's to the present day. From the first years of supervision and regulation to the era of crisis management and European integration.

Whereas everything started in the 1940's, the 1950's and 1960's were the truly transformative decades for Luxembourg's financial sector, laying the crucial foundations that would drive it into global prominence. In terms of internationalization, the 1960's were a period of internationalization of the financial center and the establishment of the International Organization of Securities Commissions (IOSCO). Over the years, Luxembourg strengthened its position in the European and global financial arena, navigating through crises and adopting critical European directives and agreements.

The below figure (Figure 2.) highlights the accomplishments of these decades, from the beginning of financial instruments, regulatory advancements, all the way to the internationalization of Luxembourg's financial landscape. From the creation of Luxembourg's first investment fund to the establishment of the Committee of Governors of the EEC Central Banks. These essential milestones laid the groundwork for Luxembourg's emergence and are highlighted below.

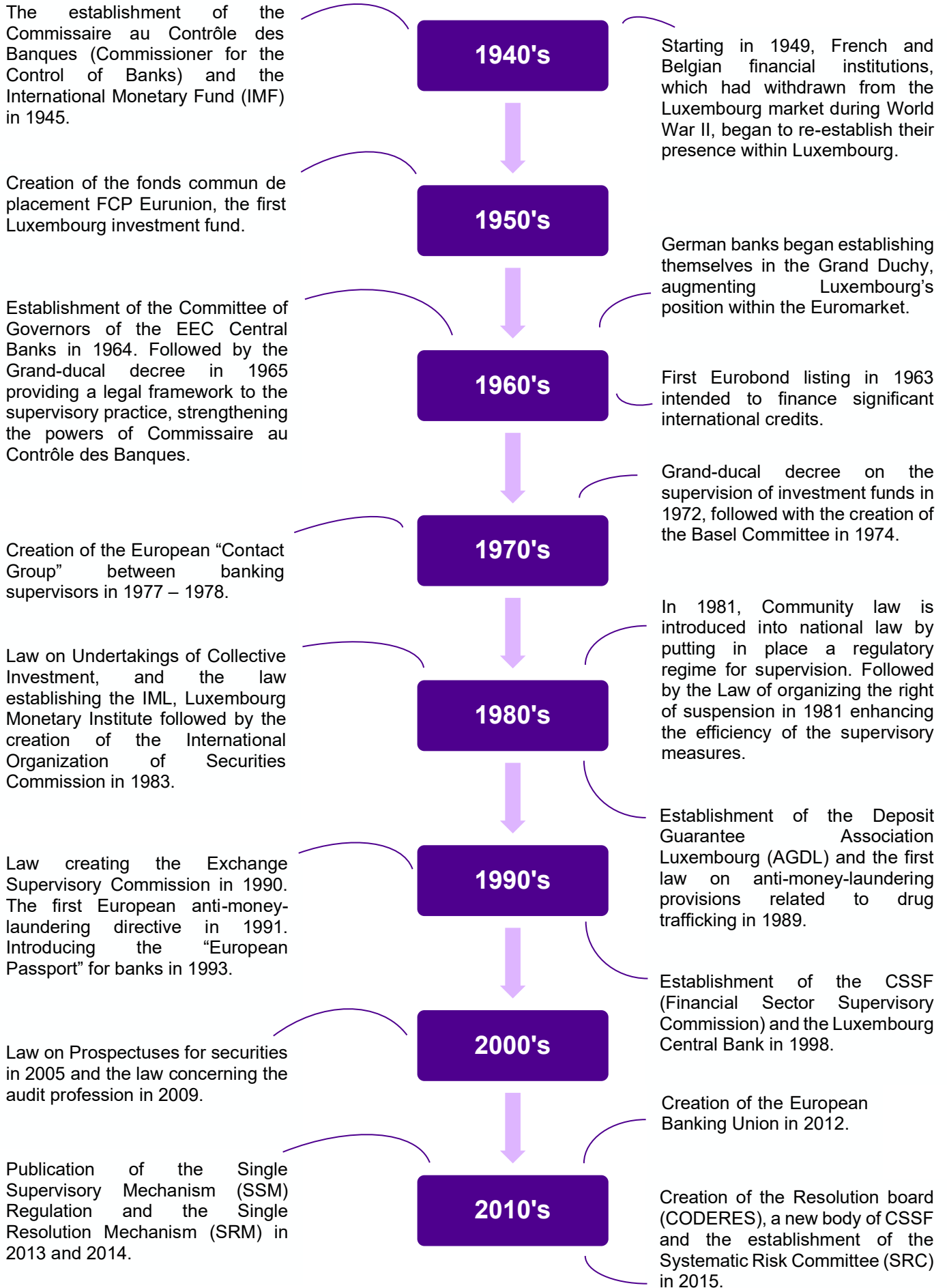


Figure 2. (CSSF, 2023)

3.2 Unveiling Luxembourg's Financial Rise

Luxembourg's emergence as a global financial hub is a result of the combination of multiple factors, each contributing significantly to its success on the international stage. At the core of its rise lies its strategic geographical location within Europe. Located at the crossroads of major European economies, including Germany, France, and Belgium, Luxembourg naturally became a central point for international finance, trade, and investments.

The political stability and well-defined legal framework in Luxembourg have been essential in establishing trust and confidence among investors and financial institutions. The nation's political environment provides a solid foundation, ensuring the rule of law, contract enforceability, and safeguarding of investments. Moreover, its proactive approach to diversifying financial services has been crucial. Luxembourg continuously innovates and expands its financial offerings, extending to investment funds, private banking, insurance, and more recently, the FinTech sector. This diversification has attracted a broad range of investors and businesses, contributing to its financial liveliness.

Historically, Luxembourg's strong bank secrecy and privacy laws have attracted a global clientele, including HNWI's (high-net-worth-individual) and corporations seeking confidentiality and security. This was also highlighted in a publication by Lund University in 2009 where the rationale behind this commitment to this professional confidentiality is rooted in Luxembourg's Constitutional Law, which strongly maintains personal freedom in regulating the interaction between the state and its citizens. Banking confidentiality, which is an extended version of professional secrecy, is a legal principle requiring financial institutions to safeguard entrusted information. The legal provisions safeguarding banking confidentiality are outlined in Article 41 of the Banking Act and Article 458 of the Criminal Code. (Sahlin, 2009)

The powerful fund industry, especially thriving after the introduction of the UCITS directive in 1985 has been a cornerstone of Luxembourg's financial success. This directive standardized investment funds, allowing for their seamless cross-border distribution within the European Union. (LexisNexis, 2023) As a result,

Luxembourg was now able to attract numerous fund managers and investors, further strengthening its position in the global financial landscape.

Furthermore, Luxembourg's talent pool cannot be overlooked. A highly educated and multilingual workforce proficient in various European languages forms the backbone of its financial sector. These international people usually possess remarkable interpersonal skills and are able to operate effortlessly in an international environment. Not to forget about the global mindset that is open to new ideas and able to adapt to different situations. These skills and qualities are things that make applicants attractive to companies, and this diversity also creates a beneficial environment for international business operations further enhancing its appeal to financial institutions and international corporations. As per the "Portail de l'emploi", today, around 70% of the country's workforce consists of immigrants or cross-border workers. Some 200 000 cross-border commuters are working in Luxembourg. Representing 50% of that workforce is France, followed by Belgium (25%) and Germany (25%). 45% of domestic employment is thus accounted for by cross-border workers. There are also some 10 000 international officials and civil servants. (Portail de l'emploi, 2023)

Tax efficiency and beneficial agreements, paired with the integration within the EU have also played a crucial role. Then the country's tax treaties combined with a supportive regulatory environment make Luxembourg an attractive destination for businesses and funds. As stated in an article "Why is Luxembourg so rich: steel, taxes, billionaires" updated in 2023 by Asya Burmistrova and Daria Saltykova; in Luxembourg, the corporate income tax (CIT) rate is relatively low, set at 17% for companies with taxable income over 200 001 euros and 15% for those earning below 175 000 euros. For individuals, the personal income tax is progressive and varies based on income levels and personal circumstances. The SPF status (Private Wealth Management Company) enjoys tax advantages such as exemptions from corporate income tax, municipal business tax, wealth tax, and value-added tax. Companies generating income from intellectual property receive tax benefits, including reduced tax rates and exemptions for IP-related expenses. Highly qualified individuals moving to Luxembourg benefit from reduced tax rates on personal income and exemptions for relocation expenses. The holding company regime provides tax advantages for companies holding

shares in others, encompassing reduced tax rates on dividends and capital gains. (Burmistrova & Saltykova, 2023) The EU membership further positions Luxembourg as a gateway to the European market, promoting easy access to a broad consumer base and seamless financial transactions within the Eurozone.

Lastly, Luxembourg's commitment to infrastructure development and technological advancements, especially in the FinTech domain, ensures it is adaptable and ready for the future. Initiatives like the Luxembourg House of Financial Technology (LHoFT) actively promote innovation, making Luxembourg a FinTech hub. In conclusion, Luxembourg's journey to becoming a global financial hub is a result of adaptability, innovation, and strategic positioning.

4 CURRENT ECOSYSTEM

Hosting a diverse combination of more than 120 international banks representing 25 different countries (Luxembourg For Finance, 2023), Luxembourg has firmly established itself as an essential one-stop destination for global wealth management. Beyond wealth management, it is a center for corporate finance and depositary banking, making it a key player in the whole world of international finance. In this lively financial center innovation is combined with stability, creating an environment beneficial to both innovation-driven growth and secure and stable financial operations.

As stated earlier, Luxembourg stands as a central hub for many international financial institutions, smoothly coordinating cross-border operations including private and corporate banking, fund administration, custody activities, wealth management, and treasury services. Within Luxembourg, a unique ecosystem for the banking industry has flourished. It includes a variety of service providers such as investment services, FinTech companies, family offices, wealth planning, real estate management, and philanthropy. Additionally, it also hosts third-party management firms, international listings (securities), and post-trade services, all supported by the infrastructure and regulatory environment which is crucial for the industry's success. For non-EU banking groups, Luxembourg serves as a gateway to the EU. Institutions from the US, Canada, Switzerland, Latin America, and Asia make use of the benefits of the “passport” for their products and services. This passport grants them entry into the EU single market. Pioneering the way, FinTech giants like PayPal and Rakuten and companies such as SES, Ferrero, Guardian, and Goodyear have established their European banks within Luxembourg. (Luxembourg For Finance, 2023)

Luxembourg's financial center is also a major contributor to the nation's success as a whole. The services the FSI (Financial Services Industry) offers, attract large business investments and capital to the region. This creates a “loop”, attracting even more financial activity, especially fund-based, to the EU. Luxembourg-domiciled funds also dominate international registrations of EU-domiciled funds worldwide, showcasing their appeal over other international centers. This also enhances EU's export earnings and employment growth in the sector.

Furthermore, the financial center plays a key function within the European and global financial system, providing capital and liquidity for economic growth. In a report published in 2017 by Luxembourg for Finance where Oxford Economics explored the contributions of Luxembourg's financial center to the European economy, it was highlighted that the extensive presence of investment funds in Luxembourg leads to substantial deposits in local banks, with 40% of these deposits sourced from other financial organizations. In contrast, the average across other Euro-area banking systems is just under 8%. (Oxford Economics, 2017) This underscores Luxembourg's cross-border role in ensuring liquidity for the broader European banking system. By redistributing these large-scale deposits through interbank loans, banks in Luxembourg support other financial institutions across Europe, allowing them to provide necessary loans to households and businesses throughout Europe.

The Luxembourg financial hub has extensive expertise, offering a diverse range of financial and legal services that cover various jurisdictions and ultimately form the "ecosystem". While Luxembourg is small, this extensive service portfolio positions it as a significant player on the global stage. In the same report published by Luxembourg for Finance it was underscored that in the year 2015, the financial center's export earnings from sales of financial, insurance, and pension services abroad reached an impressive 53 billion euros, constituting 18% of the export earnings for such services across all European nations. (Oxford Economics, 2017) This figure surpassed the combined earnings of Germany and Ireland, further highlighting Luxembourg's economic dominance in this domain.

Given the limited size of the local market, firms have found opportunities for growth by exploring the global arena by offering financial products to an international clientele. For governments and corporations wanting to attract a global investor base, it is essential to be able to operate properly in cross-border environments. Luxembourg's expertise in this matter supports its advantage and attraction. The international workforce within the ecosystem, with a broad range of expertise and language skills, further enhances its ability to serve an international clientele.

4.1 Diverse Service and Product Offerings

Luxembourg has positioned itself as a leader in four key financial sectors. These sectors consist of investment funds, capital markets, banking, and insurance.

Within investment funds, Luxembourg's focused presence offers a reliable and flexible foundation, attracting investors from the EU and beyond. This positioning plays an essential role in attracting investments into Europe from other regions, especially Asia and the US. Funds based in Luxembourg play a crucial role in adding the "finance" into the European economy. They do this by investing in equities and corporate debt across the region. These investments contribute to the economy, providing working capital and funds, therefore supporting growth in EU economies and supporting essential public services.

As highlighted in the above-mentioned report, what really elevates Luxembourg's status is its dominance in the European market for international funds. An incredible 68% of all registrations by EU funds for cross-border distribution in other EU member states were made in Luxembourg. Luxembourg also holds the top position in the creation of investment funds, with 14595 fund units with net assets totaling 3.7 trillion euros at the end of 2016. This accounted for 27% of the total number of funds in the EU and 28% of net assets. These net assets, amounting to 25% of the EU GDP in 2016, underline Luxembourg's massive contribution to the European financial landscape. (Oxford Economics, 2017)

In terms of capital markets, Luxembourg's strength comes from its concentration on firms that provide financial, IT, and regulatory infrastructure. The Luxembourg Stock Exchange, which is well-known as a hub for international bonds, supports capital markets by offering transparency and regulatory compliance. It enables a broad investor base which attracts investors from around the world. As stated by Luxembourg For Finance, "Capital markets play a key role in supporting economic growth by allocating capital to projects that help create jobs, provide public services, build infrastructure, and drive innovation. Luxembourg's capital markets infrastructure and unique international expertise make it the perfect place for companies of all sizes to finance their European and global activities. Continuously driving innovation, Luxembourg has grown to become

an international leader in debt capital, a key hub for securitization and structured finance vehicles, as well as an acknowledged platform for hosting landmark international IPOs. The advantage of the Luxembourg capital markets offering is that it can be used exactly where it is needed and can blend perfectly into an international structure with non-Luxembourg elements.” (Luxembourg For Finance, 2023)

Furthermore, Luxembourg's dominance also extends to the insurance sector. The insurance sector consists of both life insurance and reinsurance services that distribute risk among insurance companies. These firms play a crucial role in managing risk across the continent, offering financially attractive, convenient, and tax-efficient products. This has positioned Luxembourg also as a leading insurance center within the EU. “The insurance industry in Luxembourg fits into a well-established and forward-looking financial ecosystem which is home to a global investment fund industry, a large corporate and private banking centre, one of the main European capital markets infrastructures, and a leading EU FinTech hub. This comprehensive financial sector cluster provides insurance companies not only with on-hand expertise with regards to underwriting, but also helps to support their key investment activities.” (Luxembourg For Finance, 2023)

Last but definitely not least, Luxembourg's banking sector plays a crucial role in enabling transactions and managing deposits for customers globally. The relationship between the banking sector and the center's specialized industries, such as fund management and insurance, enhances the expertise and supports the development of innovative financial products. In conclusion, Luxembourg's expertise in these four areas supported by specialization, innovation, and collaboration, reaffirms its position as a significant player in the global financial landscape.

4.2 The Regulatory Advantage

Luxembourg's regulatory landscape is overseen by the Commission de Surveillance du Secteur Financier (CSSF), which is the primary regulatory authority. The CSSF is responsible for supervising and regulating financial institutions, including banks, insurance companies, investment firms, and other

financial institutions. Its role is crucial in maintaining the stability and integrity of the whole system. Additionally, the guidelines from European Supervisory Authorities, for example the European Banking Authority (EBA), contribute to this framework. (Loyens & Loeff, 2023) These rules are formed in a way that they can be adjusted to fit a bank's size, structure, and the complexity of its operations. Being a member of the EU, Luxembourg also aligns its regulatory standards with EU directives. This alignment enables a smooth operation of activities for financial institutions within the EU.

One great aspect of Luxembourg's regulatory environment is its commitment to international standards and cooperation with organizations such as the Financial Action Task Force (FATF) that leads worldwide efforts to combat money laundering and terrorist financing. As per the website of FATF, this involves “in-depth research into the mechanisms of money laundering and terrorism financing, advocacy for global standards to mitigate associated risks, and evaluation of countries' effectiveness in taking necessary actions.” (FATF, 2023) Luxembourg cooperates with international parties to fight money laundering, terrorist financing, and other financial crimes, showcasing its reputation as a responsible and compliant financial jurisdiction.

In the context of fund management, the regulatory environment for investment funds is exceptionally progressive and the introduction of the UCITS in 1985 was a significant milestone. UCITS provided a standardized framework for investment funds, allowing for easy distribution across EU member states. (James, 2023) Additionally, the AIFMD which was introduced to enhance the oversight of alternative investments, which had been unregulated before the global financial crisis in 2008 - 2009. This directive strives to safeguard investors by establishing guidelines for private capital raising marketing, remuneration practices, risk oversight and reporting, and overall accountability. (Adam, 2021)

The attraction of Luxembourg's financial ecosystem not only lies in its legal and regulatory structure but also in its adaptability and proactivity. These factors are strengthening its position as a dependable and highly respected financial hub on the global stage.

5 INSIGHTS FROM INDUSTRY LEADERS

I had the opportunity to interview the CEO of a Swiss private bank operating in Luxembourg, and a founding member of the Finland Chamber of Commerce in Luxembourg. The core purpose of these interviews was to hear their viewpoints regarding the attractiveness of Luxembourg as a financial hub. Additionally, the aim was to figure out their insights regarding the specific factors that have allowed Luxembourg to get to its current position.

These interviews served as an invaluable source of information, offering unique and detailed perspectives directly from key industry stakeholders. They provided a deep and a comprehensive understanding of the factors that have contributed to Luxembourg's status as a globally recognized financial hub. These insights were essential in supporting my research, providing real-world expertise and knowledge that adds to and enhances the research.

Moreover, it is important to highlight that these interviews not only improved the research but also enhanced its credibility and depth. The experiences, and deep insights shared by these experts' added authenticity and practicality to the research.

5.1 Bank Julius Baer Europe S.A.

Julius Bär is the leading Swiss private banking institution with a rich history dating back to the 19th century. Established in 1890, Julius Bär has evolved into a global leader in wealth management, renowned for its unwavering commitment to providing clients with tailored financial solutions and a world-class banking experience. The uniqueness of the brand is rooted in the focus on pure private banking, with a strong focus on preserving and growing the wealth of its clientele. Julius Bär has earned an outstanding reputation for its financial expertise, dedication to excellence, and a tradition of trusted partnerships. Over the years, the bank has expanded its presence across international financial centres, securing its place as a respected name in the world of private banking and wealth management.

Bank Julius Baer Europe S.A., based in Luxembourg, with branches also in Ireland and Spain, forms an integral part of the Julius Bär Group and is dedicated to providing sophisticated private banking solutions to clients with a nexus in the European Union. Falk Fischer, the Chief Executive Officer (CEO) of Bank Julius Baer Europe S.A. has agreed to share his invaluable insights into the “why’s” of Luxembourg’s success from a private banking perspective. Fischer is a longstanding professional in the industry with prior experience in Commerzbank International S.A., Luxembourg as the CEO and Global Head of International Wealth Management at Commerzbank AG, London, United Kingdom. Fischer is also a Member of the Board of Directors of the Association des Banques et Banquiers, Luxembourg (ABBL), member of the Executive Committee of the Private Banking Group Luxembourg (PBGL) and Chair of the Swiss Banking Group of ABBL. He also holds several Board positions in Belgium, Monaco, and Switzerland.

5.2 Finland Chamber of Commerce in Luxembourg

The Finland Chamber of Commerce in Luxembourg aims to establish a thriving network of Finnish entrepreneurs and business influencers within the vibrant business landscape of Luxembourg. They are committed to facilitating seamless connections and extending support in identifying suitable partners, whether they be of Finnish or Luxembourgish origin, to address any inquiries or concerns associated with international business ventures.

In pursuit of this objective, they actively collaborate with other esteemed business networks, creating valuable partnerships with local companies and organizations headquartered in Luxembourg and Finland. Their collaborative efforts are dedicated to fostering an environment of opportunity and growth, going beyond geographical boundaries, and fostering global business engagement.

I had the pleasure of interviewing Renja Broman, the Vice President and Founding Partner of this business advocacy. Broman has actively engaged in the Luxembourgish business scene for 20 years, establishing herself as a seasoned professional within the international atmosphere of Luxembourg.

5.3 Why is Luxembourg attractive to international players?

As explored throughout the thesis, Luxembourg's appeal to international players is not just a single factor but a blend of various abilities and traits. First of all, Luxembourg's position as a financial hub is strongly connected into its strategic location at the crossroads of Western Europe. At the heart of the continent, Luxembourg serves as a central meeting point for global financial activities, supporting seamless connections in the finance, trade, and investments. Its geographic advantage stands out even more when you consider how close it is to major European economic powerhouses such as Germany, France, and Belgium. Secondly, as stated by Broman, Luxembourg has a vibrant community of international and well-educated residents, contributing to a diverse and dynamic cultural landscape. (Broman, 2023) This multicultural environment not only enhances the international perspective but also creates a talent pool equipped with diverse skills, languages, nationalities, and experiences. In most companies, you will find a person from nearly each European country.

Luxembourg's accessibility and convenience are underscored by the ease with which it connects to and collaborates with these economic giants. This central location not only enhances Luxembourg's visibility on the global financial stage but also enhances cross-border transactions making it an attractive and efficient hub for businesses, investors, and financial institutions. As a result of its location, it transforms into a meeting ground where financial collaboration thrives. In Luxembourg, economic forces come together and they create an environment where financial opportunities are not only accessible but also enriched by the influences of neighboring economies. In a nutshell, Luxembourg's strategic positioning strengthens its role as a bridge between international financial landscapes, creating an environment for collaboration, growth, and innovation.

What is important is the historical progression from an agricultural economy to a thriving financial hub which showcases adaptability and strategic development. Moreover, as highlighted by Broman, Luxembourg's strategic decision to invest in the finance sector has significantly shaped its attractiveness on the global stage. "Recognizing the limitations in traditional industries, Luxembourg proactively transitioned into a hub for financial services, leveraging its

geographical location at the heart of Europe. The decision to focus on finance, rather than traditional production sectors, was a deliberate move that aligned with the changing dynamics of the global economy.” (Broman, 2023)

Fischer summarized the key events that led to the establishment of the financial center in the late 1960's, tracing back to its roots in commercial credit business. “The significant transfer of large loan transactions to Luxembourg during that period was driven by distinct capital requirements on banks, differing from those in their respective countries. This marked the initiation of financial activities in Luxembourg, attracting individuals with financial backgrounds to a landscape that had not previously qualified as a financial center on a larger scale. Subsequently, various sectors of the financial ecosystem, including insurance, fund industry (for which Luxembourg gained renown), and later retail and private banking, gradually integrated into Luxembourg's financial landscape. This evolution unfolded in a staggered approach, commencing in the 1960's with notable advancements in the 1970's, 1980's, and 1990's.” (Fischer, 2023) Fischer also explained that this transformation gave rise to additional industries as well, collectively referred to today as the Luxembourg ecosystem, consisting of law firms, tax advisors, and other entities. “The momentum of this evolution accelerated notably in the 1990's and early 2000's, coinciding with the Treaty of Maastricht signed in 1992. The continuous collaboration with the European Union, coupled with the introduction of the Euro, further fueled this progression. The cumulative effect was the establishment of Luxembourg as a hub where numerous international firms established subsidiaries in banking or the financial industry. Some focused on specific targets such as retail or multinational universal banks with diverse business lines in Luxembourg. Others, like Julius Bär, are a pure private banking institution.” (Fischer, 2023)

Exploring the reasoning behind Julius Bär's decision to establish a subsidiary in Luxembourg rather than other European countries, Fischer outlined their strategic choice. Luxembourg was selected primarily due to the convenience of obtaining a European banking “passport” and access to the EU/EEA market. While alternative locations like Paris, Frankfurt, or even Helsinki would be feasible, Julius Bär's business strategy is based on three worldwide hubs, one of them (Luxembourg) distinctly tailored to engaging with European Union clients.

It's essential to clarify that the objective does not involve targeting clients in specific EU countries, but in selected focus markets. Luxembourg serves as a gateway to international clients across the EU, following a different strategy than local banks in Germany or Finland, where efficient local business with clients is managed on the ground. This specificity enables us to strategically define our markets without scattering our efforts. (Fischer, 2023)

Fischer also highlighted that navigating the complexity of cross-border dynamics is a key challenge – “understanding how to position products and services to comply with regulations and meet diverse client needs. Clients, in turn, gain access to an international portfolio that might be challenging to find locally. Using Finland as an example, where language nuances are crucial despite strong English proficiency, expertise is required across various functions, including compliance, credit, risk, and back-office roles. The entire value chain must comprehend the complexities of conducting international business with clients from specific markets, an aspect often underestimated.

For Julius Bär Group, having the right people in Luxembourg is indispensable. The country's talent pool and attractiveness to international talent are vital. In the case of Finland, it's not just about having relationship managers speaking the client's language and being familiar with the Finnish culture; it involves individuals across diverse roles who understand the market's unique (regulatory) requirements. The clear objective is to develop business with HNWI's and UHNWI's in selected EU countries, offering them an international portfolio through highly sophisticated relationship managers. Intentionally refraining from competing with local banks in our clients' home countries, focusing on providing a distinctive Swiss approach within the European Union.” (Fischer, 2023)

As per Fischer, there are several reasons why Luxembourg evolved into a financial hub, with a primary factor being the inaccessibility of the EU single market for entities outside, such as Switzerland, the UK, and others. “To operate within the European Union, these entities require a presence within its borders, obtaining licenses and establishing offices where they infuse substance and commence operations. While one could opt for major countries like Germany or France and place their license in Frankfurt or Paris once established in the

financial industry, opting for Luxembourg adds an international dimension. Choosing Luxembourg over other locations, like Germany or France, provides a distinct global flavor; being in Germany gives a German flavor, being in France gives a French flavor. This decision-making process encompasses regulatory considerations and extends to engaging local law firms and adapting to language nuances. Luxembourg, uniquely, fosters a genuinely international ecosystem, drawing participants from around the world into its financial hub. Although the business environment in Luxembourg is heavily influenced by the European Union, given its central location within the EU, these examples underscore the necessity of Luxembourg as an entry gate to conduct business effectively within the European Union.” (Fischer, 2023)

Could a Swiss bank establish a presence in Helsinki? Certainly! It's feasible for a Swiss bank to obtain a license in Helsinki since it's in the European Union - why not explore that option? However, the key question arises: what follows? As stated by Fischer; “this is where the unique strength of Luxembourg as a financial hub becomes evident. Finland lacks the specific attributes that make Luxembourg stand out. The pivotal factors include regulatory considerations and the presence of key industry players. Importantly, the availability of a skilled and educated workforce is crucial. Unlike Finland, Luxembourg possesses the necessary ability, skill set, and talent pool, making it an attractive destination, especially for individuals in the financial industry.” (Fischer, 2023) While you can choose to work at a bank in your home country, the key difference is that these businesses are mostly focused on local operations – hence the attractiveness of Luxembourg especially towards younger people looking to work in international finance.

Luxembourg's connection with the European Union provides a strategic advantage, positioning it as a crucial gateway to the broad European market. This unique positioning not only makes it easier to reach a diverse consumer base but also ensures smooth facilitation of financial transactions within the EU. Luxembourg's appeal to international players is highlighted by the convenience it offers in navigating cross-border business operations. The consistent regulatory environment and shared currency within the EU contribute to the overall attractiveness, creating an environment suitable for global collaboration.

When contemplating Luxembourg as a financial hub, a key question arises: how does it compare against the colossal financial center of London, for instance? Fischer summarizes the comparison as “Comparing London to Luxembourg is like comparing apples to pears.” He explained that “while London stands as an expansive international financial center with specific focuses like e.g., investment banking and M&A (mergers and acquisitions) business, Luxembourg excels in the fund business. While parallels can be drawn regarding talent and career development opportunities, a direct content perspective comparison may not be straightforward.” (Fischer, 2023)

As mentioned, London, a significant global financial center, has a strong influence in investment banking and M&A. Its financial system is closely connected to worldwide capital markets, making it a powerful player in high-stakes financial activities. The city's historical importance, combined with a diverse and dynamic financial sector, confirms its position as a top destination for various financial services. On the other hand, Luxembourg excels in the field of funds. Luxembourg has established itself as a leading center for investment funds, especially through structures like UCITS and AIFMD. Luxembourg's advantageous location, regulatory framework, and international perspective have attracted a large portion of the global fund industry.

While both London and Luxembourg are crucial in finance, their specific areas of focus make them different. London's focus on investment banking suits its role as a global financial center that deals with a wide range of financial activities. On the other hand, Luxembourg's expertise in fund management sets it apart, highlighting stability, clear regulations, and international cooperation in the fund industry. Therefore, comparing London and Luxembourg highlights the diversity among financial hubs, each serving particular areas in the broad financial landscape.

Political stability, a careful legal and regulatory framework - these aspects together build trust and confidence among investors and financial institutions. This positions Luxembourg as a secure and dependable destination for financial activities. Political stability is crucial for investor confidence, and Luxembourg showcases a stable governance, predictability, and compliance to the rule of law.

As outlined by Broman, “this stable, business-friendly climate coupled with a smooth bureaucracy environment attracts long-term investments, both domestically and internationally, fostering a sense of assurance.” (Broman, 2023) Luxembourg's well-established legal framework adds to a safe financial environment. The country's dedication to the rule of law guarantees transparency, consistency, and fairness in legal structures, including the enforcement of contracts. This reliability reduces risks, creating an environment where contractual relationships are carried out with confidence and predictability. Luxembourg's commitment to protecting investments is clear in its legal structure, which includes provisions for resolving disputes, regulatory oversight, and mechanisms to safeguard investors. This dedication assures businesses and financial institutions that their interests will be carefully protected within the law.

Beyond these foundational elements, Luxembourg's regulatory framework, overseen by the CSSF, plays a crucial role in ensuring the stability, integrity, and international compliance of its financial system. However, the landscape has undergone significant transformation over the past 15 years, as highlighted by Fischer. In some earlier days, Luxembourg was known as a tax haven or a low-tax jurisdiction. Fischer strongly states that those times are long gone. Broman concurred with the statement, adding that privacy has improved, leading to a more controlled and transparent environment.

“During the period of regularization, there was an expectation of a decline in financial vendors focusing on domestic business. Contrary to expectations, the industry witnessed exponential growth.” (Fischer, 2023) Fischer attributes this to the strategic shift undertaken by many banks, moving away from a reliance on a large number of small clients to a model centered around fewer, but significantly larger clients. “This shift resulted in a fundamental change in private banking in Luxembourg during those years, elevating its position up the value chain. The emphasis shifted to offering tailored services, cultivating quality relationships, and refining strategic wealth management approaches to cater to a clientele with substantially greater assets.” (Fischer, 2023)

In this context, Fischer highlights that the European Union rules and regulations impacting Luxembourg are predominantly formulated in Brussels rather than at

the local level. “The regulatory framework is more European in nature than specific to Luxembourg. While local supervision is under the purview of the local regulator (CSSF), the ability for banks to establish close connections and engage in dialogue becomes crucial. Banks, as key stakeholders, possess the capability to communicate their business models, articulate challenges, propose solutions, and bring awareness to decision-makers.” (Fischer, 2023)

Fischer highlights that “the agility of a small country like Luxembourg comes into play when the local government promptly responds to specific laws, customarily labeled laws, and demonstrates flexibility where necessary. However, the broader regulatory landscape governing how a Swiss bank conducts business within the European Union with European clients is significantly shaped by European Union regulations and directives. Despite this, there exists a link through the ABBL (The Luxembourg Banker’s Association), enabling an information chain to Brussels to make them aware of pertinent issues.” (Fischer, 2023) Fischer also wanted to underscore that the local connectivity is intimate, extending beyond the government and regulator covering the entire ecosystem, including banks, law firms and tax firms. These entities share a common interest in advancing and developing the region further.

Luxembourg's alignment with EU directives and the influence from European Supervisory Authorities, like introducing UCITS and AIFMD, demonstrate its flexibility and dedication to international standards. This approach, blending political stability, legal reliability, and a forward-thinking regulatory environment, not only attracts significant financial entities and investors but also strengthens Luxembourg's standing as a reliable financial center. It is well prepared to navigate the changing challenges of the global financial landscape.

Is Luxembourg exclusively reserved for banks? Not at all! From a business or company standpoint, it's essential to recognize that Luxembourg offers a highly business-friendly climate as stated by Broman. The nation's business-friendly climate is complemented by organizations such as Finance for Luxembourg and Luxinnovation, which actively support companies in navigating the landscape and ensuring a smooth establishment.

The Finland Chamber of Commerce in Luxembourg plays a crucial role in fostering connections and collaborations. Not only does it assist in finding relevant partners, but it also serves as a valuable resource for companies seeking to understand the local business environment. “By facilitating introductions to support organizations like Finance for Luxembourg and Luxinnovation, as well as the Luxembourg Chamber of Commerce, we enable businesses to tap into the extensive network and resources available in Luxembourg. Moreover, the Finland Chamber of Commerce in Luxembourg acts as a pathway to both directions, helping Finnish companies establish a foothold in Luxembourg and vice versa. This relationship enhances economic ties between Finland and Luxembourg, creating a mutually beneficial environment for business expansion and collaboration.” (Broman, 2023)

Broman highlights that their overarching goal is to create a dynamic network of Finnish entrepreneurs and business leaders in Luxembourg. “This network not only provides support for navigating the complexities of international business but also opens doors to potential partnerships and collaborations. By working with other business networks and creating partnerships with local companies, Finland Chamber of Commerce in Luxembourg contributes to the growth and integration of businesses in Luxembourg's thriving business landscape.” (Broman, 2023)

5.4 Challenges and opportunities in maintaining the current status?

Fischer highlights that in today's world, we are experiencing a significant acceleration influenced by digitalization, automation, and visualization, and the financial industry is undergoing the same significant changes.

The financial landscape is facing significant challenges, mainly driven by the increasing pace of digitalization and automation, which impacts every sector. These advanced technologies are reshaping traditional models, bringing in a period where innovation and adaptability become essential for survival and success. As financial institutions navigate this digital revolution, they must embrace new technologies and possibly even redefine business strategies to stay competitive in an increasingly dynamic and connected global economy.

The workforce becomes a central focus in this shift in the way things work, where tasks that are vulnerable to automation, digitalization, or visualization are turning into routine services and are becoming expected offerings rather than value adding services. As pointed out by Fischer, “clients, in particular, anticipate seamless, 24/7 availability without an associated financial burden. Consequently, tasks that resist automation and retain a human-centric element gain increased value. This underscores the indispensable role of the human factor, especially in sophisticated realms like private banking, where personalized relationships are essential. In these domains, client interactions extend beyond digital platforms, emphasizing the importance of a talented and skilled workforce. In the age of information saturation, clients can easily access financial insights and information around the clock at no cost. However, being well-informed doesn't equate to being well-educated. The human touch remains irreplaceable, especially in complex financial matters, where expertise and personalized guidance play a central role. The evolving financial landscape requires a balance between embracing technological advancements and preserving the indispensable human touch in client interactions.” (Fischer, 2023)

Fischer also emphasized the significance of personal relationships in private banking. “If clients recognize the value that a relationship manager, along with various offerings and services, adds to the information, it creates mutual value for both the client and the bank, justifying the client's willingness to pay for it. Despite competing with other financial centers, Luxembourg's appeal may not lie in picturesque landscapes like mountains and beaches compared to other countries such as Zurich, London, or New York. Instead, Luxembourg's strength is rooted in its small size and flexibility, particularly essential in navigating regulatory boundaries, especially with the emergence of new elements like ESG (Environmental, Social and Governance) and sustainable finance. The country's reputation for agility is a crucial asset, allowing it to adapt quickly. While discussions on digitalization and IT are ongoing, being quicker in these aspects is beneficial, yet it alone doesn't define a financial center. These are commodities that support the country's overall development, echoing a similar sentiment in Luxembourg. However, terming them as a competitive advantage is questionable, as they are likely to become commodities in due course.” (Fischer, 2023)

As emphasized by Fischer in the preceding paragraph, the significance of personal relationships continues to grow. According to Fischer, proximity is essential. “Having relationship managers present in the countries where the clients reside through the establishment of local branches creates a closely connected value chain, that is strategically positioned in different countries. The business originators, those in close proximity to the client, operate within the client's country supported by selected local functions. However, critical components such as booking, product and service offerings, regulatory control functions, and audit functions can be centralized in Luxembourg.” (Fischer, 2023)

Fischer stated that “this strategic approach ensures that everything of utmost value remains in close proximity to the client, while the operational backbone is centralized in Luxembourg. Long-term business development cannot rely solely on cross-border operations. To establish a substantial presence in a country and source new business effectively, onshore presence is imperative. Understanding the allocation of different roles is crucial for optimal performance. Business-related functions should be localized, while all other operational aspects can be centralized in Luxembourg. This organizational structure not only ensures proximity to clients but also enhances the quality of services provided, making it an attractive proposition for talent acquisition.” (Fischer, 2023)

“Suppose the goal is to become the premier private bank in Finland with a Swiss background. In that case, it is necessary to have an onshore presence for business functions, while the remaining operational aspects can efficiently operate from Luxembourg.” (Fischer, 2023)

In terms of challenges, Broman highlighted that the high cost of living in Luxembourg poses both a challenge and an opportunity. While it may pose a challenge, it also highlights the country's success and the quality of life it provides. Broman also reflected on a study conducted by Deloitte for Finance for Luxembourg in 2021, where four dimensions emerged as critical to continue creating a valuable proposition for the financial ecosystem.

As the FSI deals with these challenges, it faces a constantly changing situation that requires adaptability and strategic planning. In terms of **internationalization**, “the Luxembourg FSI must keep growing as a cross-border center of excellence that attracts attention from around the world. This helps it stand out from competitors and brings in international investors because of its efficient plug-and-play model.” (Broman, 2023) This means consistently striving for excellence, where Luxembourg's FSI not only meets but goes beyond global standards. It provides a smooth and an effective platform for financial activities. By always improving its capabilities and staying updated with industry practices, the Luxembourg FSI can strengthen its reputation as a preferred choice for international investors.

For **innovation**, as also stated in the study by Deloitte, Broman highlighted that “technology should lead the way in creating new and improved products, services, and models. It needs to be a central part of the FSI's strategy, not just a helper. This means using the latest technologies not only to make things work better but also to change and improve financial products and services. The FSI should see technology as a guide, making important decisions and shaping the overall direction of the industry. By making technology a big part of its plan, the FSI can stay ahead of changes, offering better and more user-friendly solutions that meet the changing needs of investors and clients.” (Broman, 2023)

In terms of **Sustainability**, Broman referred to the study and highlighted “the need for the FSI to become even more influential as the global center for sustainable and impact investing by including models driven by purpose.” (Broman, 2023) This means focusing on sustainable financial and investment approaches that aim for positive impacts. With these “models” driven by purpose, the FSI can play a crucial role in addressing worldwide challenges while promoting positive social and environmental outcomes. Promoting initiatives for sustainable and impact investments will not only attract investors but also enhance Luxembourg's reputation as a leader in responsible and impactful financial services worldwide.

Talent, the fourth and integral aspect, highlights the human dimension that supports Luxembourg's competitiveness as was also emphasized by Fischer.

The pursuit of specialized skills and cross-border expertise requires a holistic approach to talent attraction and retention. “By focusing on building a workforce that matches the changing needs of the financial industry, Luxembourg can make sure there is a continual source of professionals who can lead innovation and address the complexities of the global financial landscape.” (Broman, 2023)

Furthermore, Broman pointed out the shift in the tax landscape, noting that Luxembourg's historical status as the only European country providing tax advantages to companies has changed. All over the world, there have been changes in the tax reforms, making the same rules apply everywhere. Luxembourg used to stand out for its unique offerings, but now it operates in a bigger international setting where tax benefits follow more standard rules. This shift highlights the importance for Luxembourg to rethink what makes it attractive beyond just tax advantages. It should focus on other strengths like its good environment for international business, clear rules, and financial expertise to remain as a great choice for businesses around the world.

As things change, Luxembourg needs to stay attractive to international players. One of its strengths is that it is truly international, creating a diverse and international atmosphere. This not only adds to the culture but also helps the financial system to be strong and adaptable. In addition, the government is committed to investing into the financial sector, showing that they are looking ahead to keep Luxembourg as a major global financial hub. Their ongoing support and planned investments mean they're ready for new trends, new technology, and changes in how things are done in the industry.

However, finding a careful balance between adjusting to global changes and keeping the special qualities that have always drawn international players will be important. Dealing with these dynamics needs a forward-thinking approach, making sure that Luxembourg stays flexible, competitive, and strong in the face of challenges. At the same time, it should grab opportunities for ongoing growth in the ever-changing financial landscape.

6 LUXEMBOURG'S EDGE IN THE FINANCIAL ARENA

As stated, Luxembourg's attractiveness to international players comes from a mix of strategic advantages and unique features. At the heart of its global importance is Luxembourg's strategic position as a financial hub. Situated at the crossroads of Western Europe, the country acts as a central hub for global financial activities, allowing smooth connections in finance, trade, and investments. This geographical advantage becomes even more crucial because Luxembourg is close to the major European economic powerhouses like Germany, France, and Belgium.

Broman's emphasis on Luxembourg's lively community of international and well-educated residents adds an extra element to its appeal. This diverse and dynamic cultural setting not only highlights its internationality but also nurtures a talent pool with a broad set of skills and experiences which are crucial for meeting the diverse needs of the finance sector. The multicultural environment plays a vital role in fostering an atmosphere that encourages collaboration, innovation, and the sharing of ideas.

Luxembourg's role as a strategic link for international financial dealings, as highlighted by Fischer, is a result of its accessibility and convenience in connecting with major economic players. Beyond its geographic centrality, Luxembourg's visibility and significance on the global financial stage are enhanced, making it an appealing and efficient hub for businesses, investors, and financial institutions. Fischer's insights into the historical progression from an agricultural economy to a thriving financial services hub highlight Luxembourg's adaptability and strategic development. As well as his exploration of the establishment of the financial center in the late 1960's and its staggered evolution highlighted the decisions that shaped Luxembourg's financial landscape. Luxembourg's active approach to adapting to regulatory changes, particularly in response to EU directives, shows a dedication to international standards. This contributes to the ongoing growth of its financial system.

Luxembourg's position as a gateway to the European Union for entities outside the EU, was also explained by Fischer, and it emphasized the need for a

presence within EU borders for seamless operations. Choosing Luxembourg over other locations adds an international dimension to financial activities, creating a global financial ecosystem that attracts participants from around the world. His comparison between London and Luxembourg, further highlighted the diversity of financial hubs. While London specializes in investment banking and M&A, Luxembourg excels in the fund business. Both locations play essential roles, specializing in specific areas within the broad financial landscape.

Political stability, a diligent legal framework, and the proactive regulatory environment, as highlighted by Broman, collectively contribute to Luxembourg's reputation as a secure and reliable destination for financial activities. The dedication to the law guarantees transparency, consistency, and fairness in legal structures. This creates an environment where contractual relationships are handled with confidence. Additionally, the regulatory framework plays a crucial role in ensuring the stability, integrity, and international compliance of Luxembourg's financial system. The country's ability to adapt to changing regulatory standards, transitioning from being seen as a tax haven to a more transparent and regulated environment, further demonstrates its commitment to international standards.

7 RECOMMENDATIONS

Even in the face of global challenges, Luxembourg's economy remains stable and resilient. This economic strength emphasizes the importance of preserving and improving the nation's competitive advantages. While the four key themes highlighted by Broman may initially appear as challenges, strategic decisions can transform them into driving forces for growth, steering Luxembourg's financial industry towards a promising future.

Internationalization extends beyond geographical borders, including the establishment of new standards, promoting collaboration, and improving Luxembourg's "plug-and-play" model which has been integral to its financial success. This is a strategic approach for the financial sector to maintain its position as a cross-border center of excellence. By leveraging its strategic location and financial services, Luxembourg has the potential not only to maintain but also to elevate its status as a magnet for global capital. The focus is on maximizing the advantages of its geographical positioning and financial landscape to create an environment that attracts international investors seeking excellence and opportunities.

The focus on **innovation** highlighted technology as a key driver in shaping products, services, and operational models within the FSI. This technology-driven innovation is crucial to the sector's future strategy, highlighting the vital role of technology as a cornerstone in pushing advancements across financial products, services, and business models.

As stated, it becomes evident that digitalization is no longer an option but a mandatory investment for the survival in the financial sector. The effects of the COVID-19 pandemic accelerated digital transformation across the industry, with new modes of operation rising in importance. Even beyond the industry's, technology and digital engagement are seamlessly integrating into consumers' day-to-day lives, becoming unavoidable parts of modern living.

However, despite the "rush" towards innovation, some factors emerge that require careful consideration. The importance of embracing a digital framework

is clear, but not all players in the financial sector might be ready for the changes that these shifts bring. A common approach towards innovation and the response to customers' evolving demands bring obstacles to the seamless adoption of innovative practices. Addressing these challenges is crucial in steering Luxembourg towards an innovative and strong future.

Sustainability also stood out as one of the dimensions, positioning Luxembourg as the global hub for sustainable and impact investing. This commitment involves aligning financial activities with purpose-driven models, emphasizing the need for Luxembourg's dedication to ESG principles. By embracing these models, the financial industry not only contributes significantly to global sustainable development but also reinforces its status in the financial arena. Recent trends support the possibilities for goals focused on sustainability which is driven by the changes in consumer behaviour towards responsibility and the desire for sustainable financial products. At the same time, investors are directing more funds toward sustainable investments, raising expectations for real and actual impact. However, challenges exist. While many in the industry understand the need for change, some can find it challenging to include sustainability in their business operations. As consumers become more and more aware, they expect active involvement from the financial sector in promoting sustainability.

Talent, a crucial aspect, highlights the human factor which is essential for maintaining Luxembourg's competitiveness. Skilled people are crucial for Luxembourg to stay competitive. The country needs specific skills and international expertise, so it's important to be able to attract and develop a workforce that fits the changing needs of the financial industry. For companies this means focusing on building a team with the right skills and international know-how. Luxembourg has to bring in and keep talented people for the sector to grow. A trend influencing the talent landscape is the declining attraction of careers in the financial sector, especially among young professionals. The younger generation is more drawn towards roles that offer an opportunity to make an impact on social issues. Opportunities do exist that are of interest to the young and skilled individuals, particularly in FinTech companies and sustainable finance. It's also essential to note that the FSI is competing with other industries

such as FinTech for basically the same potential hires, which makes the recruitment aspect even more challenging.

The challenges and opportunities as a result of **digitalization** and **automation**, as highlighted by Fischer, emphasize the importance for financial institutions to find a balance between technological advancements and maintaining a personal touch in client interactions. In today's world, clients aren't just looking for financial advice; they also value personalized guidance, emphasizing the invaluable role of human connection. Simultaneously, Broman's insights into challenges such as the **high cost of living** and **international tax reforms** highlight the dynamic landscape faced by Luxembourg.

Financial institutions need to find the right balance between using technology to make things efficient and keeping a personal connection with clients. This is important because while technology can make things easier, it can also take away the personal touch that's important in client relationships. Financial institutions can find this balance by using advanced technology along with personal communication. This could mean using data analysis for personalized communication and AI tools for routine queries. Training employees and educating clients is important in building trust and improving teamwork between tech experts and those in client-facing roles. This way financial institutions can give clients an efficient and personalized experience, even in the middle of ongoing digital changes.

Furthermore, Broman's reference to the changing tax landscape and the need for Luxembourg to redefine its value proposition beyond that landscape reflects a bigger transformation in the international financial arena. Despite these evolving dynamics, Luxembourg's authentic international character remains a strength.

In conclusion, maintaining Luxembourg's appeal to international players requires a balance between adapting to global changes and preserving the unique features that have historically attracted businesses. Navigating these dynamics require a proactive approach, ensuring that Luxembourg remains agile, competitive, and resilient in the face of challenges while making use of the opportunities for growth in the ever-changing financial landscape.

8 CONCLUSION

As stated in the beginning of this thesis, the objective was to understand the reasons that have led to the success of Luxembourg as a financial hub. Moreover, the aim was to not only uncover the reason behind Luxembourg's financial success but also to help gain a deeper understanding of how smart policymaking and regulatory environments can be leveraged to support economic development and grab the attention of international financial players.

Some of the questions that came up during this thesis process are related to the correlation between the size of the country and policymaking. As was highlighted in this research, due to Luxembourg being small and the ecosystem, including policymakers and other decisionmakers, being so closely connected, the implementation of new laws, policies, and other changes becomes more navigable and feasible. For further research it would be interesting to dive even deeper into the coordination between policymakers and institutions.

In terms of limitations of this research it is worth noting that while this research points out and describes the hurdles Luxembourg might face in the future, it is challenging to come up with concrete examples on how to overcome these very specific challenges. It is clear that the complexity of the identified challenges requires a detailed approach. Future research efforts could also explore case studies and real-world evidence in the industry to fill this gap and provide concrete suggestions for effectively dealing with the highlighted challenges.

Luxembourg's journey to becoming a global financial hub is a story of adaptability, innovation, and strategic expertise. Its rise to international success is a result of an interaction between various factors, including the strategic geographical location, political stability, well-defined legal framework, and a commitment to forward-looking financial practices.

Luxembourg's proactive approach in diversifying its financial services, coupled with a rich history of stringent bank secrecy laws, has attracted a diverse range of investors. The multicultural and highly educated workforce further adds to its attraction, creating an environment favorable to international business

operations. Tax efficiency, advantageous treaties, and EU integration further strengthens its position as an attractive destination for businesses and funds, offering a unique mix of financial benefits and easy access to the European market.

Moreover, Luxembourg's forward-looking commitment to infrastructure and technological advancements, especially in FinTech, positions it as a hub for technology-driven financial companies. The ability of a small country to navigate challenges and leverage on opportunities showcase its resilience and vision in the ever-evolving economic landscape.

Luxembourg's appeal lies in its diverse blend of strategic advantages, historical progression, regulatory excellence, and a collaborative international mindset. Operating as a central hub for global financial activities, Luxembourg's success extends beyond its focus on fund management to offering a highly business-friendly climate. The ability of finding the balance between adapting to global changes and preserving unique features will ensure Luxembourg remains a resilient, competitive, and a sought-after player in the dynamic financial landscape.

Luxembourg is a place where money feels at home – a place where even the euros enjoy a cozy spot in the heart of Europe.

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