# Strategy for the International Financial Services Industry in Ireland 2011-2016

Department of the Taoiseach
Roinn an Taoisigh

# Foreword

The Programme for Government states that the Government *"supports the future development of the IFSC as a source of future employment growth, subject to appropriate regulation"* and commits to the development of the financial services sector to maximise employment opportunities, not least for staff leaving employment as a result of downsizing in the domestic banking sector.

The Clearing House Group, which brings together representatives of all aspects of the international financial services sector in Ireland, together with representatives of Government departments and public bodies concerned with the sector, shares the conviction that there is scope for development and employment growth on a significant scale. It has prepared a strategy that has been framed on the basis of an objective to create more than 10,000 net new jobs, to protect existing employment and business and to consolidate the sector as a key driver of the Irish economy over the next five years.

This strategy has been developed on the basis of extensive analysis and consultation carried out across the full range of international financial services. It reflects market trends and the business opportunities to which they give rise, as well as the established strengths and capacities for development in the industry, its advisory and supporting networks, and in the broader labour force available in Ireland.

It is a strategy which recognises and fully supports the critical importance of a credible, responsible and proportionate regulatory system whose own capacity and reputation provides, in itself, a source of competitive advantage for this jurisdiction, attracting reputable, responsible and sustainable financial services activity.

It is a strategy which also calls for the continuation of the consistent, responsive and well-informed policy framework within which business generally, and financial services in particular, can best develop. It recognises and sets out the contribution to be made by all of those, across the public and private sectors, who have a contribution to make to the achievement of the targets at the heart of this strategy.

These targets are challenging but attainable. They will require a clear sense of vision, a determination and pace of implementation, a focus on the specific outcomes which are articulated in the strategy, and an implementation process which is flexible and attuned to developments in the operating environment, internationally as well as domestically.

The strategy has been developed as a result of co-operation and engagement between the industry and the various strands of the public service represented on the Clearing House Group and its individual Working Groups. This strategy is adopted by the Government having been developed by the Clearing House Group.

With a renewed mandate from the Government to drive the implementation of this strategy, to monitor its progress and to adapt it to changing circumstances, the Clearing House Group can continue to act as an effective forum to drive the achievement of the targets set out in the strategy and achieve the potential of the IFSC over the next 5 years.

Enda Kenny

Enda Kenny T.D.
Taoiseach

## Environment for Growth

### **The strategy sets a single, credible target:** create more than 10,000 net new jobs, protecting existing employment and business, over the next 5 years, built on sustainable and responsible foundations.

Ireland has succeeded in building an international financial services industry that is diverse in the activities carried out, and enjoys a world-leading reputation in several sectors. While the past three years have represented a severe stress test for all financial centres, IFSC firms have shown resilience and flexibility. Employing 33,000 directly, and many more indirectly, the IFSC remains critical both as an employer and as a centre of economic activity.

The goals for the coming years are to protect jobs and economic activity and to ensure that the sector continues to grow and prosper. This can only be achieved by providing an internationally competitive environment for the development of sustainable, responsible, enduring and profitable business. While the foundations of success remain in place, the environment and the marketplace are very difficult and continual improvement is essential to protect and create jobs.

While there is potential for job creation, if no action is taken, existing jobs will certainly be lost. Yet an opportunity exists to position Ireland to take advantage of a period of global change to significantly increase employment and activity, and for the IFSC to contribute substantially to economic recovery.

As part of this review, a comprehensive examination was undertaken of the relative strengths and weaknesses of Ireland's financial services sector. The conditions that led to Ireland's growth during the first phase of the IFSC's expansion have changed.

During that period, the greatest challenge was the control of costs. While domestic economic developments have now significantly improved cost competitiveness, other factors now need to be addressed, including the:

- impact of the decline in the sovereign rating
- reputational damage suffered as a result of domestic issues
- risk of disproportionate or inappropriate regulation
- impact of high personal tax rates on the ability to attract and retain highly skilled mobile personnel
- pressure on the supply of skilled workers in specific areas

New forces and increased international competition are driving the development of established and emerging financial centres. Fundamental aspects of the Irish value proposition for international financial services must be addressed to reflect these changes. For the IFSC to continue growing, the decision to locate business in Ireland must meet the expectations of investors, customers and governments.

The reputation of jurisdictions has assumed an increased prominence in firms' investment decisions and the competitiveness of financial centres.

Across all international centres, an increased emphasis will be placed on the adoption of an appropriate regulatory approach, reflecting the profound impact the crisis has had on the real economy, and the need to maintain good governance and the potential for business development.

Ireland's position as a financial centre has been built on full engagement with its international partners and the fulfilment of its international obligations. Ireland's future is as a member of the EU and the euro, and notwithstanding the challenges faced in its domestic economy, can and will continue to develop the IFSC as an engine for growth and recovery.

The achievement of this goal is dependent on the following key drivers:

1. Transparent and competitive direct and indirect tax framework
2. Credible, responsible and proportionate regulatory regime
3. Development of new business lines
4. Coordinated international engagement and marketing
5. Integrated support for investment and growth
6. Targeted development of appropriate skills
7. Sustained control of business costs

## Tax framework

A simple, competitive and transparent tax environment has been central to fiscal policy for successive governments since the 1960s and is the cornerstone of Irish economic success.

Ireland is absolutely committed to maintaining its 12.5% corporation tax rate. This commitment is protected in an EU context by the principle of unanimity in taxation matters, and is accepted as part of the EU/IMF Memorandum of Understanding.

Ireland's reputation as a responsible on-shore tax jurisdiction is essential to our future success; the credibility of our tax regime is a key selling point and will be protected.

Ireland has consistently practiced good governance in tax matters and fully supports international efforts to promote transparency and effective exchange of information on tax matters and to address harmful tax practices.

Ireland has now signed comprehensive Double Taxation Conventions with 62 countries and the expansion of the network will be a continuing priority.

Personal tax rates are critical in attracting key, highly skilled personnel to work in Ireland. These personnel create significant numbers of additional jobs and are essential to generate new business and develop indigenous skills. International competition is intense, and other jurisdictions aggressively incentivise the attraction of these skills, through remittance bases and other measures. In light of this competition, changes to the current incentive regime will be considered in order to ensure Ireland's attractiveness.

The tax environment will remain responsive to changes in the financial services industry. The Department of Finance and the Revenue Commissioners will fully engage and consult with industry to enhance the tax framework, including through the annual Finance Bill process, in particular to facilitate areas where Ireland can gain first-mover advantage in developing sustainable business lines.

Ireland has built a streamlined and efficient tax administration system and will continue to improve processes to keep business overheads as low as possible through the effective use of technology.

## Regulation: Credible, responsible and proportionate

Ireland's future as an international financial centre depends on having a credible, responsible and internationally respected regulatory regime [1]. As regulatory systems have been challenged across the world by the financial crisis, Ireland has responded decisively with structural reforms.

Further development and the building of increased capacity will be undertaken to ensure that it continues to have the resources to deal with the most complex international institutions and the increasing volume of EU and international requirements.

In adopting an approach based on impact and risk, the Central Bank will be balanced and proportionate. This approach allows for the allocation of appropriate supervisory resources to those firms whose failure would have the greatest impact on the economy and consumers.

Where both the impact of failure and the risks associated with firms are relatively low, the approach will be to have an effective reporting framework, a rapid reaction capability and credible enforcement.

The Central Bank will maintain the highest standards of oversight and will engage constructively with firms to secure fulfilment of regulatory and supervisory requirements. While firms can expect challenge, they can also expect professionalism, cost-effectiveness and speed. The Central Bank will ensure that as it expands it maintains this approach at all levels of interaction with firms.

Ireland will align itself with international best practice. The regulatory environment will continue to keep pace with other respected financial services centres in its capacity to approve new business proposals efficiently and effectively.

Consistent and timely implementation of international standards is essential for effective regulation and Ireland has a strategic interest in the development of high-quality international regulatory policy. Industry will work constructively with the public sector to ensure that Ireland plays a more active role in European and international policymaking.

The development and implementation of new requirements will be subject to full consultation and, where appropriate, impact analysis. Sufficient notice periods will be given to allow firms to comply where this is within the control of the regulatory authorities.

The Central Bank and relevant Government departments will consider and consult with industry, other stakeholders and one another in respect of the effects of new regulation on the financial sector and the broader economy and any potential overlap between new measures and related existing requirements.

The Clearing House Group will review and monitor the cumulative effects of regulation and their broader impact.

Government departments are committed to engaging with other Member States and international stakeholders to avoid restricting economic growth, and aim to transpose EU Directives in advance of their official deadlines to ensure that financial services providers have as much time as possible to implement new requirements.

Institutional expertise and skilled staff will form the foundation of effective regulation. The Central Bank is placing greater emphasis on fully understanding business models.

The crisis has demonstrated the importance of finding innovative solutions to problems, and ensuring that financial innovation remains responsible and addressed towards long-term success, sustainability and stability. Proportionate and appropriate regulation should not stifle responsible innovation.

[1] The Central Bank of Ireland Strategy 2010-2012 is available at www.centralbank.ie

## Development of new business lines

The development of new business lines and innovative approaches to service delivery is essential to protect and improve Ireland's position as a financial centre. Global deleveraging means that activity beyond traditional 'balance sheet' business will be increasingly important for the achievement of growth in the medium term. This activity is already growing rapidly, and both firms and the general business environment must remain agile to take advantage of this growth in the face of aggressive international competition.

Ireland will prioritise its growth as a global provider of vital shared services for international firms. Across areas including technical, legal, accounting, advisory, administration and real estate management functions, firms can build on the depth of existing expertise in the servicing of both external clients and parent groups to promote Ireland as a centre of excellence in this arena.

As a international leader in ICT, and home to many of the world's leading technology firms, Ireland is ideally positioned as a location where ICT and financial services activities converge, in particular through the provision of shared services including RD&I. This convergence will be supported by the establishment of a hub for innovative services for finance, including fraud and AML detection technology.

The strengthening of links between industry, educational institutions and the public sector will be prioritised, both to improve the availability of skills and expertise, and to position Ireland as an international provider of educational services and a centre for advanced study in finance.

Ireland has served as the long-standing gateway to the EU for North American firms. As shifts in global capital flows increase the importance of emerging markets, there is now a critical opportunity to attract investment from Asia and the Far East, and in particular from China. The skills and enabling environment to support Islamic finance will also be further developed.

Ireland will be developed as a centre of excellence in green finance and carbon management, through the creation of an enabling, coordinated and supportive environment. This will be achieved through the Green IFSC initiative built on an enabling tax, legislative, regulatory and compliance framework. This will result in the expansion of many of the existing IFSC sectors and the creation of new areas of opportunity including carbon management, IP commercialisation, private equity investment and 'Green Tech' fund management.

International payment services has been one of the key growth segments for financial services over the last decade. Due to significant advances in technology, security and regulatory initiatives such as the EU Payment Services Directive and the Electronic Money Directives, the number and value of payments that are carried out electronically has risen significantly. Ireland has a competitive advantage in the area with strong regulatory and other infrastructure in place, including early transposition of the Second Electronic Money Directive, and will prioritise capturing a significantly larger share of this market.

## Coordinated international engagement and marketing

The attraction of international business to Ireland requires effective engagement with other jurisdictions. The reputation of Ireland as a financial centre has suffered due to the economic crisis and in the short-term it is essential that industry and the public sector engage internationally to mitigate this damage, and to ensure that an accurate message is conveyed.

Responsibility for the long-term marketing and development of IFSC business lies with both the industry and the public sector, and spans financial services firms themselves, professional advisers, Government departments, Enterprise Ireland, IDA Ireland, and the industry associations. Cooperation and coordination between all these stakeholders is essential to promote a positive image of Ireland.

IDA Ireland will play the lead public sector role in the promotion of Ireland through marketing and business development activity, as well as through bilateral engagement with existing firms and potential new entrants.

Industry has made a significant investment in the promotion and development of the IFSC with the establishment of IFSC Ireland and the appointment of John Bruton as President to serve as an international ambassador for the industry. The trade associations will remain actively involved in the organisation of overseas marketing events, meeting potential investors on visits to Ireland, and profiling the industry in foreign and domestic media.

The Department of Foreign Affairs will play a key role in the dissemination of information through the embassy network, and other stakeholders will ensure that information is provided in a timely manner. The public sector will engage with the industry associations to support the acceptance by rating agencies and foreign governments and regulators of the fundamental difference between the domestic economic situation and the stability and security of IFSC firms.

Effective international relationships and engagement are vital in areas including the development of tax treaties, Memoranda of Understanding and other regulatory communications. A list of priority jurisdictions will be agreed in consultation with industry to assist in the prioritisation of work in this area.

Mutually beneficial initiatives on a North/ South basis will be explored, in particular to ensure access to as large a financial services skills pool as possible. This will build on the arrangements in respect of undergraduate training that already exist. Enhanced engagement between industry and educational institutions will include the appropriate authorities and institutions in Northern Ireland, and common North/ South initiatives will be pursued where possible.

The business and regulatory environment faced by firms in Ireland is increasingly driven by EU developments. The newly established European Supervisory Authorities (ESAs) will further influence both the operation of the Central Bank and the firms established here. As a leading provider of cross-border financial services in the internal market, the impact of EU measures may differ in Ireland from in other Member States where firms service a primarily domestic market. Ireland will maintain an effective voice to ensure that the functioning of the EU internal market in financial services is not undermined.

Greater engagement between firms, Government departments, the Central Bank and industry associations on EU issues will ensure that those involved in developing any EU measures are aware of their potential impact on the Irish financial services industry. Industry associations and firms will also increase and improve their engagement with EU bodies and the ESAs, particularly via contributions to consultations and open hearings.

## Integrated support for investment and growth

Strong collaboration between industry, Government departments, educational institutions and public agencies will provide seamless support for firms seeking a location in which to invest.

Ireland's ability to identify potential obstacles to the development of the sector, to anticipate changes in the international environment, and to adopt suitable policy responses has been driven by the coordinating role of the Department of the Taoiseach and the operation of the IFSC Clearing House Group and its related structures. The public sector is committed to retaining strong formal engagement with industry, and will fully engage with all stakeholders at the highest levels of decision-making.

Despite Ireland's difficult fiscal position, the Government remains committed to maintaining an ambitious investment programme for critical productive infra-structure, research, development and innovation. This remains crucial to Ireland's recovery and will underpin further competitiveness gains and support the development of a high-technology and innovative economy.

Suitable, high-quality and affordable office space and associated infrastructure is essential if firms are to expand and clusters of activity promote collaboration and growth. While IFSC firms now operate nationwide, the Dublin Docklands remains a critical centre for financial services activities, and an efficient and responsive planning regime will be maintained for it.

The Department of Jobs, Enterprise and Innovation plays a vital policy, oversight and coordination role and in establishing and implementing Government policy will consider the promotion of IFSC growth as a key priority.

### IDA Ireland

IDA Ireland is fully committed to the further development of the international financial services industry, and over the past two years has invested heavily in Ireland's ability to attract and develop financial services firms. The IDA will employ its full suite of service and product offerings to encourage further inward investment into the sector and to support the continued development of existing clients.

The IDA evaluates its performance and prioritises resources based not only on the quantity of jobs immediately created, but also by reference to long-term strategic importance of projects to the development of the IFSC, the quality of employment, potential tax contribution and protection and growth of existing business.

IDA Ireland's high-level strategy for the sector emphasises the following objectives:

- **Further develop Ireland as a globally recognised centre for international financial services;**
- **Win high-quality investments from both existing companies and new entrants;**
- **Promote job creation, innovation and balanced regional development;**
- **Establish leadership positions in key areas of opportunity including Funds, Asset Servicing, Insurance, eBanking, Aircraft Leasing, Financial Technology, Electronic Trading, Payments and Green Finance;**
- **Pursue collaborative and innovative approaches to the business, both internally and externally, as reflected in the partnership with IFSC Ireland and the recent joint venture initiative with the Irish Funds Industry Association;**
- **Undertake high-visibility marketing and communications as part of the sectoral development agenda.**

## Enterprise Ireland

Enterprise Ireland provides support for the international growth of indigenous firms, and has established the following focus areas in financial services for the coming years:

- **Increase exports and employment in the Asset Management, Fund Administration, Insurance, Payments, Security and Compliance, and Specialist Finance sectors;**
- **Maximising the number of financial services High Potential Start-Up (HPSU) businesses from both Irish and overseas entrepreneurs;**
- **Leveraging the existing strengths and scale of IFSC operations to support indigenous firms competing in international markets;**
- **Increase penetration in high-growth markets, including Brazil, Russia, India and China and the Gulf States;**
- **Increase the level of innovation and R&D in indigenous firms;**
- **Development of a Governance, Risk and Compliance competence centre;**
- **Provide support to Irish third-level colleges to develop relevant commercial projects in financial services;**
- **Develop closer working relationships between third/fourth level education and the financial services sectors.**

EI will use a range of different measures to assist the growth of international sales of Irish companies including trade missions, business accelerators, inward buyers and market research together with focused client development work in-market. Research, Development and Innovation activity at both company and industry level is a core area of EI support for the sector.

Enterprise Ireland and the IDA recognise that services innovation forms an increasingly important element of RD&I activities, and within the constraints imposed by EU rules, are committed to ensuring that firms may access support for the development of innovative services as well as innovative products.

In an environment where many entities are relatively small, collaboration between firms is often an essential element in the generation of valuable intellectual property. Significant cost savings can be made when developing new products or entering new markets by increasing the level of information that is available in the public domain.

Industry-led research networks will be supported on medium-term 'shared agenda' research activity among groups of companies that could not afford to fund such research on their own, to ensure that the risks and benefits associated with large research projects are shared, as are the skills and knowledge built up through working with academic researchers.

## Targeted development of appropriate skills

Long-term investment in education and training has made Ireland's English-speaking workforce a key resource for business. The harnessing of emerging opportunities in knowledge-intensive sectors, and in particular in international financial services, will be essential in restoring labour market activity.

Domestic developments have significantly reduced pressure on the supply of labour in the economy as a whole. Nonetheless, potential shortages remain in some areas and need to be addressed, as demand for financial skills such as accounting, quantitative finance and risk and compliance management has increased, driven by changes in the regulatory environment, product innovation and industry consolidation.

The development of world-class financial services education and training programmes in higher education institutions will remain a key priority for government and industry, alongside continued development of more specialised training for existing and potential employees.

As the domestic banks get smaller, the available pool of professional financial expertise will increase in some areas, but appropriate training and development will be necessary to facilitate employment in the international sector. Industry will work with the appropriate public sector agencies to promote the integration of this expertise into international firms.

The Finuas programme has promoted skills development, and through increased coordination and scale has facilitated new training offerings. The programme continues to be supported as a cost-effective way of improving capabilities, encouraging additional higher-value activities to be based in Ireland, and protecting jobs.

Stronger links will be forged between educational institutions and industry, and industry will engage with educational institutions and the HEA to improve the targeting and suitability of undergraduate programmes within existing resources.

The development of a hub of educational excellence will be pursued alongside greater collaboration between research and educational bodies in Ireland and around the world.

It is a priority for Government and industry to continue to improve the quality and international reputation of Ireland's higher education institutions.

Ireland has a long-established reputation for having a high-quality financial education system. International students are potentially the future business leaders in many developing countries and provide goodwill links for Irish financial services businesses in growth markets. Accordingly, in addition to the significant direct value added by international students attending Irish institutions, the sector is also strategically important. Enterprise Ireland, as part of its International Education Services Sector strategy, assists institutions in attracting international students to our leading financial services programmes.

## Control of business costs

Ireland will build on the significant advances it has already made in reducing business costs and will act to ensure that long-term competitiveness is sustained.

The Irish economy has demonstrated exceptional flexibility in dealing with the challenges it has faced. Relative to the EU average, unit labour costs have fallen 13% since 2008 and the cost of commercial property and business-to-business services has also decreased. Large falls in house prices (up to 50%) and rents (25%) have also significantly improved Ireland's attractiveness as a destination for young, mobile workers.

These improvements will be protected and built upon to ensure long-term competitiveness and will be monitored against competitor jurisdictions. The reduced costs in the labour market will be maintained through effective education provision and a facilitative visa system to ensure that necessary supply exists.

The Government is committed to containing the business input costs under its control and it will endeavour to ensure that reductions in public expenditure do not result in higher charges for services being passed on to private enterprise, especially where this would go against the Government's core objective of fostering employment and innovation.

Public service and general labour market reforms will act to increase flexibility and reduce benchmark labour costs. The Programme for Government has committed to the abolition of upward-only rent reviews.

While maintaining the highest standards, the Central Bank will rigorously and continuously evaluate its own efficiency and cost-effectiveness.

# Opportunities for Growth

## INSURANCE

The ability to provide insurance and reinsurance on an international basis has been a key driver of IFSC growth. The initial factors for this success included the fiscal environment (including the availability of gross roll-up for life funds), the European standard regulatory regime and relatively low cost base. Many of these original factors are still in place, and are now complemented by a critical mass of international businesses located in Ireland, and a strong business infrastructure directed specifically at international re/insurance, including professional services and third-party administration, and supported by third-level courses developed for the sector.

The implementation of the Solvency II Directive, which will harmonise European regulation of the re/insurance sector and implement a fully risk-based approach to the industry, is driving structural change within the sector as noted below.

Within a European context, Ireland competes strongly with the UK, Luxembourg and Switzerland for international business. After a period of relative weakness over the past 10 years, the UK is now seeking to improve its competitiveness, in particular from a fiscal perspective, while Switzerland and Luxembourg remain competitive and business-friendly.

The international life insurance sector employs approximately 2,800 people and contributes an estimated €110m per annum in corporation tax. The majority of life business is investment-driven with relatively limited mortality cover. While employment is lower in the non-life sector in purely numeric terms, international re/insurance operations are typically characterised by a highly skilled employee base and substantial capital, and are significant consumers of professional services. The non-life IFSC market directly employs approximately 1,000 permanent staff, and contributes approximately €200m in corporation tax, representing €200,000 per employee, demonstrating the high-value nature of the employment.

In assessing the potential to further develop Ireland's insurance sector, a number of specific opportunities have been identified, as outlined below.

### Pan-European Hub Locations

Under the terms of the Solvency II Directive there is a clear advantage for pan-European re/insurance operations to centralise their organisational structure in a single head office located within the EU. This involves replacing a multi-subsidiary structure and replacing it with a single head office which branches into Europe/third countries, and serves to optimise capital and generate other risk, cost and administrative efficiencies.

Following Ireland's implementation of the Reinsurance Directive, several reinsurers took this step, and more recently general insurers have established significant hub operations in Ireland. A number of large groups conducting business in multiple EU markets are currently assessing a group headquarters location, and this represents a major ongoing opportunity. These notable recent developments may be built upon to provide momentum for the attraction of further business.

The Solvency II Directive has significant potential consequences for the global marketplace due to 'equivalence', which will encourage standardisation for non-EU Member States. This is forcing re/insurers established in third countries to assess redomiciling their global operations into a European centre. A research note issued by Standard & Poor's (September 2010) stated that "Ireland and Switzerland are emerging as the most sought-after European domiciles" for re/insurers looking to redomicile from centres such as Bermuda.

Ireland now has the critical mass of pan-European hub operations to be recognised as a centre for these structures. To cement that position, it is necessary to promote the expertise and professional aspects of the marketplace to ensure that the full spectrum of the business and infra-structure is understood and acknowledged in the global environment. The clear and open communication between the re/insurance industry and public bodies such as Government departments and the Central Bank will be supported and developed, with a view to clarifying and strengthening the thought-leadership role Ireland should play on the global stage.

It is essential for Ireland to be a key contributor to the shape of regulation for this area in the future, including through EIOPA and the International Association of Insurance Supervisors. As outlined in the first part of this document, an appropriate and responsive regulatory system is vital, and regulatory responses should be informed and efficient.

- **The development of an appropriate framework for firms to branch out of Ireland will be considered by industry and the relevant Government departments.**
- **In the absence of clear public interest grounds, imposition of gold-plated standards beyond international best practice should be avoided.**

### Expansion of existing cross-border life insurance operations

Many of the existing cross-border life insurers were established in Ireland to provide specific products into specific jurisdictions. Although some of these have matured into more diverse operations, many of them remain focused on a narrow range of products and business lines. There is clear potential to assist these firms to diversify their operations.

### Capital Protected Products

Variable life insurance policies are designed to offer policyholders the benefit of growth potential combined with a guaranteed minimum return on their investment. A long-established product in the US, they have become more common in Europe over the last number of years as investors seek tax-efficient and prudent pension planning solutions.

A presentation delivered to the IFSC Insurance Group by international consultants Oliver Wyman in June 2010 showed that Ireland has already emerged as one of the leading jurisdictions for the development and distribution of these types of products with leading insurers basing their variable annuity operations in Ireland. The nature of these products is changing and there is an opportunity for Ireland to participate in the next wave of development.

### Head Office

Arising from the attractive fiscal environment, and in particular due to the extensive Double Tax Treaty network, Ireland is an attractive location for the ultimate parents of global re/insurance organisations. Major international groups have recently established their ultimate holding company in Ireland. Such operations bring significant benefit to the Irish economy via employment, professional fees, travel, hotel and related expenditure in addition to corporation tax.

# Opportunities for Growth

## FUNDS

Over the last 20 years, Ireland has developed a world-leading position as a jurisdiction for the administration and domiciling of internationally distributed investment funds. With more than 10,000 people employed in the administration, custody and servicing of funds together with in excess of 2,000 employed in the professional advisory firms, this area of the IFSC remains the single largest sector by employment.

With a reputation as a centre of excellence, Ireland has built a strong base in the administration, custody and servicing of investment funds, with the assets administered by the industry in Ireland increasing by over 30% during 2010. Notwithstanding the success the industry has enjoyed through the development of the legal, regulatory and fiscal environment, there is significant potential for further industry growth and a solid grounding to broaden industry activity and position Ireland as an asset management hub.

### Domiciling and Administration of Investment Funds

The largest proportion of industry activity is the domiciling and administration of internationally distributed funds. While the international industry has always been competitive, further recent challenges have presented significant issues for the industry, including product competitiveness, Ireland's international economic standing and the impact of domestic considerations on international business. The funds industry has highlighted several areas where the legal, regulatory, tax and operating environment may be improved.

- **Introduce a legal framework for a corporate fund structure which is not a public limited company.**
- **Examine the tax framework to explore options to provide for a fund that can invest and hold asset in classes such as 'green' investments, private equity investments, infrastructural investments, distressed debt investments and emerging market in a way which ensures that there is no double taxation (an 'Alternative Investment Company').**
- **Industry will review the fiscal and regulatory framework to explore potential efficiencies in existing investment fund legislation and make recommendations thereon.**

### Business Development and Transposition of EU Directives

Recent EU legislation dealing with Alternative Investment Funds and the recently introduced UCITS IV Directive present both opportunities and threats. Both the industry and regulatory authorities must demonstrate leadership, in their respective capacities, in the ongoing debates regarding the Alternative Investment Fund Managers Directive (AIFMD), and UCITS. Emerging European regulatory standards may create a risk of excluding business from EU markets, but also creates an opportunity where global players seek to use a European base for their international business. Timely and effective transposition and implementation of EU Directives is critical. When transposing, consideration should be given to possible product and market opportunities.

- **Prepare the Qualifying Investor Fund in anticipation of the AIFMD.**

### Marketing/Promotion
A structured, sustained and focused promotion and profiling campaign focused on the source of business activity, which for the funds industry is the attraction of funds to be domiciled and administered in Ireland will be supported. The promotion and profiling of the opportunities, solutions and efficiencies that Ireland as a fund jurisdiction can provide will be strengthened through the coordination and cooperation of all of those with a marketing and/or promotional brief to ensure the profiling and promotion agenda becomes more collaborative and active.

### External Engagement and Relationships
Attracting internationally distributed funds to Ireland requires effective engagement with other jurisdictions, through Memoranda of Understanding, a broad Tax Treaty Network and other regulatory communications.

■ **Extend the Central Bank's network of Memoranda of Understanding with appropriate authorities.**

### Wider Industry Activity
Funds activity has been predominantly focused around administration and advisory activities; a greater focus is now needed on attracting a wider base of companies, including management companies and clearing systems.

■ **Widen the industry footprint by actively targeting management companies, technology firms, and clearing systems to locate in Ireland.**

## ASSET MANAGEMENT

The Government remains committed to the development of Ireland as a global and European asset management centre. The investment management industry is in a period of restructuring on a global basis. Business models are changing, new products are being developed and there is both consolidation and an increase in the number of boutique firms. There are new approaches to product distribution and the use of technology is becoming increasingly central. Ireland is well placed to benefit from these changes.

Ireland has already established a leading position in the authorisation and servicing of funds in the newly emerging European Exchange Traded Fund market, where success relies on technology and high-value processing functions.

Asset management business models involve an increasing level of outsourcing, particularly of middle-office functions, and our expertise in the funds sector provides Ireland with a competitive advantage.

Ireland's tax offering has been built on transparency rather than secrecy, and with an increasing trend towards on-shore locations, Ireland's high-quality tax environment is particularly attractive.

The industry supports the Central Bank's regulatory strategy of expanding and deepening its expertise and resources, and ensuring high standards of oversight and superior levels of engagement with asset management players.

## Opportunities for Growth

With a culture of open and constructive engagement between industry and regulators, Ireland already services 40% of global alternative investment funds (by assets). This experience provides expertise in servicing complex alternative instruments and is a clear competitive advantage. Firms can be assured that their asset management activities will achieve international approval in an environment where innovation is facilitated.

Areas identified as potential growth areas as part of this review include:

- **Institutional asset managers with an Irish platform or other presence moving greater substance into Ireland to benefit from high-quality regulatory and fiscal environment and low cost-base;**
- **New and existing ETF operations, benefitting from Irish skills and resources and the rapid growth of the Irish base of operations;**
- **Product developers and promoters, benefitting from changing investor needs in areas including regulation and tax reporting and redomiciliation of platforms;**
- **Alternative Investment Fund players who need to move to an internationally credible tax and regulatory environment;**
- **Asset managers with multiple EU-regulated entities (UCITS IV);**
- **Asset managers (particularly in Asia and the Middle East) who are looking to establish a European footprint;**
- **Specialist debt restructuring operations for international markets;**
- **Investment performance measurement services (GIPS compliant).**

The key objectives for the development of the asset management sector are:

- **Leverage our existing technical expertise to attract a greater proportion of Exchange Traded Funds.**
- **Promote Ireland's tax transparent platform, the Common Contractual Fund (CCF) and support efforts to clarify tax treaty benefits for the wide variety of asset management platforms available.**
- **Target the growth of private wealth management in emerging markets and the BRIC countries as an opportunity for Irish-domiciled asset management projects.**
- **Promote Ireland as an intellectual property jurisdiction for the investment management industry.**
- **Attract group investment managers to Ireland by examining proposals to enhance the taxation regime for investment managers.**
- **Incentivise asset managers to locate RD&I in Ireland.**
- **Promote Ireland as a centre for the management of product distribution activities.**
- **Develop an early-stage investment manager seed fund in order to stimulate more start-up investment management projects.**
- **Promote Dublin as a location for hedge fund industry conferences and events.**

## BANKING

International banking remains at the heart of the IFSC. Since its establishment in 1987, more than 50 international banks have established either branches or subsidiaries in Ireland. The range of operations carried out by these institutions is diverse ranging from full-service offerings from major international players to specialised niche functions. Many institutions have operated in Ireland since the inception of the IFSC, and have continuously transformed their operations since their establishment.

International developments have affected institutions in every financial sector, with business models being re-examined and fierce competition existing between financial centres to attract and maintain business. Two general objectives have been highlighted as priorities:

- **Assist firms in renewing business models and promoting investment from parent groups into Irish operations.**
- **Target growth in applications for banking licences from outside of the EU and US, in particular Asian and Middle Eastern institutions.**

### Aircraft Leasing

Ireland is a world-leading centre for aircraft leasing, with activities performed across a broad spectrum and including sales, remarking and lease placement, financing operations, acquisition and management, transaction negotiation, execution and deal structuring and technical services including Irish aircraft registration. The changes to allow aircraft to be held by SPVs in the 2011 Finance Act further facilitated this business, and ensuring that a facilitative legal and tax environment exists will remain a priority. The ability to attract relevant highly skilled professionals will also be facilitated by a supportive personal tax regime.

### Payment Services

International payment services has been a key growth segment for financial services over the last decade. Due to significant advances in technology, security, and regulatory initiatives such as the EU Payment Services Directive (PSD) and the Electronic Money Directives (EMD), the number and value of payments carried out electronically has risen dramatically.

The PSD and EMD allow firms to base in one Member State and passport their services throughout the EU. This has the resulted in the designation of major international companies as electronic money issuers, while numerous others operate under the PSD. Indigenous firms have also grown significantly. Payment services companies employ at least 3,000 people in Ireland, in a low-risk and labour-intensive sector of the financial services industry.

Research conducted by the recently established Electronic Money Payments Association (EMPA) has shown that with strong competitive advantages in the area, Ireland has the potential to capture a significantly larger share of this market. At present the UK has a leading position in this sector, but Ireland can compete effectively, with strong regulatory and other infrastructure in place.

- **EMPA will work with the relevant authorities to ensure appropriate payments-specific AML/CTF sector guidelines are adopted.**
- **EMPA will work with IDA and EI to promote Ireland as a location of choice for payment institutions, targeting an increase to 25 regulated entities and the capture of a majority share of incoming payment-sector FDI within the EU.**
- **IFSC Banking and Treasury group to liaise with the EMPA to monitor progress and identify any additional public policy measures in a timely fashion.**
- **Harness Irish technological and domain expertise for the development of mobile, contactless, near field communications (NCF) and person-to-person payment projects.**

## Opportunities for Growth

### Green Financial Services

The potential of "Green" financial services emerged from a 2009 Clearing House Group workshop on the future of the IFSC. The core concept involves positioning the IFSC to take advantage of growth in the global green economy and green finance sectors. The Green IFSC concept was highlighted for further consideration in the High-Level Action Group on Green Enterprise report.

A feasibility study was carried out under the auspices of the Clearing House Group in 2010. The goal of the feasibility study was to determine the scale and shape of the green finance opportunity and to determine whether the concept has sufficient potential and substance to be launched as an initiative within the overall framework of the Smart/Green Economy.

The study found that an opportunity does exist for Ireland and its financial services industry to play a role in the further development of a vibrant domestic and international green economy sector. The most promising opportunities involve the development of Ireland as a centre of excellence in Green Finance, a centre of excellence in the Management of Carbon and finally the creation of an enabling, coordinated and supportive eco-system to facilitate this development.

Activity elements include Banking, Project Finance, Treasury, Asset Management, Fund Services, Insurance/Reinsurance, Carbon Markets Management, Venture Capital, Private Equity, Regional HQ activities including financing and holding company activities, Intellectual Property, third-level education and R&D activities.

- **A marketing and business plan including the proposed establishment of a Government-supported carbon markets initiative is being prepared for approval by Government.**
- **A Carbon Finance module will commence in the DCU Business School in September and it is also planned to establish a chair in Carbon Management.**

### Intellectual Property Commercialisation

Intellectual Property (IP) amounts to a significant part of the value of many firms and firms are increasingly seeking to protect and manage these assets from a central location. Enterprise Ireland is exploring the potential of this area with a view to positioning Ireland to take advantage of its growth, and the Federation of International Banks in Ireland (FIBI) and Financial Services Ireland (FSI) have been working with their members to develop Ireland as a centre for the location and commercialisation of IP.

Market activity around the financing and trading of IP is growing in areas including auctioning, bonds backed by cash flows, insurance, equity IPOs, use of securitisation, derivatives and venture funds. Ireland is well placed to benefit from this increased activity.

As a separate and related initiative, a new concept around the creation of an International Content Services Centre is being pursued by the recently established International Content Industry Association. This project seeks to position Ireland as the ideal legislative, regulatory and fiscal environment for the global entertainment and media market, which is believed to have a total revenue base in excess of $1.4 trillion.

The development of the ICSC proposition in Ireland in many ways mirrors the establishment of the IFSC itself and will have many overlapping and synergistic activities. The Department of Jobs, Enterprise and Innovation, in conjunction with the appropriate State agencies, is exploring the potential of this area. Links will be established between the IFSC Clearing House Group structures and the ICSC to ensure that areas of mutual interest are vigorously pursued.

The stakeholders involved with the initiatives will coordinate through the IDA, EI, and the industry associations to ensure efficient use of resources.

- **Create an IP project team to review the related initiatives within public and private sectors, examine the funding of a proof-of-concept study, create an action plan, identify necessary fiscal and regulatory measures, and promote the proposition.**
- **Establish appropriate structure to promote ICSC and IFSC initiatives in a cohesive manner.**

### Islamic Finance

The last ten years have seen the rapid growth in the political and economic importance of the Middle East and Asia, with a significant impact on the global financial system. To benefit from these developments, Ireland must be a credible business partner for investors from the Middle East investing in Europe. Potential activity areas include fund administration, distribution of UCITS funds, aircraft leasing, location of family offices, dual debt listings, issuance of sukuk and corporate treasury.

### Private Equity & Venture Capital

The attraction of venture capital and private equity firms is a further opportunity for growth in the IFSC. Location of such firms in the IFSC would complement other existing initiatives (e.g. green financial services, intellectual property) and diversify the portfolio of activities and employment in the IFSC. Attracting such operations would provide a basis to attract further high-value aspects of the industry. These firms would also provide a broader benefit to the domestic Irish economy, with greater access to capital for high-potential firms.

- **A sub-group of the Banking and Treasury Group will be established to identify steps to promote venture capital/private equity, coordinating its activities with Innovation Fund Ireland.**

# Opportunities for Growth

## CROSS-BORDER PENSIONS

One of the stated objectives of the EU Pensions Directive is to enable pensions to be set up across borders. European pension funds have some €4 trillion in assets which is set to double over the next decade, and the European pensions industry is estimated to employ between 60,000 and 100,000 people. Despite a relatively slow take-up there are now strong signals that the cross-border pensions market is set for rapid growth.

By comparison with other EU countries, Ireland has a well-developed pensions industry, with service capabilities across consulting, accounting, actuarial, legal, compliance, administration, risk management, fund management and asset pooling, which serve as a base for expansion into cross-border pensions.

The development of a cross-border pension sector will position Ireland as a prime location for these activities and create another significant stream of economic activity in the IFSC complementing existing activities.

Work commissioned by the IFSC Pensions Group to map the social and labour law requirements in key EU jurisdictions is an important contribution towards the development of cross-border pensions. This project is an illustration of how industry and the public sector were able to jointly fund the creation of important intellectual property.

## Membership of the IFSC Clearing House Group

| | |
|---|---|
| Dermot McCarthy (Chair) | Department of the Taoiseach |
| Michael Sludds (Secretary) | Department of the Taoiseach |
| Barry O'Leary | IDA Ireland |
| Breda Power | Department of Jobs, Enterprise and Innovation |
| Brendan Bruen | Financial Services Ireland |
| Brian Daly | KPMG |
| David Fagan | Legal and General |
| Deirdre Somers | Irish Stock Exchange |
| Eamonn O'Dea | Revenue |
| Fergus Murphy | Financial Services Ireland, EBS |
| Gary Palmer | Irish Funds Industry Association |
| Gary Tobin | Department of Finance |
| Jim Byrne | Revenue |
| John Feely | Attain |
| Julie Sinnamon | Enterprise Ireland |
| Kevin Cardiff | Department of Finance |
| Kieran Donoghue | IDA Ireland |
| Matthew Elderfield | Central Bank of Ireland |
| Padraig Rushe | Bank of Ireland |
| Pat Farrell | Irish Banking Federation |
| Pat Wall | PWC |
| Patrick Brady | Central Bank of Ireland |
| Paul McGowan | Chair of Funds Working Group |
| Peter Keegan | Bank of America Merrill Lynch |
| Robert Richardson | Pioneer Investments |
| Sean Gorman | Department of Jobs, Enterprise and Innovation |
| Tim Hennessy | Axis Capital |
| Tom Young | BNY Mellon |
| Tony Golden | Citi |
| William Beausang | Department of Finance |
| Willie Slattery | State Street |