

Innovation & Retail Products for Sustainable Finance

Outcome Report from the LSFI Working Group

October 2025





Table of Contents

1. About the Report	3
2. About the Working Group.....	4
2.1 Objectives.....	4
2.2 Scope	4
2.3 Timelines and meetings	4
2.4 Members	5
3. Methodology.....	6
3.1 Process followed	6
3.2 Limitations	7
4. Executive Summary	9
5. Introduction to Luxembourg’s Sustainable Finance Landscape	11
6. Sector-Specific Analysis	13
6.1 Analysis of the Insurance Sector.....	13
6.2 Analysis of the Asset Management Sector.....	19
6.3 Analysis of the Banking Sector.....	25
7. Cross-Sectoral Gaps and Barriers	30
8. Recommendations.....	31
8.1 General recommendations	31
8.2 Sector-Specific Recommendations	32
8.3 Stakeholder-Specific Recommendations	35
9. Conclusion	38
10. Appendix	39
10.1 The 3 pillars of the Luxembourg pension system	39
10.2 Main Categories of Sustainable Banking Products	40



1. About the Report

This report focuses on the retail investment landscape in Luxembourg, highlighting the critical yet underutilised role of retail investors in advancing sustainable finance. With the potential to significantly amplify capital flows towards ESG-aligned initiatives, retail participation remains a key opportunity for growth. By assessing the current offerings across the insurance, asset management, and banking sectors, the report identifies key gaps, barriers, and opportunities to enhance retail involvement. While Luxembourg is a global leader in sustainable finance and has launched many pioneering initiatives, much of its financial sector operates internationally, creating a potential disconnect with the domestic market. Engaging local retail investors is therefore essential — not only to align them with the country's sustainability ambitions but also to foster innovation and develop retail-focused sustainable finance products. Empowering individuals to invest in environmentally and socially responsible initiatives strengthens Luxembourg's domestic market and reinforces its global leadership, while building a collective commitment to a more sustainable future.

Note: The terms of policyholders, retail clients, retail customers or retail investors are mentioned several times across the report; they are specific to, or used generally within, a particular sector or an industry. For the insurance sector, we will talk about policyholders, for the asset management sector, it will be retail investors, and for the banking sector, it will be retail clients. Any time we mention retail customers, it will encompass the entire financial industry.



2. About the Working Group

2.1 Objectives

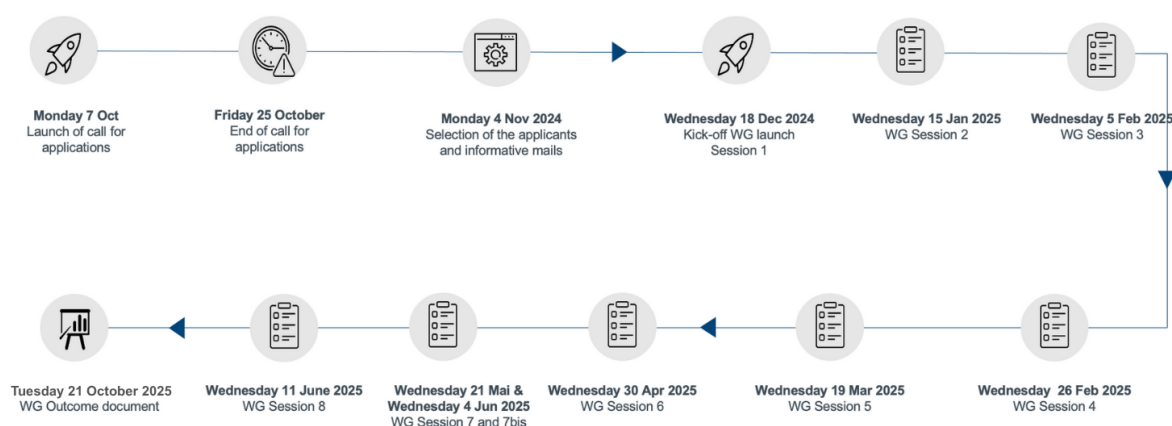
The following objectives have guided the LSFI Innovation and Retail Products for Sustainable Finance Working Group:

- Conduct a comprehensive mapping and assessment of the sustainable investment landscape for retail customers in Luxembourg, focusing on the current product offering across the banking, asset management, and insurance sectors, identifying gaps and barriers
- Benchmark against practices in other relevant European markets, with particular attention to policy mechanisms and incentives—such as tax benefits—designed to encourage retail participation in sustainable finance products
- Explore pragmatic approaches to ultimately unlock the full potential of retail customers' participation by formulating key recommendations to enhance existing offerings and integrate innovative features

2.2 Scope

The analysis of the Working Group has been carried out with a sector-specific approach, allowing for a detailed analysis of the insurance, asset management, and banking sectors separately. Based on available information, the report provides details on products and initiatives available in Luxembourg and abroad, before turning to gaps and barriers the Working Group members uncovered throughout their research. The report concludes with general recommendations to enhance and boost the sustainable financial products available for retail investors and how to facilitate engagement with these retail investors.

2.3 Timelines and meetings





2.4 Members

Following the call for applications and the selection criteria, the LSFI team and the LSFI Board of Directors selected the working group members. This working group has been composed of twelve professionals, including a Chair and Vice-Chair all with relevant experience and expertise in the field who contributed actively and regularly to the objectives of this Working Group. To ensure the neutrality of the members and the quality of the work, each member has signed a Conflict-of-Interest Policy.

- **Ala Presenti**, CFO and ESG Lead, Investre S.A.
- **Alessandra Simonelli**, Group Head of Sustainability, BIL
- **Alexander Wilhelm Lempka**, CEO, Connect Earth Ltd.
- **Cassiopée Robert**, Expert ESG Investments, Banque Raiffeisen
- **Cathrine Foldberg Møller**, Partner, Simmons & Simmons Luxembourg LLP
- **Guillaume Debaue**, ESG Legal Officer, BGL BNP Paribas
- **Julien Froumouth**, Head of Sustainability, Spuerkeess
- **Paulina Arcos Conelli**, Head of Investment Compliance and Operational Risk, Generali Investment Luxembourg
- **Pedro Pinheiro**, Knowledge and Strategic Partnerships Manager, Microinsurance Network ASBL
- **Ruslana Hrischeva**, Local Partner, White & Case
- **Sandrine Chabrierie**, CSR Manager, Foyer Assurances S.A.
- **Vusala Ahmadova**, Conducting Officer Valuation, Vistra Fund Management Luxembourg

Cathrine Foldberg Møller has been appointed as the Chair of the Working Group and Guillaume Debaue as the Vice-Chair.



3. Methodology

3.1 Process followed

At the initial stage of the Working Group's activities, members were divided into three sub-groups. Each sub-group conducted detailed research, including mapping existing products, identifying gaps, and benchmarking against international practices. Data was gathered from member organisations, publicly available sources, and stakeholder consultations. Each of those sub-groups corresponds to a specific sector of the Luxembourg financial sector available to retail investors:

- Insurance
- Asset management
- Banking

The analytical framework focused on examining the current landscape of sustainable retail products across the broader EU and globally, identifying key drivers and obstacles, and using these insights to develop targeted recommendations. Initially, ESG retail products were mapped within each sub-group member's organisation offering, followed by an expanded search covering Luxembourg, the wider European market, and other jurisdictions.

Once the product landscape had been established, further analysis was conducted to pinpoint existing gaps, barriers, and incentives. The Working Group gathered data from respective Members' organisations, where available, and engaged in in-depth research of publicly available information, including ESG-related studies, publications, and statistical data from LSFI reports and other sources covering both Luxembourg and the broader EU, as well as engaging with relevant stakeholders on the ground.

More specifically, the methodology implemented within each subgroup was the following:

For the insurance subgroup, a targeted survey questionnaire to map existing ESG-linked insurance offers in Luxembourg and initiate outreach to the local insurance association (*Association des Compagnies d'Assurances et de Réassurances - ACA*) and the Luxembourg Brokers Association (*Association Professionnelle des Courtiers en Assurances du Luxembourg - APCAL*).

The asset management sector reviewed publicly available information and reports, both in Luxembourg and other EU countries. The sub-group created a detailed Excel table mapping the various investment products and categorised them by ESG pillar, allowing the identification of gaps and opportunities for retail investors.

The Banking sub-group gathered data on sustainable products across different markets, which was included in a dedicated Excel table setting out products according to a specific taxonomy. This table also includes general eligibility criteria for products, countries where the products are offered as well as the relevant ESG pillar. This Excel table has been completed with a list of tax incentives relating to retail sustainable banking products screened from several countries, including Luxembourg.



3.2 Limitations

The findings and recommendations presented in this report are based on the best available data and insights gathered during the Working Group's activities. However, several limitations should be noted, which may impact the comprehensiveness and comparability of the analysis:

- **Data Availability and Granularity**

A significant limitation encountered was the lack of sufficiently detailed and publicly available data, particularly for retail-focused sustainable finance products. While the Working Group relied on publicly accessible information and internal data from member organisations, some of this data was non-public and confidential, limiting its broader applicability. Additionally, certain publicly available data may be outdated or not specifically tailored to retail investors.

- **Sector-Specific Disparities**

The depth and precision of data varied significantly across sectors. For example, while detailed ESG data was available for Luxembourg's fund market, similar levels of granularity were not accessible for the insurance and banking sectors. This discrepancy posed challenges in evaluating the broader market using consistent criteria.

- **Geographical Scope¹**

The analysis primarily focused on Luxembourg and selected European markets. Not all countries were included in the mapping exercise, which may limit the generalisability of the findings. The report's conclusions should therefore be interpreted within the context of the jurisdictions analysed.

- **Evolving Regulatory Landscape**

The regulatory environment for sustainable finance is rapidly evolving, with ongoing changes to frameworks such as the Sustainable Finance Disclosure Regulation (SFDR) the EU Taxonomy, and other subsidies that states could have in place. These developments may affect the applicability of the findings and recommendations over time.

- **Stakeholder Engagement**

While the Working Group engaged with various stakeholders to gather insights, some organisations were unable to share detailed information due to confidentiality concerns. This limited the scope of stakeholder input in certain areas.

- **Retail Investor Focus**

The report primarily addresses the needs and challenges of retail investors. However, the overlap between retail and institutional investment products, particularly in areas like ESG-labelled funds, may introduce complexities that are not fully explored in this analysis. Furthermore, no distinctions among retail investors were made (e.g., High Net Worth Individuals were not considered separately).

¹ The countries analysed are mentioned through the report within each chapter.



- **Asset Management Product Analysis**

The scope of the analysis focuses on UCITS (Undertakings for Collective Investment in Transferable Securities), while Alternative Investment Funds (AIFs) — such as ELTIFs (European Long-Term Investment Funds) — have not been considered.

- **Methodological Constraints**

The methodology employed by the Working Group was designed to provide a high-level overview of the sustainable finance landscape. While this approach allowed for broad coverage, it may not capture all nuances or sector-specific intricacies.

The findings and recommendations in this report are intended to provide guidance and insights for stakeholders in Luxembourg's sustainable finance ecosystem. However, they should not be interpreted as exhaustive or definitive. Readers are encouraged to consider the limitations outlined above and to consult additional sources or expert advice when applying the report's conclusions to specific contexts. The Working Group and the LSFI assume no liability for decisions made based on the information provided in this report.



4. Executive Summary

The LSFI Working Group on Innovation and Retail Products for Sustainable Finance was established to evaluate and enhance the sustainable investment landscape for retail investors in Luxembourg. Recognising Luxembourg's global role in asset management, fund domiciliation, insurance, banking, and sustainable finance, the group set out to explore ways to strengthen and boost the domestic retail investor base.

The group aimed to conduct an in-depth mapping of sustainable retail product offerings spanning across the insurance, asset management, and banking sectors.

The analysis highlights both progress, opportunities, and obstacles. While the ESG (Environmental, Social, Governance) product landscape continues to develop, several cross-cutting challenges remain.

Before turning to sector-specific issues, it is notable that the three core sectors share certain common barriers.

- **Lack of awareness and understanding**, retail customers are often unfamiliar with sustainable products, which results in reduced engagement.
- **Data and technology limitations**: Incomplete or unreliable ESG data and weak digital infrastructure undermine confidence and hinder informed investment decisions.
- **Regulatory complexity**: Divergent national interpretations and evolving legal frameworks create uncertainty and raise compliance costs.
- **Preference for traditional products**: Many clients still perceive conventional financial instruments as safer and more familiar.
- **Low trust in banks**: Especially among younger retail investors, doubts persist about whether institutions truly offer ESG-aligned products.

Beyond the common gaps identified above, sector-specific issues also emerge.

- **Insurance Sector**: Luxembourg's dual-facing insurance market (local and international) is rapidly integrating ESG principles, supported by tax incentives (e.g., Article 111bis)². The country also acts as a global hub for sustainable finance, including financial inclusion and microinsurance, through organisations supported by the government. However, ESG integration remains largely focused on investment functions, with underwriting practices yet to fully implement sustainability criteria.
- **Asset Management Sector**: ESG UCITS (Undertakings for Collective Investment in Transferable Securities) and private market instruments are gaining traction, with Article 8³ products dominating. Nonetheless, transparency and standardisation remain challenges for retail investors to access ESG-labelled products.
- **Banking Sector**: Banks are diversifying sustainable offerings (e.g., green mortgages, mobility loans, ESG-linked savings), though innovation is primarily focused on environmental goals. Socially inclusive products are underdeveloped, and access barriers persist for low-income or less-informed consumers.

² "Insurance premiums that can be deducted when you file your Luxembourg tax return," Foyer Luxembourg, available at <https://www.foyer.lu/en/blog/insurance-premiums-that-can-be-deducted-when-you-file-your-luxembourg-tax-return/>.

³ Article 8 SFDR. Funds that promote environmental or social characteristics.



To address these issues, the Working Group proposes a series of general strategic recommendations:

- **Supporting a smart regulatory approach** - both at the local and EU level - and adjust local regulation to align with national sustainability goals;
- **Simplifying standardised ESG product classifications** to make it more intuitive to the retail investor;
- **Improving access to ESG data** to allow an assessment of sustainability risks and opportunities, and to evaluate both financial and non-financial performance;
- **Improving financial literacy** through targeted educational campaigns, with a focus on digital engagement;
- **Leveraging fiscal policy** to promote ESG-aligned investments such as savings accounts, pensions schemes, or retail investment vehicles;
- **Strengthening public-private collaboration** to co-create innovative products, incentives, and shared ESG investment tools;
- **Expanding and digitalising the distribution channels**, including tokenised⁴ products and embedded insurance models, such as:
 - Travel platforms offering trip cancellation or medical coverage during booking⁵.
 - Ride-sharing apps include accident coverage for drivers and passengers⁶.
 - Smartphone retailers are bundling theft or damage protection with device purchases⁷.
 - E-commerce sites offering return shipping insurance or product protection at checkout⁸.

By developing innovative solutions and fostering a more inclusive and transparent sustainable finance ecosystem, Luxembourg can reinforce its leadership position and align its domestic market with its global ambitions.

The following outcome report offers a comprehensive explanation of the identified challenges and recommendations. It also details the methodology employed by the Working Group.

⁴ From the Cambridge Dictionary: *The process of replacing a private piece of data with a token (= a different piece of data that represents the first one), in order to prevent private information being seen by someone who is not allowed to do so*

⁵ Insurers offer travel insurance directly integrated into flight or hotel booking journeys through partners like Booking.com. Other insurers collaborate with booking platforms to provide personalized coverage at the time of reservation.

⁶ Embedded insurance in ride-sharing or carpooling apps (such as Uber, Bolt, Heetch, etc.) refers to automatic protection included for both passengers and drivers during trips. It is activated as soon as the ride begins and typically covers personal injury, third party liability, roadside assistance, loss of income legal protection.

⁷ Typical coverage in embedded mobile phone insurance: accidental damage, theft, loss, fraudulent use.

⁸ E-commerce, furniture, electronics integrate insurance (extended warranty, purchase protection, cancellation) directly into the purchase journey. Insurance policies included with bank cards are very common.



5. Introduction to Luxembourg's Sustainable Finance Landscape

Sustainable finance has become a cornerstone of global efforts to address pressing environmental, social, and governance (ESG) challenges. As a leading international financial centre, Luxembourg plays a pivotal role in advancing sustainable finance, leveraging its expertise in cross-border operations, fund distribution, and innovative financial products. The country's financial sector is uniquely positioned to drive the transition towards a more sustainable economy, aligning with global sustainability objectives such as the Paris Agreement and the United Nations Sustainable Development Goals (SDGs).

The assessment of Luxembourg's sustainable finance landscape reveals a dynamic and evolving market, marked by significant progress across the insurance, asset management, and banking sectors. Luxembourg continues to strengthen its position as a global hub for sustainable finance, leveraging its expertise in cross-border operations and fund distribution. The growth in sustainability-related financial products reflects increasing demand from both retail and institutional investors, driven by a combination of regulatory developments, consumer preferences, and global sustainability goals.

Despite this progress, several challenges persist. The integration of ESG principles into financial products is advancing, but the focus remains largely on the Environmental pillar, where outcomes such as carbon emissions and energy efficiency are more easily quantified. Socially inclusive products, which address equity and accessibility, remain underdeveloped across sectors. Additionally, gaps in transparency, standardisation, and ESG data availability hinder the ability of investors to make informed decisions and evaluate the impact of their investments.

Retail investor participation in sustainable finance is growing, but awareness and understanding of ESG products remain limited. Many retail customers still perceive traditional financial products as safer and more familiar, which slows the adoption of sustainable alternatives. Furthermore, the accessibility of certain products, such as green bonds and private market ESG investments, is constrained by structural barriers, including high entry thresholds and limited retail-focused distribution channels.

Innovation is playing a critical role in addressing these challenges. Digital tools, such as blockchain, telematics, and "eco-coaching" platforms, are being adopted to enhance efficiency, transparency, and client engagement. However, the uptake of these innovations remains uneven, and their full potential has yet to be realised. Collaboration between public and private stakeholders is essential to co-create solutions that address these gaps and foster a more inclusive and transparent sustainable finance ecosystem.

Luxembourg's sustainable finance ecosystem includes voluntary labelling initiatives designed to enhance transparency and build trust in ESG products. Examples are:

- The **LuxFLAG label**, a Luxembourg initiative distributed internationally. Further to discussions with stakeholders, one recommendation of the Working Group would be to conduct an analysis of the perceived value of the labels and their impact on retail investment decisions. In addition, a support at the state level could allow for enhanced communication and possible expansion of the scope of the label (e.g., for carbon credits).



- The **ESR (*Entreprise Socialement Responsable*) label**⁹, developed by the Institut National pour le Développement durable et la Responsabilité Sociale des entreprises (INDR), offers a comprehensive CSR Framework based on the ISO 26000 standard. It is accessible to all types of organisations and evaluates key areas such as governance, human rights, environmental impact, labour practices, and consumer responsibility.
- The **B Corp certification**¹⁰, promoted locally by Inspiring More Sustainability (IMS) while still relatively limited in adoption within Luxembourg's financial sector, is gaining traction across Europe. It sets rigorous standards for verified social and environmental performance across five core areas: governance, workers, community, environment, and customers.

Together, these labelling initiatives are helping to shape a culture of transparency, accountability, and sustainability within the insurance industry.

Tokenisation presents a forward-looking solution to digitalise the entire investment lifecycle—from investor onboarding to exit. By leveraging blockchain technology, tokenization can streamline processes, reduce costs, and enhance accessibility, with the following key benefits:

- **Simplicity:** Easy for investors to understand and engage with.
- **Cost Efficiency:** Lower fees due to reduced reliance on intermediaries.
- **Disintermediation:** Direct transactions without the need for brokers.
- **Fractional Ownership:** Enables investment in smaller ticket sizes.
- **Improved Distribution:** Easier access compared to traditional regulated markets, where broker involvement is typically required.

Overall, while Luxembourg's financial sector has made significant strides in integrating sustainability, there is a clear need for continued efforts to expand product offerings, improve transparency, and enhance retail investor engagement to fully unlock the potential of sustainable finance.

⁹ Institut National pour le Développement durable et la Responsabilité sociale des Entreprises (INDR). (2024). *Bénéficiaire du label ESR – ENTREPRISE RESPONSABLE*. Available at <https://indr.lu/fr/les-services-aux-entreprises/beneficiaire-du-label-esr/>

¹⁰ IMS Luxembourg. (2024). *B Corp Certification in Luxembourg: Standards, Process, and Support*. Retrieved from <https://imslux.lu/eng/agir/b-corp>



6. Sector-Specific Analysis

This section examines the three sectors covered in the study: insurance, asset management, and banking.

For each sector, there is an overview of the general market landscape as well as the sustainable finance product offering at both the local Luxembourg and European and broader European levels. The analysis highlights key growth figures, documented investor preferences, and the evolution of sustainable strategies.

6.1 Analysis of the Insurance Sector

MARKET OVERVIEW AND KEY TRENDS

The Luxembourg insurance market is distinguished by its international scale and dynamic development. According to the Commissariat aux Assurances (CAA)¹¹, at the end of 2024, total premiums collected by Luxembourg's insurance and reinsurance sector reached €64.0 billion, an increase of +16.1% over the previous year. Life insurance premiums amounted to €29.0 billion (+38.5%), non-life premiums €20.0 billion (+2.0%), and reinsurance premiums €15.0 billion (+1.7%).

Since Brexit, 11 new insurance undertakings have established themselves in Luxembourg, reinforcing the country's role as Europe's largest reinsurance captive centre and a preferred jurisdiction for cross-border business. The CAA highlights that this growth is underpinned by strong solvency positions, digitalisation of supervisory reporting, and rigorous oversight of internal models under Solvency II¹².

The international segment remains dominant: the 2024 figures show that €25.2 billion of life and €18.1 billion of non-life premiums were generated outside the domestic market, while the local market contributed €1.6 billion in life and €1.5 billion in non-life premiums. This market configuration reflects the unique structure of Luxembourg's insurance ecosystem: on one side, an outward-facing model defined by international reach, dynamic growth, and integration into broader European and global financial trends, serving as a key platform for cross-border operations, particularly in life insurance and reinsurance. On the other hand, an inward-facing model that plays a critical domestic role as a major employer and contributor to societal resilience. Precisely because the local market is relatively small, it tends to be characterised by more traditional distribution models and product features, closely tailored to internal demand, including health coverage, savings vehicles, and personal liability products for Luxembourg's diverse population.

To address these different needs from the population, Luxembourg's insurance system is organised into several branches: health and maternity insurance, occupational accident insurance, pension insurance, family allowances and parental leave, and long-term care insurance.

Luxembourg's insurance system, in particular, combines a universal public backbone with a dynamic private market. Employees and self-employed workers are automatically enrolled in the national health fund (Caisse Nationale de Santé¹³ or CNS) and covered by public social security, including health and pension schemes. However, residents, expats, immigrants, and

¹¹ Commissariat aux Assurances. (2025). *Rapport annuel 2024–2025*. Luxembourg. Available at https://www.caa.lu/uploads/documents/files/rapport_annuel_2024.pdf

¹² Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)

¹³ The Caisse Nationale de Santé (CNS) is Luxembourg's national health insurance fund. For official information and online services, visit the National Health Fund website: <https://cns.public.lu/en/>.



refugees typically need a combination of mandatory public coverage and voluntary private insurance products to fully protect themselves and their families¹⁴.

Did you know?

As of the date of this report, the insurance sector encompasses 278 insurance and reinsurance companies, 15,337 people, of whom 4,815 are based in Luxembourg. Operating across 30 distribution markets, the industry paid €348 million in taxes in 2024 (+18.7% year-on-year). Of this, €9 million supported fire and rescue services via a parafiscal charge mandated by a 1905 law. This mechanism reflects a distinctive feature of Luxembourg's approach: recognising insurers as active partners in public safety, given their direct interest in reducing and managing the risks they underwrite.

By funding equipment for fire brigades, training for emergency responders, and maintaining civil protection infrastructure, insurers in Luxembourg help strengthen prevention, preparedness, and rapid response capacity. This role illustrates a broader truth about the insurance industry worldwide: insurance plays a central role in resilience-building by pricing risk, promoting preventive measures, and facilitating access to capital for recovery and rebuilding. Well-structured insurance mechanisms can encourage risk-aware behaviour, channel investment into adaptation, and support long-term strategies to address changing hazards. The sector is shifting from a model focused solely on post-event compensation toward approaches that integrate proactive adaptation and preparedness into its core business.

PRODUCTS OVERVIEW

This section outlines the main categories of sustainable insurance products as well as innovations developed in Luxembourg, while also highlighting relevant international benchmarks from across Europe.

Insurance products focusing on sustainability, climate resilience, and social inclusion directly support the three pillars of Environmental, Social, and Governance by promoting responsible practices, equitable access, and collaborative risk management. Insurance products can be categorised into groups based on the underlying focus. The table below encompasses all the products mapped by the Working Group, and their benefits.

¹⁴ More information on the insurance system and the three pillars of Luxembourg's pension system are detailed in the appendix, chapter 10.1



Type of product	Products used in Luxembourg and abroad	Benefits ¹⁵
Mobility and Usage-Based Insurance	Auto insurance for electric or hybrid vehicles (LU); Low mileage discount products (LU); Insurance using recycled or reused auto parts (LU); Low-emission vehicle insurance discounts (LU); AI-based (telematics) auto insurance Pay-as-you-drive (EU/UK)¹⁶; Embedded insurance bundled with transport services (EU, U.S., APAC, Africa)¹⁷.	Encourage low-emission transportation and responsible driving behaviour; Support the Environmental pillar in ESG by reducing carbon footprints (e.g., electric vehicle coverage, recycled parts); Support Social pillar by offering fair and affordable pricing through usage-based and embedded models; Allow insurers to price motor insurance based on actual driving behaviour, making coverage more affordable, fair, and personalised; Expanding access by meeting customers at the point of need with embedded insurance models, where protection is bundled directly into consumer purchases or services—such as travel platforms, ride-sharing apps, e-commerce sites, or mobile phone contracts.
Digital Health and Wellness Insurance	Digital medical consultation coverage (LU); Cancer diagnosis insurance (LU); Insurance-linked wearables (e.g. step counters, smartwatches), (APAC, U.S., UK, Africa)¹⁸; Mobile health and coaching apps (APAC, U.S.)¹⁹; Premium discounts for achieving fitness or health	Real-time health monitoring, deliver personalised feedback; Enhance access to care and promote healthier lifestyles; Contribute to the Social pillar by improving health equity and outcomes, and to Governance through ethical data use and transparent incentive structures; Insurers are increasingly incorporating wearable devices, mobile health apps, telemedicine, digital coaching, and AI-powered analytics into their offerings;

¹⁵ The benefits listed in the table are not directly matched to each of the products. Instead, they provide a general overview of the overall benefits associated with the full range of offerings.

¹⁶ These models use sensors, mobile applications or on-board data to adjust premiums based on the driver's actual behaviour. In Europe, countries where these models are deployed: Italy, France, Germany, Belgium, United Kingdom.

¹⁷ These insurance policies are integrated directly into services such as car sharing, vehicle hire, or mobility subscriptions. Germany, France, USA, China, Nigeria, Indonesia.

¹⁸ Wearables are increasingly used to personalise insurance and incentivise healthy behaviour. Countries where this is common: Asia (Hong Kong, Singapore, Australia, Philippines and Malaysia), USA, United-Kingdom, South Africa.

¹⁹ These apps offer personalised health guidance and are often bundled with insurance or employer wellness programs. Countries with high usage: China, India, USA.



Type of product	Products used in Luxembourg and abroad	Benefits ¹⁵
Digital Health and Wellness Insurance	goals (APAC, Africa, U.S., UK) ²⁰ ; Coverage for extreme climate-related health conditions (e.g. heat-related illnesses) (APAC, UK) ²¹ .	Open opportunities to create data-driven incentives like premium discounts or rewards for achieving wellness goals; Help insurers manage claims costs, strengthen risk management, and enhance customer loyalty.
Parametric and Index-Based Insurance	Parametric insurance for agriculture (e.g. rainfall or drought triggers) (LU) ²² ; Climate-triggered parametric flood or heatwave coverage; ²³ Index-based business interruption insurance (APAC, LATAM, Africa) ²⁴ ; Support for appropriate management of claims-related byproducts (e.g. disposal/recycling) ²⁵ .	Fast and transparent payouts based on climate indicators, helping vulnerable populations recover more quickly from disasters; Supports the Environmental pillar by strengthening climate resilience, and the Social pillar by protecting at-risk communities from financial hardship; Insurance pays out automatically when a pre-agreed trigger—such as rainfall, wind speed, or temperature thresholds—is reached. This approach is especially relevant in a world of increasing climate volatility, where rapid payouts can help vulnerable populations, governments, and businesses recover more quickly, strengthen resilience, and avoid falling into poverty traps.
Socially Inclusive and Low-Income Insurance Solutions	Products designed for immigrants, refugees, and marginalised communities (LU) ²⁶ ;	Strongly align with the Social pillar by reducing inequality and with Governance through public-private partnerships and inclusive policy design.

²⁰ Premium discounts for achieving fitness or health goals are increasingly offered in several countries, especially where insurers are integrating wellness incentives into their products: India, USA, South Africa, United Kingdom.

²¹ Emerging or experimental product: Japan (heatstroke insurance), India: microinsurance for outdoor workers, United-Kingdom (agricultural heat stress coverage).

²² Payouts are triggered by measurable conditions (e.g., rainfall below a threshold), enabling fast compensation without lengthy claims processes. IBISA offers parametric insurance for agriculture, based on climate triggers such as rain, drought or heat stress. However, these products are not intended for the Luxembourg population but are deployed in developing countries where agricultural populations are particularly vulnerable to climate hazards (Africa, Asia, Latin America, etc.).

²³ Flood Re was established under the Water Act 2014 as a public-private partnership between the government and the insurance industry to ensure affordable flood insurance for households in high-risk areas. It operates as a not-for-profit reinsurance pool and has covered over 560,000 households since its launch. Flood Re is an inclusive insurance initiative that makes flood coverage affordable for low-income households in high-risk areas. It supports climate justice, promotes financial inclusion, and strengthens community resilience in the face of growing climate threats (UK).

²⁴ Parametric insurance pays out automatically when climate thresholds (e.g., rainfall, temperature) are met. These models are especially effective in vulnerable regions, offering rapid payouts and financial resilience (Mexico, Guatemala, Brazil, India, Caribbean, Africa).

²⁵ Some insurers now offer specialised coverage for managing the environmental impact of claims-related waste. In USA, this type of insurance supports responsible claims handling, aligning with ESG goals and circular economy principles.

²⁶ Inclusive coverage models that remove barriers to access, such as documentation or language, and integrate displaced or underserved groups into protection systems (e.g. Rwanda & Ghana, Egypt & Ethiopia).



Type of product	Products used in Luxembourg and abroad	Benefits ¹⁵
Socially Inclusive and Low-Income Insurance Solutions	Special motor and home insurance cover was offered, in the form of a free, time-limited extension, by certain Luxembourg insurers when Ukrainian refugees arrived at the start of the Russian invasion of Ukraine (LU); Insurance products tailored to low-income households (UK, APAC, Africa, LATAM)²³; Microinsurance supported by public-private partnerships (APAC, Africa)²⁷.	

Sustainable insurance products and solutions are helping to address climate risks, promote health and wellbeing, and improve inclusion for vulnerable groups. In parallel, innovative digital tools and new distribution models are transforming efficiency, personalisation, and customer engagement. Together, these developments reflect a sector evolving to meet both societal needs and market opportunities.

OPPORTUNITIES AND CHALLENGES

While the range of sustainable insurance products for individuals in Luxembourg is still under development, the market is showing clear signs of momentum. Growing awareness of ESG issues, driven by changing consumer expectations, regulatory frameworks, and sustainability commitments, is encouraging insurers to explore more integrated and personalised solutions. ESG considerations are being integrated into the design and provision of insurance products through the addition of new guarantees or coverages. The approach taken is not to have two types of products (sustainable vs. non-sustainable) but rather to integrate sustainability into the product itself.

Below are showcased examples of regulatory developments, pension fund strategy, and voluntary and market tools such as labels, enabling this integration:

- Regulation (EU): The tightening regulation (Solvency II framework, guidance from European Insurance and Occupational Pensions Authority (EIOPA²⁸), and other enhanced sustainability disclosure requirements, are requiring insurers to integrate ESG risks into their Own Risk and Solvency Assessments (ORSA²⁹), aligning products with customer sustainability preferences, and disclose ESG integration strategies under the EU's SFDR³⁰ and Taxonomy frameworks. At the same time, the growing popularity of capital-guaranteed products reflects consumer preferences for financial stability in times of uncertainty. This shift is encouraging insurers to design solutions

²⁷ Low-cost insurance schemes co-developed with governments and NGOs to protect low-income individuals from health, agricultural, or climate-related shocks (e.g. India, Kenya, Bangladesh).

²⁸ European Insurance and Occupational Pensions Authority (EIOPA). (2015).

²⁹ *Guidelines on Own Risk Solvency Assessment (ORSA)*. Retrieved from https://www.eiopa.europa.eu/publications/guidelines-own-risk-solvency-assessment-orsa_en

³⁰ SFDR - Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector



that combine security with environmental and social value, strengthening Luxembourg's contribution to sustainable finance.

- Innovation, Artificial Intelligence, and digital technologies: by streamlining underwriting, accelerating claims processing, and reducing paperwork, these tools are transforming the insurance sector and helping to lower its environmental footprint. At the same time, digital distribution channels and partnerships with unconventional agents such as post offices, retail stores, and newsstands are emerging as effective ways to extend the reach of retail insurance products worldwide, especially in underserved markets. This trend is yet to gain significant traction in Luxembourg, where distribution remains largely centred on traditional brokers and agents, though growing consumer digital adoption suggests potential for expansion and local initiatives and players are emerging. A few examples are listed below.
 - *ACA Insurance Innovation Award*³¹: To promote forward-looking practices, the Association of Insurance and Reinsurance Companies (**ACA**) created the *ACA Insurance Innovation Award*, which recognises outstanding initiatives in Luxembourg's insurance and reinsurance industry. The award highlights solutions that improve operational efficiency and customer experience while also advancing sustainability objectives. By showcasing projects aligned with environmental, social, and governance (ESG) principles, it acts as both a catalyst and a benchmark for insurers aiming to embed responsible innovation into their core activities.
 - Use of blockchain: a notable example of innovation in practice is **IBISA**³², a Luxembourg-based start-up that uses blockchain and satellite data to deliver parametric climate insurance in the Global South. The model is fast, transparent, and entirely paperless, offering a blueprint for how technology-driven solutions developed in Luxembourg could inspire future insurance innovation across Europe.
- Microinsurance: Luxembourg's commitment to sustainable insurance extends beyond its borders through strong support for global financial inclusion and resilience. A flagship initiative in this space is the **Microinsurance Network** asbl³³, a Luxembourg-based organisation supported by the Ministry of Foreign and European Affairs and the Ministry of Finance. The Network works to expand access to inclusive insurance solutions for low-income and vulnerable populations across the Global South, addressing both economic and climate-related risks. With a membership of over 500 experts and practitioners from more than 70 countries, including insurers, regulators, donors, and researchers, it fosters international collaboration through knowledge-sharing, capacity building, policy dialogue, and expert publications. The Network plays a critical role in translating sustainable insurance principles into practice in high-risk environments. Complementing this work are other Luxembourg-supported initiatives such as **InFiNe**³⁴ and **ADA**³⁵, which serve as platforms for financial inclusion and development finance innovation. Together, these initiatives illustrate Luxembourg's outward-looking approach to sustainability, strengthening global cooperation and partnerships to build more inclusive, resilient, and climate-ready insurance ecosystems.

³¹ Association of Insurance and Reinsurance Companies of Luxembourg (ACA). (2024). *ACA Innovation Award 2024*. Retrieved from <https://www.aca.lu/en/aca-innovation-award-2024-2/>

³² IBISA Network – Enabling the Next Generation of Insurance for Climate Risk. Retrieved from: <https://ibisa.network>

³³ Microinsurance Network. (n.d.). Retrieved from <https://microinsurancenetwerk.org/>

³⁴ Inclusive Finance Network Luxembourg (InFiNe). (2024). Retrieved from www.infine.lu

³⁵ ADA - Appui au Développement Autonome. (2024). Retrieved from www.ada-microfinance.org



- Fonds de Compensation³⁶: Institutional investors play a pivotal role in driving sustainable finance, and in Luxembourg, the Fonds de Compensation (FDC) represents this role. As the country's national pension reserve fund, the FDC manages surplus assets from the social security system with a long-term perspective that fully integrates environmental, social, and governance (ESG) criteria. Its investment strategy, aligned with the Principles for Responsible Investment (PRI)³⁷ and national and EU sustainability goals, allocates capital across equities, bonds, real assets, and alternatives, aiming to balance financial performance with positive societal impact³⁸. The FDC has emerged as a domestic benchmark for ESG alignment, inspiring similar approaches across Luxembourg's insurance and pensions sector, particularly in financing green infrastructure, renewable energy, and social projects. Complementing this institutional leadership, fiscal policy is also evolving to support sustainability.

6.2 Analysis of the Asset Management Sector

MARKET OVERVIEW AND KEY TRENDS

In general terms, according to EFAMA (European Fund and Asset Management Association), the net assets of European investment funds grew by 13.2% in 2024, reaching a record high of EUR 23.5 trillion³⁹.

This growth significantly outpaced the 8% increase recorded in 2023, reflecting strong investor confidence and robust market performance across asset classes.

The share of investment funds continued to grow steadily, with a notable rise in allocations to equities and bonds. This trend reflects a growing investor preference for funds over direct investments or savings, as funds offer diversification, professional management, and access to global markets, making them a more attractive option for many. Both equity and bond funds experienced strong inflows, but bond UCITS saw higher overall net inflows, while equity ETFs (Exchange-Traded Fund) set new records, reflecting strong investor interest in both segments.

Demand for ESG investments continued its upward trajectory in 2023 and 2024, with European sustainability-related investment funds' net assets increasing by 20.2% to EUR 2.2 trillion⁴⁰, and a strong majority of institutional investors expecting sustainability-related investment allocations to grow further over the next two years⁴¹.

The current landscape of sustainability-related investment funds in Luxembourg also reflects the evolving preferences of retail and institutional investors.

Between H2 2022 and H1 2024, asset under management (AuM) of sustainability-related investment funds domiciled in Luxembourg grew by 12.3 percent, increasing from €2,893

³⁶ Caisse Nationale d'Assurance Pension Luxembourg. *Fonds de compensation*. Retrieved from <https://www.secu.lu/assurance-pension/livre-iii/chapitre-iv-gestion-de-lassurance-pension/fonds-de-compensation>. On 21 May, the Fonds de compensation (FdL) presented its strategy during a Working Group (WG) meeting.

³⁷ Principles for Responsible Investment (PRI). (n.d.). *What are the Principles for Responsible Investment?* Retrieved August 21, 2025, from <https://www.unpri.org/about-us/what-are-the-principles-for-responsible-investment>

³⁸ Fonds de Compensation, Sustainable Investor Report 2024, available at: [Sustainable Investor Report 2024 - Fonds de compensation commun au régime général de pension](#)

³⁹ EFAMA, *Monthly Statistical Release – December 2024*. Available at: <https://www.efama.org/newsroom/news/2024-was-record-year-etfs-and-mmfs#:~:text=Analysing%20the%20data%20for%20December,82%20billion%20in%20November%202024>.

⁴⁰ ALFI, *European Sustainable Investment Funds Study 2024*, <https://www.alfi.lu/en-gb/pages/setting-up-in-luxembourg/responsible-investing/european-sustainable-investment-funds-study-2024>.

⁴¹ Morgan Stanley, *Sustainable Signals: Asset Owners and Managers 2024*, <https://www.morganstanley.com/insights/articles/sustainable-funds-performance-second-half-2024>.



billion to €3,248 billion⁴². Although these funds are domiciled in Luxembourg, they are primarily distributed across the EU and globally, rather than being limited to the domestic market. Luxembourg is the second⁴³.

This growth was partly driven by increasing interest from retail investors, who allocated more capital to ESG strategies. In the first half of 2024 alone, Luxembourg-domiciled ESG-related UCITS recorded €12.6 billion in net inflows from retail clients. Nevertheless, traditional non-ESG funds remained more attractive overall, receiving €22.8 billion in retail net inflows over the same period⁴⁴.

On the institutional side, a net withdrawal of €7.8 billion from ESG-related UCITS in H1 2024 may reflect a strategic reallocation toward ESG-focused private market assets, such as sustainable infrastructure or private equity. While direct data confirming this shift is limited, evidence from recent industry research does support the trend. The *Coalition Greenwich* report titled “*European Institutions Double Down on ESG and Private Markets with Eyes on AI*”⁴⁵ highlights that European institutional investors are increasingly reallocating from traditional ESG-related UCITS into private market ESG assets, driven by both market conditions and regulatory pressures. These investors view less liquid, targeted investments as more effective for pursuing long-term sustainability goals. Additionally, the *BNP Paribas ESG Global Survey*⁴⁶ notes that institutional investors are integrating ESG into private capital strategies to gain greater control and influence over sustainability outcomes.

This reflects a broader innovation trend where alternative asset classes are increasingly aligned with sustainability goals, offering long-term opportunities for both institutional and retail participation. Meanwhile, 68% of Luxembourg-domiciled UCITS now disclose under Article 8 of the SFDR⁴⁷ (financial products that promote environmental and/or social characteristics, provided that the companies in which investments are made follow good governance practices, without requiring sustainability as its core objective). While this marks progress in ESG transparency, ongoing debates and criticism regarding the effectiveness and rigor of Article 8 disclosures highlight the need for continued vigilance to ensure product integrity.

PRODUCTS OVERVIEW

To provide access to a variety of opportunities aligned with both financial and sustainability-related objectives to investors, Luxembourg already offers a wide range of sustainability-related retail investment products that are broadly diversified across sectors, asset classes, and investment strategies.

In terms of sectors, sustainability-related investment funds span a wide range, including⁴⁸:

- Software and services
- Semiconductors and semiconductor equipment
- Capital goods

⁴² Sustainable Finance in Luxembourg 2024, LSFI/PwC. Available at: https://lsfi.lu/wp-content/uploads/2025/01/LSFI_S_1.pdf

⁴³ Association of the Luxembourg Fund Industry (ALFI), *Raising Capital Worldwide*. Available at: <https://www.alfi.lu/en-gb/pages/raising-capital-worldwide>

⁴⁴ Sustainable Finance in Luxembourg 2024, LSFI/PwC. Available at: https://lsfi.lu/wp-content/uploads/2025/01/LSFI_S_1.pdf

⁴⁵ Coalition Greenwich, *European Institutions Double Down on ESG and Private Markets with Eyes on AI* (April 2024). Available at: <https://www.greenwich.com/asset-management/european-institutions-double-down-esg-and-private-markets-eyes-ai>

⁴⁶ BNP Paribas, *ESG Global Survey* (2023). Available at: <https://securities.cib.bnpparibas/app/uploads/sites/3/2023/12/esg-global-survey-consolidated-report.pdf>

⁴⁷ Sustainable Finance in Luxembourg 2024 A maturing ecosystem. Available at: https://lsfi.lu/wp-content/uploads/2025/01/LSFI_S_1.pdf

⁴⁸ Sustainable Finance in Luxembourg 2024 A maturing ecosystem. Available at: https://lsfi.lu/wp-content/uploads/2025/01/LSFI_S_1.pdf



- Pharmaceuticals, biotechnology and life sciences
- Media and entertainment
- Technology hardware
- Healthcare equipment
- Banks
- Materials
- Finance and insurance
- Food, beverage, and tobacco

Regarding investment strategies, the main approaches currently used are⁴⁹:

- **ESG Screening:** The process of evaluating investments based on environmental, social, and governance criteria, to include companies demonstrating strong ESG performance.
- **ESG Exclusion:** The practice of excluding companies or sectors from investment portfolios due to negative ESG factors or involvement in undesirable activities (e.g., fossil fuels, tobacco).
- **ESG Involvement:** Engaging directly with companies to influence their ESG practices and encourage improvements through dialogue and shareholder activism.
- **Impact Investing:** Investments made with the intention to generate measurable social and environmental impact alongside financial returns.
- **Proxy Engagement:** Using shareholder voting rights to influence corporate governance and ESG-related policies at company meetings.

In terms of asset class, Luxembourg's sustainability-related investment offerings include equity, bonds, mixed assets, money market instruments, and other categories. The table provides the main categories of sustainability-related investment products, distinguishing between UCITS funds and private market instruments.

Relative flows in Luxembourg-domiciled UCITS (%)⁵⁰

ESG UCITS Funds		ESG Private Markets	
By Asset Class	By Investment Strategy	By Asset Class	By Investment Strategy
Equity (41%)	ESG Screening Funds (9.2%)	Private Equity (43%)	ESG Integration (82.9%)
Bond (30%)	ESG Exclusion Funds (61.6%)	Private Debt (9%)	Impact (2.9%)
Mixed Assets (14%)	ESG Involvement Funds (29.1%)	Infrastructure (30%)	Microfinance (0.2%)
Money Market (12%)		Real Estate (17%)	Renewables / ET (1.7%)
Other (4%)			Thematic (1.3%)
			Not Clarified (11%)

Within “ESG” UCITS, the asset class distribution is led by equity funds (41%) and bond funds (30%), followed by mixed assets (14%), money market funds (12%), and other instruments (4%). These funds also vary by investment strategy, with the majority (61.6%) employing ESG exclusion strategies, meaning they avoid certain sectors or practices. A smaller share pursues ESG involvement (29.1%), actively engaging with sustainable themes, and 9.2% rely on screening-based approaches.

⁴⁹ Sustainable Finance in Luxembourg 2024 A maturing ecosystem. Available at: https://lsfi.lu/wp-content/uploads/2025/01/LSFI_S_1.pdf

⁵⁰ Sustainable Finance in Luxembourg 2024 A maturing ecosystem. Available at: https://lsfi.lu/wp-content/uploads/2025/01/LSFI_S_1.pdf



In contrast, ESG private markets show a different profile. Private equity (43%) and infrastructure (30%) dominate, with smaller allocations to real estate (17%) and private debt (9%). Investment strategies in this segment are more varied and thematic, including ESG integration, impact investing, microfinance, renewables, and environmental technologies (ET), and other unclarified or emerging models.

This segmentation highlights the different approaches to sustainability across fund structures and reflects the current relatively larger retail investor presence in the UCITS space alongside substantial institutional participation, versus the predominantly institutionally dominated private capital space.

OPPORTUNITIES AND CHALLENGES

- Standardisation and Clarity of Sustainability-related Investment Products

The classification of sustainability-related investment funds domiciled in Luxembourg primarily follows the SFDR framework. This framework establishes three key product categories:

- Article 6 (non-ESG)
- Article 8 (“light green”)
- Article 9 (“dark green”) funds

Among these, Article 8 funds dominate the landscape. Under SFDR, these funds must promote environmental and/or social characteristics without the need for the product to have sustainability as its sole or primary investment objective. Their prevalence may largely be due to their regulatory flexibility and their broad compatibility with a wide range of portfolio strategies. This makes them particularly appealing to both asset managers and distributors.

Nevertheless, many market participants, particularly from the asset management and regulatory communities (including supervisors and industry working groups) in Luxembourg and the broader European markets, have noted that sustainability-related investment products continue to face significant comparability issues. Differences in methodologies, metrics and disclosure requirements across providers create inconsistencies that complicate product evaluation and hinder transparency. This is especially problematic in a cross-border context, where national-level interpretations of SFDR may vary. As a result, retail investors might often feel discouraged by the lack of standardisation and clarity, and this may contribute to rising concerns about the credibility of ESG claims and the potential for greenwashing.

Finally, beyond transparency, sustainability-related investment funds must also continuously demonstrate their financial competitiveness relative to traditional products. This remains a key concern for retail investors, who often associate ESG investments with higher risk or lower performance, despite growing evidence of long-term resilience⁵¹. These perceptions highlight the importance of combining product integrity with accessible information and tailored financial education to support more inclusive participation in sustainable finance⁵².

- Limited Access to Issuance and Accessibility of Green, Social, Sustainability and Sustainability-linked (GSSS) Bonds:

⁵¹ Many report suggest this, amongst them: MSCI: 17 years of MSCI ESG Ratings and long-term corporate performance.

Available at: <https://www.msci-institute.com/themes/risk-return/long-term-corporate-performance/>

Kroll: ESG and Global Investor Returns Study. Available at: <https://www.kroll.com/en/reports/cost-of-capital/esg-global-investor-returns-study>

And EFAMA - Charting the Course: Unlocking Retail Participation in EU Capital Markets. Available at: <https://www.ebf.eu/uncategorized/charting-the-course-unlocking-retail-participation-in-eu-capital-markets/>

⁵² LSFI (2023), “Sustainable Finance and Retail Investor Education”, highlights these challenges.



The market for GSSS bonds has grown substantially in recent years, yet access for retail investors remains very limited.

According to data from the Luxembourg Stock Exchange (LuxSE), only around 5% of total transactions in GSSS-labelled instruments are accessible to retail participants.⁵³ The remaining 95% are directed at institutional investors. This imbalance highlights a structural barrier in sustainable finance markets, where most fixed-income products are designed, marketed, and traded within institutional channels.

In addition to access constraints, data limitations further restrict market transparency. The availability of sustainability-related information (use-of-proceeds, impact reports, or second-party opinions) varies widely across issuers and instruments, which complicates comparability and accountability. Transparency, particularly in terms of data, is essential in sustainable finance, as investors need to understand how their money is being used and whether it is generating a measurable environmental or social impact. When data is missing, incomplete, or inconsistently presented, it undermines both product credibility and overall market trust. A further issue arises when sustainability information is available but reported in non-standard formats, depending on the issuer. This lack of consistency weakens accountability, as investors are unable to verify outcomes, and increases the risk of greenwashing (where products appear sustainable without providing credible or comparable evidence).

Moreover, due to the lack of visibility of the end-investor breakdown, it remains unclear whether some institutional allocations in GSSS bonds may ultimately represent retail capital invested indirectly, for example, through pension funds, insurance vehicles, or pooled ESG products. This opacity clouds the assessment of retail participation. If retail access to GSSS Bonds were to be boosted, the current participation levels must be understood. This is pivotal, as one of the EU's long-term goals is to make sustainable finance inclusive, meaning it should be accessible not only to large institutions but also to ordinary savers and retail investors. If it is not possible to determine actual participation, it is difficult to shape effective policy or track progress.

- Meeting the Expectations of a New Generation:

Today's retail investors are part of a "do-it-yourself" (DIY) generation. They want tools that are fast, intuitive, mobile-first, and meaningful. Their engagement is not solely driven by returns, but also by clarity of purpose and alignment with personal values. For sustainable finance to become truly mainstream, the products must adapt to these expectations.

This means going beyond regulatory compliance and static ESG scores. It means offering investment journeys that are visually engaging, emotionally resonant, and educationally empowering. Investors want to understand not just what they're investing in — but why it matters. They want to see, in their language, how their capital contributes to issues they care about: climate action, gender equality, biodiversity, clean energy, etc.

- The Critical Role of Sustainability Data Providers:

High-quality sustainability data is essential not only to guard against greenwashing but to create a compelling, credible narrative that makes sustainable investing feel tangible and personal.

These partners can help transform ESG data into clear, accessible, and visual experiences for example, through:

⁵³ LuxSE (June 2025) Record listing numbers secure solid 2024 revenues for LuxSE: <https://www.luxse.com/about-us/press-centre/Record-listing-numbers-secure-solid-2024-revenues-for-LuxSE>



- UN Sustainable Development Goal (SDG) Alignment – mapping investments to global goals that resonate with individual values.
- Impact Metrics – quantifying the real-world outcomes of investments in areas such as CO₂ emissions avoided, jobs created, or renewable energy produced.
- Thematic Investing Modules – allowing users to explore themes like clean tech, water security, or circular economy.
- Best-in-Class and ESG Integration Models – helping investors understand how their money supports leaders in sustainability, not just those meeting minimum thresholds.

By embedding this data into intuitive dashboards, investment summaries, and decision-making tools, financial institutions can transform abstract ESG language into something comprehensible by retail investors. For example, showing how a €1,000 investment contributes to the equivalent of removing X cars off the road, or saving Y litres of water, builds trust and motivates action.

Country-Level Findings

From the Working Group's research, the sustainability-related investment landscape for retail clients in Germany remains underdeveloped, especially for small and medium-sized investors. Mainstream banks often lack specialised sustainable investment offerings, or the information they provide is fragmented and insufficient. It was found that pure players (financial institutions whose sole or core business model is the creation, management, and distribution of sustainable or ESG-aligned investment products), by contrast, are more proactive, offering topic-specific ESG equity and fixed-income funds, impact investing portfolios, and other ESG-labelled retail investment products tailored to different sustainability themes. However, low-risk, retail-focused instruments are scarce. Additionally, mainstream financial institutions seldom provide direct access to renewable energy investments, such as wind projects. The lack of standardisation and labelling further reduces visibility and retail confidence, while the institutional focus of most offerings restricts access for everyday investors.

The UK presents a more advanced retail distribution landscape for sustainability-related investment funds. Some existing platforms facilitate connections between wealth managers, financial advisors, and retail investors with an interest in high-quality, impact-driven funds. Such infrastructure facilitates the channelling of private capital into sustainable finance.

Across Europe, a variety of tax-incentivised mechanisms aim to channel retail capital toward sustainable finance. These instruments differ in structure but reflect a broader policy trend to align private investment with environmental and social objectives. In addition, there are significant structural disparities in retail investor participation in capital markets.

In France, several vehicles support long-term and sustainable investing. The Personal Equity Savings Plan (PEA) allows individuals to invest in European equities, including sustainable companies and funds, with income tax exemptions on withdrawals after five years. The Life Insurance Contract (*Assurance-Vie*) offers flexibility to allocate funds to various assets, including ESG-labelled products, and provides tax advantages on gains after eight years.

While the Nordic countries do not currently offer tax benefits exclusively for sustainability-related financial products, retail investors in countries like Sweden and Norway can still access general tax-incentivised accounts. These accounts allow for investments in ESG-oriented products with the benefit of tax-deferred growth, functioning as indirect encouragement for sustainable investing.



Countries that have implemented mandatory or auto-enrolment defined contribution pension schemes, such as Denmark, Estonia, Finland, the Netherlands, Latvia, and Sweden, tend to exhibit much higher levels of retail engagement, as most working-age citizens in these nations invest in financial instruments like bonds or equities rather than relying heavily on bank deposits.

6.3 Analysis of the Banking Sector

MARKET OVERVIEW AND KEY TRENDS

The Luxembourg Banking sector continues to show its strength according to the latest report on the State of the Financial Sector from Luxembourg for Finance⁵⁴. With over 26,000 employees, representing 35,9% of the total financial sector employment in 2024, and a 30% growth in banking assets over the past decade, reaching EUR 957,8 billion, the sector confirms being a cornerstone of Luxembourg's economy.

The banking sector's sustainable product catalogue, both in Luxembourg and beyond, is increasingly diversifying, yet innovation and uptake remain largely concentrated on the Environmental pillar of ESG, where outcomes such as carbon emissions and energy consumption are more easily quantified and aligned with regulatory frameworks. This focus partly reflects the challenges of measuring social impact metrics with similar precision. Alongside product development, retail investment trends are evolving rapidly.

Supporting these market shifts, the OECD International Survey of Adult Financial Literacy (2023)⁵⁵ found that around 20% to 23% of adults across participating countries⁵⁶ are aware of sustainable financial products, although only approximately 2.2% hold such products. Furthermore, the Sustainable Finance Observatory (formerly 2DII)⁵⁷ reports that about 60% of retail investors pursue mixed financial and sustainability goals, balancing financial returns with alignment to personal values and real social or environmental impact. Together, these trends suggest a rising interest in sustainable finance, while also pointing to continuing challenges related to retail investor awareness, product accessibility, and the measurement of social dimensions.

Banks across the EU and the UK particularly show interest in sustainable finance, as they continue to expand their suite of sustainable financial products. They are aiming to capture growing interest from retail clients who wish to align their decisions with environmental or social goals, especially with regard to home renovation and e-mobility. This shift is supported by broader regulatory developments (EU Taxonomy, SFDR, and national-level strategies). The landscape today includes a wide range of offerings (loans, mortgages, savings accounts, credit cards, debit cards, and various advisory and donation-based services), which are often designed around specific sustainability use cases or customer segments. While this evolution is progressive, experts still view the market as fragmented, uneven, and constrained by both demand- and supply-side challenges.

⁵⁴ <https://lff.foleon.com/brochures/state-of-the-financial-sector-2025/>

⁵⁵ Available at: [OECD/INFE 2023 International Survey of Adult Financial Literacy \(EN\)](#)

⁵⁶ Some 39 countries and economies, including 20 OECD Member countries and 8 G20 members

⁵⁷ The 2° Investing Initiative (2DII) is an independent, non-profit think tank working to align financial markets and regulations with the Paris Agreement goals. [Retail Investing Program - Sustainable Finance Observatory](#)



PRODUCTS OVERVIEW

The table below, developed by the LSFI, classifies the main categories of sustainable financial products currently offered by banks to retail clients. It provides an overview across different product categories (e.g., mortgages, loans, credit cards, savings accounts), while also distinguishing between products with Environmental (E) and Social (S) components⁵⁸.

⁵⁸ Classification available for consultation in the appendix, chapter 10.2



Main categories of sustainable financial products

CATEGORY	PRODUCT FEATURES
MORTGAGES	• (E) Price incentives for already energy-efficient homes (often risk-based pricing) • (E) Preferential rates / cashbacks for renovation linked to proof of energy enhancement • (S) Lower / zero interest rates for specific populations (e.g. young, first-time buyers)
RENOVATION LOANS	• (E) Specific loans with competitive rates • (E) Cash back solutions comparable to state aids / incentives
E-MOBILITY LOANS / LEASING	• (E) Competitive rates or cashback • (E) Discounts on insurance policies • (E) Flexible repayment options • (E) Includes charging station • (E) Flexible leasing terms (e.g. adapt duration, swap for newer model, allow upgrades)
PERSONAL LOANS	• (E) Competitive rates for eco-sustainable goods and services or energy qualification (e.g. fridge, bike)
STUDENTS / YOUNGSTERS	• (S) Specific loan with competitive rates
SAVING ACCOUNTS	• (E/S) Competitive pricing and use of funds for sustainable projects • (E/S) NGOs or associations involved in the use of funds or gifted with part of the margins • (S) Higher interest rates for specific populations (e.g. young)
CREDIT CARDS	• (E) Carbon footprint calculations based on spending • (E) Round-up transactions donated to NGOs • (E) Cards made from recycled materials + recycling services • (S) Cards adapted to specific client needs (e.g. handicap, transgender, non-binary)
OTHERS	• (S) Payment accounts for fragile • (E/S) Different additional services proposed such as the round up followed by a donation



The table also points to an evolving strategic orientation among banks: many are moving beyond basic compliance to offer value-added ESG features that enhance client engagement, such as donation-linked roundups or co-branded cards. At the same time, significant barriers remain—many of these products are not widely accessible, and uptake is often hindered by low client awareness, complex eligibility criteria, and limited product availability across markets.

OPPORTUNITIES AND CHALLENGES

- Housing-related products:

A big area of product innovation involves green and sustainable mortgages, which offer preferential interest rates, cashback incentives, and/or reduced fees for properties meeting high energy performance standards or for renovation purposes. These benefits are usually tied to third-party certifications such as Energy Performance Certificates (EPCs). Nevertheless, the eligibility criteria are not internationally harmonised, making it difficult to scale offerings within the single market⁵⁹.

In parallel, renovation loans have emerged to support household investments in energy upgrades (e.g. insulation, efficient heating systems, heat pumps or rooftop solar installations). These may be packaged with mortgages or offered separately. While the incentives (cashback or reduced rates) are attractive, they are often tied to strict technical thresholds, which can limit accessibility. Nonetheless, demand is growing.

- Mobility-related products:

Mobility financing represents another fast-growing segment. Banks now offer loans or leasing agreements for electric vehicles (EVs), e-bikes, and associated infrastructure such as home charging stations. These products often come with preferential rates, flexible repayment structures, and bundled services such as insurance discounts or maintenance coverage. When combined with public subsidies and bonus programs, they offer strong value propositions for environmentally conscious consumers. In some cases, the presence of annex services like charging station installation rebates has proven key in boosting client uptake.

- Social-related products:

Retail banks are also developing targeted products for specific population groups, including students, young professionals, or low-income households. These include personal loans tied to sustainable goods (e.g., energy-efficient appliances or bicycles) as well as basic banking packages with favourable conditions. However, most of these social products remain underdeveloped across the EU and UK. In France, national legislation has helped foster more innovative offerings; some examples might include subsidised savings and credit schemes for social housing or youth financial inclusion.

- Sustainability-related deposits:

On the deposit side, sustainable savings accounts have gained visibility. These products use client funds to support environmental or social projects. Some include transparent reporting tools, ESG metrics, or even digital platforms that offer “eco-coaching” to guide behavioural change. Despite these innovations, their impact remains limited by a lack of standardised measurement frameworks and scepticism around the actual use of funds.

⁵⁹ EeMMIP 2022 Consumer Research Report, Available at: [EeMMIP-2022-Appendix-Summary-Insights-per-country-Green-Mortgage-Propositions-Feb-2022.pdf](#)



- Other possible offers and CSR actions:

Several services now embed sustainability into the broader retail banking experience. These include donation features (notably at sale-level) such as round-up mechanisms (where small change from purchases is donated to NGOs), as well as sustainability-themed advisory sessions. Some banks allow clients to allocate a portion of earned interest towards green or social causes. In Luxembourg and France, collaborative models have emerged, with banks working alongside local foundations to channel savings into initiatives like tree planting or environmental education. These mechanisms provide low-barrier pathways for consumers to support causes they care about while reinforcing the bank's sustainability narrative.

Sustainability is also gradually shaping the operational side of retail banking, though this is often more about CSR than customer-facing benefits. For example, many banks now issue recyclable or recycled-material credit cards and run take-back programs for expired cards as part of broader efforts to make their physical infrastructure more environmentally friendly.

Altogether, the sustainable banking landscape in the EU and UK is maturing, but it remains fragmented. Luxembourg, as a leading financial hub with over 120 active credit institutions, is well positioned to shape the future of sustainable retail banking, broader challenges persist.



7. Cross-Sectoral Gaps and Barriers

A cross-sectional analysis shows that the insurance, asset management, and banking sectors share some of the identified challenges. Despite differences in sector operations and product types, there are common gaps that suggest structural issues. These gaps and barriers lead to uncertainty in all analysed sectors, and with it, hesitation among investors, in particular retail investors.

- A persistent issue across the financial sector is the **lack of awareness and understanding of sustainable financial products**. Many clients are unfamiliar with what these products are, how they work, what they represent, and the impact they can have. Since there is limited knowledge and awareness, there is hampered engagement. The isolated development of sustainable products does not help, as these products are not being fully integrated into the wider financial offering. This fragmented approach leaves these products looking like add-ons rather than core products. This only strengthens the impression that they are niche or optional, rather than a standard part of everyday financial services, and equally important. Among the younger population, while digital literacy is often high, it frequently outpaces financial literacy, resulting in an over-reliance on social media platforms as primary sources of investment advice, sources that may lack accuracy or reliability.
- **Data and technology** represent another barrier. Knowledge and awareness are essential pillars of sustainable finance, and trust is equally as fundamental. The lack of publicly available or reliable ESG data, combined with limited technological capacity to collect, automate, and process such data, is undermining clients' confidence in sustainable investment options. Without transparency and robust infrastructure, trusting these financial products remains difficult.
- **Regulatory complexity** continues to be one of the biggest hurdles to expanding sustainable finance. Even with shared goals and EU-wide frameworks in place, each country still tends to apply rules in its own way. This patchwork of interpretations makes it hard to create common ground and slows progress on standardisation, leading to a scattered environment. On top of this, evolving legal definitions, shifting tax incentives, and increasing compliance costs are coupled with financial compliance costs. Additionally, the regulations are becoming more numerous and complex. For the retail client, the legal environment can feel especially confusing, and figuring out who qualifies for what often feels overwhelming. Suitability tests under rules like MiFID II are hard to navigate.
- **Many clients continue to view traditional financial products as more secure, familiar, and low risk**. Even when sustainable alternatives offer competitive terms, they are often perceived as complicated, high-risk or unfamiliar. This is especially true in mortgage and credit markets, where the stakes are high and consumers are more risk-averse.
- **Trust in banks remains another barrier**. Some clients doubt that financial institutions will prioritise their sustainability values or propose genuinely ESG-aligned products. This is particularly true among younger, socially conscious consumers who may be more digitally literate but less trusting of institutional actors.



8. Recommendations

8.1 General recommendations

- Improving Financial Literacy

Limited financial and sustainability-related literacy among retail investors continues to hinder meaningful engagement with ESG products. The Working Group believes that enhancing education and awareness is essential to support informed decision-making and enable broader retail participation in sustainable finance. Financial literacy could be strengthened through coordinated efforts across schools, universities, public institutions, and financial sector stakeholders in Luxembourg, including for example the Luxembourg Sustainable Finance Initiative (LSFI), the Association of the Luxembourg Fund Industry (ALFI), the Association of Insurance and Reinsurance Companies (ACA), the Luxembourg Bankers' Association (ABBL), the Luxembourg Capital Markets Association (LuxCMA) the Commission for the Supervision of the Financial Sector (CSSF), and the Insurance Supervisory Commission (CAA). In parallel, targeted educational programmes could be developed for retail clients, focusing on the practical aspects of sustainable finance (such as the use of carbon footprint calculators, gamified learning tools, and clear explanations of ESG product features). Promoting good practices and fostering behavioural change is key to building trust and demonstrating the long-term value of sustainable financial products.

Banks and insurers play a key role in promoting sustainable property investments. Financing should be linked to energy-efficient renovations, while insurers can incentivise more resilient rebuilding practices. At the point of sale, standardised renovation cost assessments should be mandated to improve Energy Performance Certificate (EPC) ratings and enable banks to better assess long-term property value and offer targeted financing. Bank staff should continue to receive structured training - not only on ESG principles, but also on the available public incentives, so they can effectively inform and guide clients.

- Enhancing ESG Data Access

Another key priority identified by the Working Group is improved access to ESG data. ESG data refers to information that measures how a company or investment performs in relation to Environmental, Social, and Governance criteria. Such data is indispensable for investors, regulators, and stakeholders, as it helps assess sustainability risks and opportunities and evaluate both financial and non-financial performance. For example, in the real estate sector, implementing a standardised renovation cost assessment could enhance the reliability of Energy Performance Certificate (EPC) ratings and enable banks to more accurately price mortgage loans based on energy efficiency. Overall, ESG data should be given equal visibility and analytical weight as the traditional financial indicators and metrics.

- Simplifying Regulatory Frameworks

From a regulatory standpoint, it is essential to establish a comprehensive and consistent framework that not only provides clarity and predictability for market participants, but also actively enables innovation and supports sustainable investment, products and policies across all sectors of the economy. This framework should go beyond merely addressing regulatory fragmentation; it must facilitate long-term sustainable planning and create a coherent set of expectations for both financial and non-financial actors. This includes ensuring that regulations are proportionate and responsive to the evolving dynamics of sustainable finance and financial products. Importantly, these measures should not address environmental goals in isolation but also integrate social and governance dimensions to support a holistic ESG approach. It



may consist of supporting the proposal to reform Article 111bis of the Luxembourg Income Tax Law by linking tax incentives more directly to sustainable investment. Key measures may also include expanding eligibility to pension products with recognised sustainability labels (e.g. Lux FLAG), doubling the deductible ceiling for savers choosing ESG-aligned options, and allowing ELTIFs to qualify. Renaming the Luxembourg Green Pension Product to the Luxembourg Sustainable Pension Product (LSPP) could further align branding with broader ESG objectives. A smart regulatory approach to sustainable finance, both at local and EU level can allow for greater innovation and sustainable investments across all actors.

- Promoting Public-Private Collaboration

Public-private collaboration is essential across the insurance, investment fund, and banking sectors. Joint initiatives between financial institutions, government, and civil society can help develop shared frameworks, funding schemes and communication strategies that address key sustainability challenges. Financial institutions must be recognised not as the sole drivers of the retail transition, but as critical facilitators. Local associations should be empowered to deliver ESG investment culture initiatives, including annual ESG retail investment days and targeted educational campaigns for adult populations.

Finally, dedicated innovation awards and pilot programmes should continue to showcase and scale solutions that combine operational efficiency with environmental and social value.

8.2 Sector-Specific Recommendations

INSURANCE SECTOR

- Promoting ESG Integration Across Insurance Products and Practices

The Luxembourg insurance sector has made significant strides in integrating ESG principles, particularly in investment functions. However, there is a growing need to extend these efforts into core insurance practices, such as underwriting and claims management. By embedding sustainability into the design and provision of insurance products, insurers can align their offerings with evolving consumer expectations and regulatory requirements. For instance, integrating ESG criteria into underwriting processes can incentivise policyholders to adopt sustainable practices, such as energy-efficient renovations or the use of resilient materials in rebuilding after claims. This approach not only reduces future risks but also supports long-term environmental and social objectives. Furthermore, the development of sustainability-linked guarantees and coverages, such as mobility insurance for electric vehicles or parametric insurance for climate risks, can help insurers address both environmental and social dimensions of ESG. These efforts will position Luxembourg's insurance sector as a leader in sustainable finance, fostering resilience and driving meaningful change.

- Encouraging Innovation in Distribution and Leveraging Technology to Drive Sustainable Insurance Solutions

Encouraging innovation in distribution, including partnerships with digital platforms, retailers, and other non-traditional agents, would expand access to retail insurance and support underserved segments.

Innovation and technology are transforming the insurance sector, offering new opportunities to enhance efficiency, personalisation, and sustainability. In Luxembourg, digital tools such as artificial intelligence, blockchain, and telematics are being increasingly adopted to streamline underwriting, accelerate claims processing, and reduce administrative burdens. These



innovations not only improve operational efficiency but also align with ESG objectives by promoting sustainable behaviours and addressing climate risks. By embracing these technologies, Luxembourg's insurance sector can continue to lead in developing forward-looking solutions that meet both societal needs and market opportunities.

- Enhancing Social Inclusion and Accessibility Through Tailored Insurance Products

The Luxembourg insurance sector plays a critical role in promoting social inclusion by offering tailored products that address the needs of low-income households, refugees, and marginalised groups. These products not only reduce inequality but also align with the social and governance pillars of ESG by fostering financial inclusion and resilience. By continuing to develop socially inclusive insurance offerings, the Luxembourg insurance sector can ensure universal access to protection while addressing the unique challenges faced by diverse communities. The pension system, particularly second and third pillar schemes, represents a key channel for directing retail savings into long-term ESG investments. To boost sustainability in this field, there should be a focus on greater transferability across providers, expanded tax benefits, reduced entry barriers, and an auto-enrolment mechanism.

- Reforming the Article 111 LIR⁶⁰

The Working Group discussed the opportunities for Article 111 LIR to be reformed to strengthen the connection between tax incentives and sustainable investment. These reforms could include expanding the scope of eligible pension products to those carrying sustainability labels such as LuxFLAG, doubling the deductible ceiling to reward savers who choose ESG-aligned options, and including ELTIFs (European Long-Term Investment Fund) to widen access to long-term responsible investment vehicles.

- Renaming of the Luxembourg Green Pension Product

A renaming of the Luxembourg Green Pension Product to the Luxembourg Sustainable Pension Product (LSPP)⁶¹ has also been suggested to better reflect broader ESG objectives. This shift would reflect a growing consensus that tax incentives are not merely tools to encourage savings but can also serve as levers to steer capital toward sustainable economic development.

The Working Group looked at France, which has provided a strong precedent in this space: since January 2024, unit-linked life insurance policies are required to include at least one ESG-certified investment unit, drawing from labels such as ISR, Greenfin, the EU Ecolabel, LuxFLAG, and FNG-Siegel.

ASSET MANAGEMENT SECTOR

- Enhance Transparency and Standardisation of ESG Products

To address the comparability issues and inconsistencies in methodologies, metrics, and disclosure requirements, it is important to ensure consistent application across borders. By improving transparency and standardisation, retail investors will gain greater confidence in the credibility of ESG claims, reducing concerns about greenwashing and encouraging broader

⁶⁰ For a comprehensive description of the three pillars of the Luxembourg's pension system, please refer to the appendix, chapter 10.1

⁶¹ For more information, see the Luxembourg Sustainable Finance Strategy by the LSFI: https://lsfi.lu/wp-content/uploads/2021/02/Luxembourg-Sustainable-Finance-Strategy_EN.pdf.



participation in sustainable finance. With an aligned approach and providing clear, standardised information, asset managers can reduce confusion, enhance product credibility, and mitigate concerns about greenwashing. These efforts will help create a more transparent and accessible market for ESG investments, fostering greater confidence and participation among retail investors.

- Expand Retail Access to Private Market ESG Investments

Given the growing interest in ESG-focused private market assets, such as sustainable infrastructure and private equity, financial institutions could develop innovative solutions to make these opportunities more accessible to retail investors. This could include fractional ownership models, tokenisation of private market assets, and the creation of retail-friendly investment vehicles that align with long-term sustainability goals. By bridging the gap between institutional and retail participation, Luxembourg can further solidify its position as a global leader in sustainable finance. The secondary market can also have an important role to play and sustainable investing could be scaled through ESG-backed structured products (such as asset-backed securities (ABS), mortgage-backed securities (MBS), and collateralised loan obligations (CLOs) – provided sustainable investments can be tracked at the underlying level) to enhance liquidity and broaden access to ESG products. It is essential to present sustainable financial products in a clear, concise, and accessible manner, especially for non-expert clients. This includes reducing the complexity and ambiguity surrounding sustainability features, associated risks, and incentive structures.

- Strengthen Financial Literacy and Investor Education

To support the increasing demand for ESG investments, targeted educational initiatives should be developed to help retail investors understand the benefits, risks, and strategies associated with sustainability-related asset management products. This includes providing clear explanations of ESG screening, exclusion, involvement, and impact investing strategies, as well as offering tools like thematic investment modules and impact metrics. By empowering retail investors with knowledge, financial institutions can foster greater engagement and ensure that sustainable finance becomes more inclusive and accessible.

BANKING SECTOR

- Expanding Sustainable Product Offerings in the Banking Sector

The Luxembourg banking sector has demonstrated significant growth and diversification in its sustainable product offerings, particularly in the Environmental pillar of ESG. Products such as green and sustainable mortgages, renovation loans, and e-mobility financing have gained traction, offering retail clients opportunities to align their financial decisions with environmental goals. Green mortgages, for instance, provide preferential interest rates and cashback incentives for energy-efficient homes, often tied to certifications like Energy Performance Certificates (EPCs). Similarly, renovation loans support household investments in energy upgrades, such as insulation or solar installations, helping clients reduce energy consumption while benefiting from attractive financial terms. Mobility-related products, including loans for electric vehicles and e-bikes, further promote decarbonisation by bundling financing with services like charging station installation rebates. These offerings reflect the sector's commitment to driving environmental sustainability while meeting the evolving needs of retail clients. The Banking Sector should continue to focus on the specific needs of the retail investor.



- Addressing Social Inclusion Through Banking Products

While the Environmental pillar has seen significant progress, the Social pillar remains underdeveloped in Luxembourg's banking sector. Socially inclusive products, such as loans for low-income households, students, and young professionals, are still limited in scope compared to other countries. For example, personal loans tied to sustainable goods, such as energy-efficient appliances or bicycles, and basic banking packages with favourable conditions for vulnerable groups, are available but not widely adopted. In other countries, such as France, subsidised savings and credit schemes for social housing or youth financial inclusion have set a precedent for innovative social products. Luxembourg's banking sector has the potential to expand its social offerings by developing targeted solutions that address financial inclusion and equity. By doing so, banks can align with the Social pillar of ESG and contribute to broader societal goals.

- Leveraging Innovation to Enhance Client Engagement and Sustainability

Banks should actively adopt and expand the use of digital tools and platforms to improve client engagement and promote sustainable financial behaviours. This includes integrating features such as transparent ESG reporting, impact metrics, and "eco-coaching" platforms that guide clients toward more sustainable choices. Additionally, banks should embed sustainability into everyday banking experiences by offering donation-linked mechanisms, such as round-up transactions where small change from purchases is donated to NGOs, and by providing sustainability-themed advisory sessions. On the operational side, banks should continue adopting environmentally friendly practices, such as issuing recyclable or recycled-material credit cards and implementing take-back programs for expired cards. These measures not only enhance the customer experience but also align banking operations with ESG principles, fostering trust and engagement among retail clients.

8.3 Stakeholder-Specific Recommendations

FOR THE STATE AND REGULATORS

- Simplify and Harmonise Regulations

To simplify and harmonise regulations, regulators must focus on reducing regulatory fragmentation and ensuring the consistent application of EU-wide frameworks such as the Sustainable Finance Disclosure Regulation (SFDR) and the EU Taxonomy. By aligning national interpretations and streamlining compliance requirements, regulators can create a more predictable and accessible environment for market participants. This harmonisation will not only lower compliance costs but also enhance transparency and comparability across sustainable finance products, fostering greater trust and engagement from retail investors. A unified regulatory approach will enable financial institutions to innovate and scale ESG products more effectively, ultimately supporting the broader goals of sustainable finance.

- Support Innovation

To support innovation, regulators can provide targeted incentives that encourage digitalisation, tokenisation⁶², and the development of innovative ESG products. By fostering the adoption of technologies such as blockchain and digital platforms, regulators can enable the creation of more accessible and efficient investment solutions, such as tokenised ESG products and fractional ownership models. These incentives could include financial support, tax benefits, or



streamlined regulatory pathways for innovative projects. Such measures would not only reduce barriers to entry for retail investors but also drive the growth of a more inclusive and technologically advanced sustainable finance ecosystem.

- Strengthen Tax Incentives

The Working Group believes that Luxembourg's existing tax incentives and subsidies for sustainable retail investments must be preserved and strengthened. A clearer case must be made for the societal benefits of sustainable finance, and new incentive mechanisms could be introduced. These could include, for example, cashback offers, preferential pricing, or sustainability-linked savings schemes, such as a Luxembourgish equivalent of France's Plan d'Épargne en Actions (PEA), to encourage uptake and behavioural change.

Public support may also extend the scope of special expenses deductible under Article 111 LIR to include insurance products that promote soft mobility, such as bicycle insurance, accident coverage for cyclists, and carpooling insurance. This would align fiscal incentives with Luxembourg's sustainable transport and environmental objectives, while encouraging broader adoption of low-emission mobility solutions. Furthermore, this could include expanding the scope of eligible pension products to those carrying recognised ESG labels, such as LuxFLAG, to encourage retail investors to choose sustainable options. Additionally, increasing the deductible ceiling for contributions to ESG-aligned pension products would provide stronger financial incentives for savers.

These measures would not only promote long-term responsible investment but also position Luxembourg as a leader in integrating sustainability into its fiscal policies, driving greater retail participation in sustainable finance.

FOR FINANCIAL INSTITUTIONS

- Enhance Client Engagement

To enhance client engagement, financial institutions must prioritise equipping their staff with a deep understanding of ESG principles and the public incentives available to clients. By providing structured training, staff can effectively guide retail investors through the complexities of sustainable finance, ensuring they are well-informed about the benefits, risks, and opportunities of ESG products. Additionally, institutions could focus on creating visually engaging and educational investment journeys that resonate with retail investors' values. This includes using intuitive dashboards, personalised impact metrics, and storytelling techniques to demonstrate how investments align with sustainability goals. By aligning their approach with the expectations of modern retail investors, financial institutions can build trust, foster long-term relationships, and encourage greater participation in sustainable finance.

- Expand Product Offering and Digitalisation

There is also an urgent need to digitalise the entire retail investment value chain (from onboarding to registration and distribution) to maintain Luxembourg's competitiveness as a global financial centre. This includes promoting end-to-end tokenisation to reduce costs, enabling fractional ownership, and improving access for retail investors through smaller ticket sizes and streamlined distribution channels. Regulators can support this shift with targeted incentives.

While the traditional banking sector continues to play a key role in distributing sustainable finance products, a new wave of digital-first financial platforms is rapidly gaining traction



across Europe. These emerging players offer a new channel, and this transformation is especially relevant for sustainable finance. Platforms built on transparency, simplicity, and personalisation are uniquely positioned to bridge the gap between sustainable investment products and the everyday retail investor — from first-time Gen Z investors to more experienced, value-driven savers.

- Collaborate with Stakeholders

Collaboration between public and private entities is essential to drive innovation and expand the availability of ESG products. By working together, stakeholders can co-create innovative financial products, develop targeted incentives, and design shared ESG investment tools that align with both market needs and sustainability goals. Public entities, such as regulators and government bodies, can provide the necessary frameworks, tax incentives, and policy support, while private institutions, including banks, insurers, and asset managers, can leverage their expertise to design and distribute these products effectively. This partnership can also foster the development of tools like standardised ESG data platforms, tokenised investment solutions, and inclusive financial products that cater to diverse retail investor needs. Such collaboration ensures that sustainable finance becomes more accessible, transparent, and impactful, ultimately contributing to a more inclusive and resilient financial ecosystem.

FOR RETAIL INVESTORS

- Increase Awareness and Education

As a retail investor, it is essential to take proactive steps to inform yourself about sustainable finance products and opportunities. Begin by familiarising yourself with the basics of Environmental, Social, and Governance (ESG) principles and how they apply to financial products. Seek out reliable sources of information, such as educational campaigns, tools, and resources provided by financial institutions, public authorities, and independent organisations. Use tools like carbon footprint calculators, gamified learning platforms, and thematic investment modules to better understand the impact of your investments. Additionally, ask your financial advisor or bank for clear explanations of ESG product features, associated risks, and potential benefits. By staying informed, you can make confident, value-aligned decisions that contribute to both your financial goals and broader sustainability objectives.

- Use of Digital Platforms to access ESG Products

As a retail investor, leveraging digital platforms can significantly enhance your access to ESG products and simplify your investment journey. Digital platforms often provide user-friendly interfaces, personalised dashboards, and tools that make it easier to explore and invest in sustainable finance products. Look for platforms that offer transparency, such as detailed ESG metrics, impact reports, and alignment with global sustainability goals like the UN Sustainable Development Goals (SDGs). These platforms can also provide features like thematic investment modules, carbon footprint tracking, and real-time updates on the performance and impact of your investments. By using digital platforms, you can access a wide range of ESG products, including tokenised investments, fractional ownership opportunities, and innovative financial tools, all tailored to your values and financial goals. Embracing these technologies allows you to make informed, impactful decisions while enjoying the convenience of modern digital finance.



9. Conclusion

Luxembourg's financial sector has demonstrated its capacity to lead in sustainable finance, with significant progress in the development and distribution of sustainability-related products across the insurance, asset management, and banking sectors. The country's role as a global hub for cross-border operations and fund distribution has enabled to attract both retail and institutional investors seeking ESG-aligned financial solutions. However, the analysis highlights that while the Environmental pillar of ESG has seen substantial advancements, the Social and Governance dimensions require further attention to ensure a more balanced and inclusive approach. Addressing gaps in transparency, standardisation, and accessibility will be critical to fostering trust and encouraging broader participation in sustainable finance.

To fully realise the potential of sustainable finance, Luxembourg must continue to innovate and collaborate across sectors. This includes leveraging digital tools to enhance client engagement, expanding socially inclusive product offerings, and improving financial literacy among retail investors. Public-private partnerships will play a pivotal role in co-creating solutions that address structural barriers and align with global sustainability goals. By building on its existing strengths and addressing the identified challenges, Luxembourg can solidify its leadership position in sustainable finance while fostering a more inclusive and resilient financial ecosystem.

The LSFI stands ready to support these efforts through knowledge-sharing, stakeholder coordination, and strategic partnerships.



10. Appendix

10.1 The 3 pillars of the Luxembourg pension system

Pillar 1: statutory Social Security Retirement:

The first pillar of the pension system in Luxembourg is a public pay-as-you-go pension scheme. Administered by the Social Security system, it is mandatory for all employees, self-employed persons, and civil servants in Luxembourg.

This system is based on solidarity between generations. Contributions from current workers finance the pensions of retirees. It is financed by social security contributions, which are deducted from the income of workers and employers, as well as by a contribution from the Luxembourg State.

To bridge coverage gaps and provide added protection, private insurers offer complementary health plans (pillars 2 and 3).

Pillar 2: supplementary company pension

The second pillar is a supplementary pension scheme offered by some companies in Luxembourg. The IGSS (*Inspection générale de la sécurité sociale*) identified 2,053 active plans as of December 31, 2022, amounting to 6.20% of employers offering those plans to their employees.⁶³ This system is optional and aims to supplement the benefits provided by the first pillar, especially for employees who wish to improve their pension.

From a tax perspective, provisions, insurance premiums, and contributions required to finance supplementary pensions are taxable as benefits in kind derived from employment. This benefit is subject to a flat-rate tax of 20% by way of withholding tax payable by the employer. This tax is final for employees. Therefore, they do not have to report these contributions or the tax withheld by the employer on their income tax return.

Employees' personal contributions to an employer-sponsored supplementary pension plan are deductible as special expenses, up to a maximum of €1,200 per year. These contributions can be withheld directly from the employee's net salary, allowing the full deduction to be applied through the employer's payroll process.

Pillar 3: individual retirement savings products (Article 111bis):

Life insurance, though not compulsory, is popular among residents of Luxembourg. Luxembourg life policies allow investment in a broad range of assets. Insurers, agents, and independent brokers highlight these advantages. Luxembourg's life insurance culture is directly reinforced by fiscal incentives that make this product an attractive financial planning tool. Under Article 111bis of the Luxembourg Income Tax Law, individuals can deduct up to €3,200 per year from their taxable income when contributing to qualifying life insurance or private pension products, effectively returning up to 40 – 45% of the premium in tax savings.

⁶³ IGSS. (2024). *Cahier statistique n° 16: Les régimes complémentaires de pension* (pp. 7–8). Luxembourg: Inspection générale de la sécurité sociale. Retrieved from <https://igss.gouvernement.lu/dam-assets/publications/aperçus-et-cahiers/cahiers-statistiques/cahier-statistique-no16.pdf>



Life, death, accident, disability, sickness and civil liability insurance

The CNS manages health, maternity, and long-term care coverage. All workers in Luxembourg, including expatriates, contribute to the CNS, which reimburses around 88% of medical costs. Non-EU nationals must provide proof of private health insurance to obtain a residence permit, while asylum seekers initially receive state-funded care before being integrated into the CNS system.

To close coverage gaps and provide additional protection, private insurers offer complementary health plans. Certain insurance premiums are tax-deductible under Article 111 of the Luxembourg Income Tax Law, including:

- **Life insurance:** policies with a minimum term of 10 years.
- **Civil liability (CL):** only the CL portion of the premium, whether linked to a motor or home policy.
- **Accident, disability, and sickness insurance:** when paid to recognised mutual benefit societies.

Premiums covering material risks—such as theft, fire, broken glass, or vehicle collision—are not deductible.

Liability insurance in Luxembourg includes both mandatory and voluntary coverage. Third-party motor liability insurance is compulsory for all drivers, including expatriates. Personal liability and home insurance are not legally required but are often mandatory in practice, as mortgage lenders and landlords typically insist on adequate coverage. Many insurers offer bundled home, contents, and liability packages, combining protection against risks such as fire, water damage, theft, and accidents.

10.2 Main Categories of Sustainable Banking Products

This framework reflects the financial sector's dual responsibility to support the green transition and promote financial inclusion.

1. Mortgages

- (E) *Price incentives for already energy-efficient homes:* Mortgages with lower interest rates when the property is already certified as energy-efficient (e.g., energy label A). These may involve risk-based pricing tied to the home's energy performance.
- (S) *Lower/zero interest for specific populations:* Social sustainability is addressed through targeted rates for vulnerable groups, such as first-time buyers or young households, aiming to improve access to housing finance.

2. Renovation Loans

- (E) *Specific loans with competitive rates:* These loans are tailored to energy-efficient renovations (insulation, heating systems, etc.). Incentives are provided for borrowers who commit to improving energy performance, usually with proof (e.g., Energy Performance Certificate).
- (E) *Cashback solutions comparable to state aid/incentives:* Banks provide cashback solutions to clients, making private finance more accessible for renovation projects that reduce energy consumption.

3. E-Mobility Loans / Leasing

- (E) *Competitive rates or cashback:* Discounts or cashback options for financing electric vehicles (EVs), promoting decarbonisation of transport.



- (E) *Discounts on insurance policies*: Preferential insurance premiums linked to electric vehicle loans to reduce the total cost of ownership.
- (E) *Flexible repayment options*: Accommodating repayment schedules or terms (e.g., longer durations) to support uptake.
- (E) *Charging station included*: Some offers bundle vehicle financing with home charging station installation, addressing infrastructure barriers.
- (E) *Flexible leasing options*: Allow for the adjustment of terms based on the evolving market for electric vehicles (adapting duration, exchanging vehicles for newer models, allowing upgrades).

4. Personal Loans

- (E) *Competitive rates for eco-sustainable goods and services or energy qualification*: Loans for purchasing low-carbon household goods (e.g., energy-efficient fridges, bikes, or LED lighting) often come at lower interest rates to encourage responsible consumption.

5. Students / Youngsters

- (S) *Specific loan with competitive rates*: Socially inclusive products offering preferential terms to young borrowers, typically with no or low collateral requirements. These aim to improve youth financial independence and access to credit, especially in contexts where financial inclusion is limited.

6. Saving Accounts

- (E/S) *Competitive pricing and use of funds for sustainable projects*: Banks invest savings in sustainable projects.
- (E/S) *NGOs or associations' involvement in the use of funds*: NGOs or charities may be involved in fund allocation or part of the interest may be donated or shared. This creates a hybrid ESG model—where both environmental and social impact are achieved.
- (S) *Higher interest for specific populations*: Special terms for young savers or low-income groups promote inclusive financial access and long-term savings behaviour.

7. Credit Cards

- (E) *Carbon footprint insights*: Tools to calculate emissions associated with spending patterns, offering clients awareness and possibly suggestions for reduction.
- (E/S) *Transaction roundups for donations*: Small change from purchases is donated to NGOs, blending sustainable finance with client engagement.
- (E) *Cards made from recycled materials*: Issuance of cards using sustainable materials, combined with possible recycling programs when cards expire.
- (S) *Payment cards adapted to specific profiles*: Cards are designed for or marketed to specific communities (e.g., LGBTQIA+, people with disabilities), reflecting a broader inclusion effort.

8. Others

- (S) *Payment accounts for low-income or fragile clients*: Offering fee-free or simplified banking options for vulnerable populations, reducing financial exclusion.
- (E/S) *Different additional services* are proposed, such as advisory services

The above list reflects trends and gaps. Environmental products are notably more developed, supported by clear impact measurement tools and strong regulatory guidance. In contrast, social products remain relatively limited in scope and often depend on national-level legislation, as illustrated by France's support for social housing finance.



ABOUT THE LUXEMBOURG SUSTAINABLE FINANCE INITIATIVE (LSFI)

The LSFI is Luxembourg's coordinating entity on sustainable finance, driving change across the whole ecosystem as a Centre of Excellence and Knowledge Hub, supporting the financial sector to accelerate the financing of the transition, and measuring progress.

The LSFI was founded in January 2020 by the Luxembourg Ministry of Finance, the Ministry of the Environment, Climate and Biodiversity, Luxembourg for Finance, and the High Council for Sustainable Development (Conseil Supérieur pour un Développement Durable).

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THE GOVERNMENT
OF THE GRAND DUCHY OF LUXEMBOURG
Ministry of Finance



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