THE FUNDS ANNUAL:
IRELAND 2017

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On the up

Assets in Irish funds ended 2016 at a record €2.1 trillion. What's more, net sales across all fund types stood at €139 billion—the highest in seven years since Central Bank of Ireland data became available.

According to the Irish Funds Industry Association (Irish Funds), this demonstrates considerable growth for managers using Ireland for their funds. Indeed, over the five years between 2011 and 2016, net assets held in Ireland-domiciled funds has doubled.

As Pat Lardner, CEO of Irish Funds, said at the time of the data's release in early 2017: "These latest figures represent another significant milestone for the Irish funds industry and the managers we serve. It reflects the consistent and continuing attractiveness of Ireland, the third largest investment fund location globally."

"By working closely with the Irish government, the Central Bank of Ireland and the wider funds community, we have built, and continue to develop, a location which is highly competitive and whose regulated funds offering is one of the most compelling globally. We will continue to work on behalf of our members and our partners in the global asset management industry to deliver solutions in an environment which has proven credentials of service excellence."

In this, the first funds annual series from Black Knight Media, publisher of Securities Lending Times, Asset Servicing Times, Captive Insurance Times and Real Estate Investment Times, Ireland is put under the microscope to find out why it remains such a fixture. The minutiae of fund activity is considered, with securities lending examined as a means for generating extra revenue, and captive insurance as a potential clientele. Fund types and administration are also analysed.

Mark Dugdale
Group Editor

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Mile by mile

For almost 30 years Ireland has been a leading domicile and servicing location for internationally distributed investment funds, covering the widest range of fund types and investment strategies. The Irish Funds Industry Association explains more

The funds industry acts as a bridge connecting investment managers with end investors. International fund promoters are attracted to Ireland due to its open, transparent and well-regulated investment environment, its strong emphasis on investor protection, its efficient tax structure and dynamic and innovative business culture.

Established in 1991, the Irish Funds Industry Association (Irish Funds) is the representative body of the international investment fund community in Ireland.

It represents the fund promoters/managers, administrators, custodians, transfer agents and professional advisory firms involved in the international funds industry in Ireland, with more than 13,500 funds and net assets of $4.1 trillion.

The objective of Irish Funds is to support and complement the development of the international funds industry in Ireland, ensuring it continues to be the location of choice for the domiciling and servicing of investment funds.

Through its work with governmental and industry committees and working groups, Irish Funds contributes to and influences the development of Ireland's regulatory and legislative framework. Irish Funds is also involved in defining market practice through the development of policy and guidance papers and the promotion of industry-specific training.

Visit irishfunds.ie for a wide range of funds industry news and statistics, as well as technical information. Read the latest Irish Funds newsletter for a selection of articles and announcements related to developments in the international funds industry, including the impact of the second Markets in Financial Instruments Directive (MiFID II) on the funds industry, the Central Bank of Ireland's review of outsourcing arrangements and end-of-year data showing record levels of assets and net sales in Irish domiciled funds.

1987
IFSC established

1989
Introduction of the UCITS Directive to Ireland and launch of the first Irish UCITS fund.

1990
Ireland is first European jurisdiction to offer a regulated alternative investment fund product, the Irish Qualifying Investor Fund.

1991
Irish Funds Industry Association is founded, then called the Dublin Funds Industry Association (DFIA)

First Money Market Fund launches in Ireland.

1995
Collective Investor Schemes introduced by The Finance Act 1995.

ISE becomes independent, forming The Irish Stock Exchange Limited.

2000
Launch of the first European Exchange Traded Fund (ETF).

2003
The Common Contractual Fund (CCF), an Irish tax transparent structure, is established.

2007
Dublin Funds Industry Association (DFIA) renames to the Irish Funds Industry Association (IFIA).

Financial Regulator can now authorise QIFs within 24 hours of receipt of completed documentation.

2008
Memorandum of Understanding signed by the Irish and Chinese Regulators.

2009
Ireland's combined assets under administration reach €1 trillion.

2011
Ireland is amongst the first in EU to implement the UCITS IV Directive.

Irish domiciled investment funds reach €1 trillion

2012
Irish funds industry surpasses €2 trillion in total assets under administration.

2013
Ireland ranked as the best place in the world to do business by Forbes Magazine.

Ireland is first in EU to open AIFMD application process.

Ireland has the highest rating in OECD Global Forum on Transparency and Exchange of Information for Tax Purposes.

2014
The Irish Funds Industry Association and the Asset Management Association of China sign MoU to promote closer co-operation.

Ireland provides home for first China A-Shares ETF in Europe under RQFII

2015
Enactment of the Irish Collective Asset-management Vehicle (ICAV) Legislation. IFIA (Irish Funds Industry Association) rebrands as 'Irish Funds'.

Central Bank Permits Investment in Chinese Shares via Stock Connect.

2016
Ireland granted RMB 50 billion RQFII quota.

Access to Stock Connect extended to include Shenzhen.

Irish Funds Celebrates 25th Year Anniversary.

2017
Irish funds industry surpasses €4 trillion in assets under administration.

Net assets domiciled in Ireland surpasses €2 trillion.

Dispelling the myths of securities lending for Irish UCITS funds

There is huge potential liquidity that could be released to the market and significant revenue that could be captured if more Irish UCITS funds engaged in securities lending, according to Ed Oliver of eSecLending

Securities lending is big business—€16 trillion of lendable assets earning €8.4 billion in revenue in 2016, according to DataLend. So, where do UCITS funds sit within this industry?

We often hear that regulatory pressures cause UCITS funds participating in securities lending programmes to be more penalised relative to other fund structures domiciled in the US and elsewhere. However, when you actually look at the data the good news is that this is not really the case—in some instances, they actually perform strongly.

In eSecLending's securities lending programme, the positive experience of our UCITS clients dispels the myth that securities lending is not worth engaging in given the current regulatory environment. One of the European UCITS clients for which we have acted as lending agent for 12 years earned more from its securities lending programme in 2016 than in any previous year.

Additionally, one of our other UCITS clients experienced the highest basis-point (bps) returns at a portfolio level compared to all of our other clients. In 2016, we doubled our UCITS client base, as UCITS funds that had not previously participated in securities lending re-entered the market.

When you examine independently produced data from IHS Markit, the numbers echo this. A simple check of annual securities lending returns for the year to 5 May 2017 shows UCITS funds earning average portfolio returns of 4.4 bps compared to the the entire securities lending client universe's 3.8 bps. A 16 percent outperformance isn't so bad.

So, is the perception that regulation is affecting UCITS funds' participation in securities lending inaccurate? Well, in a word, no.

UCITS funds are subject to European Securities and Markets Authority (ESMA) guidance on structuring securities lending programmes. These guidelines include, among other things, the requirement that UCITS funds should be able to terminate a loan at any time. This stops UCITS funds from participating in term trades, the trade where the fund lends some of its assets, typically the high-quality liquid assets (HQLA), to a borrower for a specified period.

Banks are currently required to have long-term funding of their balance sheets under the terms of the net stable funding ratio (NSFR), so in essence, the regulation limiting the UCITS fund term capabilities is in direct contrast to the regulations affecting banks.

Another regulation affecting UCITS funds that is also in opposition to the regulators' recent drive to put more transactions through central counterparties (CCPs) is that UCITS funds are required to accept collateral under title transfer arrangements only, whereas collateral provided to a CCP is usually in a pledge arrangement.

What can we do about these regulatory hurdles? The International Securities Lending Association has recently formed a UCITS working group to highlight points like these to regulators.

In addition, we also see the role of the depository as one that can complicate the securities lending programme due to their different interpretations of the ESMA guidance.

The working group aims to produce a guide of best practices to help all those in securities lending programmes manage to common industry standards.

In conclusion, although regulatory challenges do exist, UCITS funds should feel confident in their participation in a securities lending programme. Over time, regulatory change may actually improve matters, but ultimately the biggest opportunity for UCITS funds is to unlock assets that do not make their way into securities lending programmes today.

Of the €7 trillion of assets under management at UCITS funds, only approximately 10 percent of these participate in securities lending today. There is huge potential liquidity that could be released to the market and significant revenue that could be captured.

Ultimately the biggest opportunity for UCITS funds is to unlock assets that do not make their way into securities lending programmes today

Ed Oliver
Managing director
eSecLending

Securities lending in 2017: Where's the revenue?

Beneficial owners should diversify their revenue streams so as not to be as reliant on equity specials in the future, says Simon Waddington of State Street

The first quarter of 2017 was challenging for the global securities lending industry. Revenue fell 11 percent from $2.30 billion in Q1 2016 to $2.05 billion in Q1 2017, according to a recent presentation by DataLend at the Finadium Investors in Securities Lending Conference. IHS Markit put the number at a healthier 6 percent down in its Q1 Securities Finance Quarterly Review (the two vendors have slightly different data sets), but whichever source you use, the overall trend is the same.

The answer to what caused this poor Q1 performance is very clear. Equities, and more specifically equity specials, are struggling to generate the returns we saw in 2016.

Headline specials, such as a certain US car manufacturer that generated $225 million in revenue in 2016, have not materialised so far this year. The highest earning equity special globally in Q1 2017 was in fact that same US car manufacturer, but it generated 43 percent less revenue than the same period last year.

The top five global equity specials combined generated 31 percent less revenue than in Q1 2016 and the decline is in the same region when you extend that analysis to the top 50 securities.

Overall, this contributed towards a 21 percent decline in equity revenue from $1.93 billion in Q1 2016 to $1.53 billion in Q1 2017, according to DataLend.

So amidst this lacklustre start to 2017, where is the industry going to generate revenue in 2017?

Firstly, government bonds. Although equities have dominated the revenue numbers for decades and still do to some extent, fixed income has increased its share of industry revenue from 16 percent in Q1 2016 to 25 percent in Q1 2017. Overall, fixed income revenue climbed from $364 million to $517 million over that period, a very significant 42 percent jump.

If you filter that down to sovereign debt only, the quarter-on-quarter increase climbs to a staggering 75 percent, according to DataLend. Sovereign debt loan balances have increased almost 40 percent, while average fees for government bonds (a slightly broader category) have increased by 69 percent. If you look at a snapshot of industry data as of May 2017, the overall return to lendable for government bonds is actually higher than global equities—6.3 basis points (bps) versus 5.6 bps.

Granted this is a low point for equities and it is only a snapshot, but what that means is that an average government bond portfolio is now more valuable for securities lending than a global equity portfolio. A decade ago that would have been inconceivable.

Secondly, fixed-term trades. This is generally a subset of the fixed income data, but it is a very unique subset in that demand from borrowers and so fees are significantly higher. This is not a new phenomenon as the need to meet regulatory liquidity requirements such as the liquidity coverage ratio under Basel III have been known for many years, but it is gaining momentum—the proportion of global loan balances agreed on a fixed-term basis has climbed from around 17 percent in Q1 2016 to 23 percent in Q1 2017, and that is likely to be an underestimate due to the complexities of how trades such as evergreens are booked by agent lenders.

The proportion is even higher when you take solely fixed income—the International Securities Lending Association's March 2017 Securities Lending Market Report indicated that 33 percent of government bond loans are now in term trades of one month or longer, and it estimated that the number may be closer to 50 percent when including evergreen structures.

This is a large contributor towards the increase in overall industry fixed income returns as fees for fixed-term trades are typically two to three times higher than open trades, exacerbated by the fact that supply is much more limited due to the majority of beneficial owners not wanting to, or not being allowed to, participate in fixed-term trades.

Thirdly, non-cash collateral. While cash remains a significant portion of the industry's collateral, weighted heavily towards the US market, it has been on the decline for several years. Regulatory liquidity trades have centred on security for security upgrades (typically government bonds for equities), agent lenders have struggled to reinvest some currencies such as EUR and GBP in this low or negative interest rate environment, and some beneficial owners are still wary of the issues the industry faced on cash collateral post-2008.

The result is that over the last three years non-cash collateral has steadily climbed from 45 percent of global industry collateral to 63 percent now, and there is no indication of that trend coming to an end. Beneficial owners that can be flexible on collateral types such as equities, or lower grade sovereign debt such as Japanese government bonds, will undoubtedly benefit from current market dynamics.

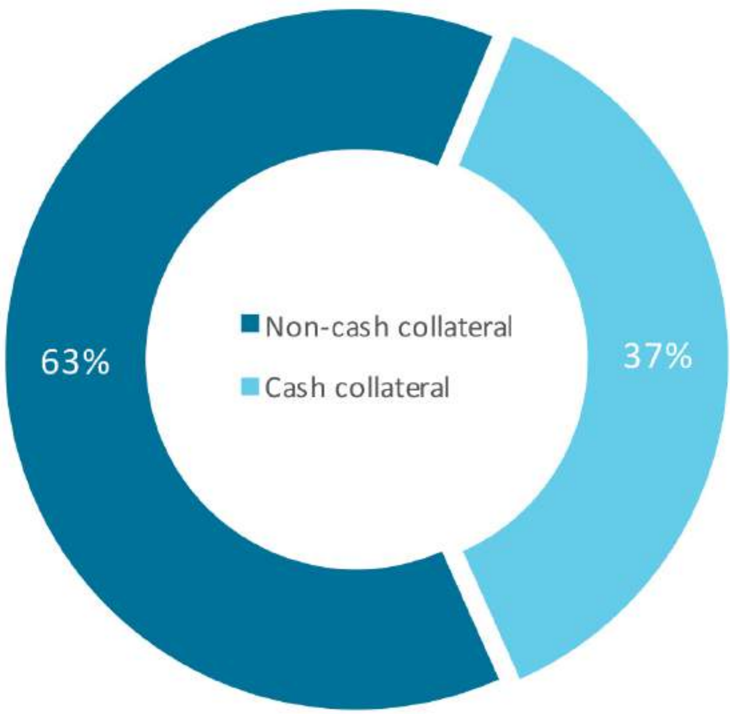
Fourthly, and somewhat contradictory to that, is cash collateral reinvestment. Although a declining overall proportion of industry collateral, IHS Markit estimated that revenue from cash reinvestment increased by 42 percent from $146 million in Q1 2016 to $208 million in Q1 2017. Rising interest rates typically create much greater opportunity to generate higher returns, both through greater demand to support or hedge interest rate views, but also through wider spreads between benchmark rates and potential reinvestment vehicles.

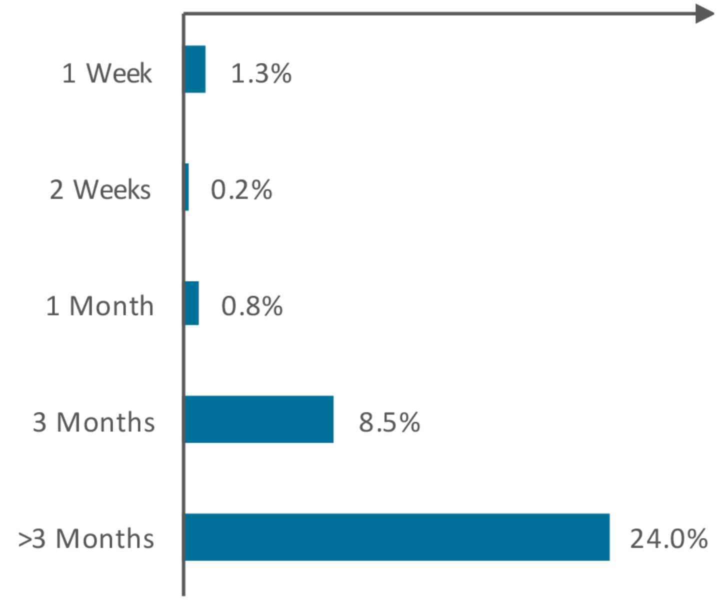
With three rate hikes in the last 18 months, we have already seen significant growth in USD cash collateral returns, and a similar effect is likely in Europe as the European Central Bank eventually starts tapering off quantitative easing and we return to a more normal interest rate environment (although that is unlikely in 2017).

And finally, scrip dividend trades. These once-uncommon optional dividend arbitrage trades accounted for more than 7 percent of European industry revenue in 2016, according to IHS Markit, up from 4 percent in 2012. The aggregate value of scrip dividends offered by European companies has climbed from €2 billion in 2006 to €26 billion in 2016, the majority in the financials and commodities sectors, which have faced cash flow issues, and IHS Markit predicted that 2017 will be similar with 39 major European companies forecasted to offer a scrip option this year.

While some beneficial owners optimise dividend elections themselves, the majority still do not, and this presents an opportunity for agent lenders to capture a significant portion of the arbitrage value for their clients without the clients needing to do any additional work. For clients that want to capture an even greater portion of the intrinsic option value, guaranteed elections typically carry a much higher premium.

The equity environment may improve as we progress into the second half of 2017, but in the current market environment, we would recommend that beneficial owners diversify their revenue streams into these five areas so as not to be as reliant on equity specials in the future.





> While some beneficial owners optimise dividend elections themselves, the majority still do not

Simon Waddington
Managing director, head of business development and relationship management EMEA
State Street

Data sources:

- DataLend: The State of Securities Lending, Finadium Investors in Securities Lending conference, April 2017
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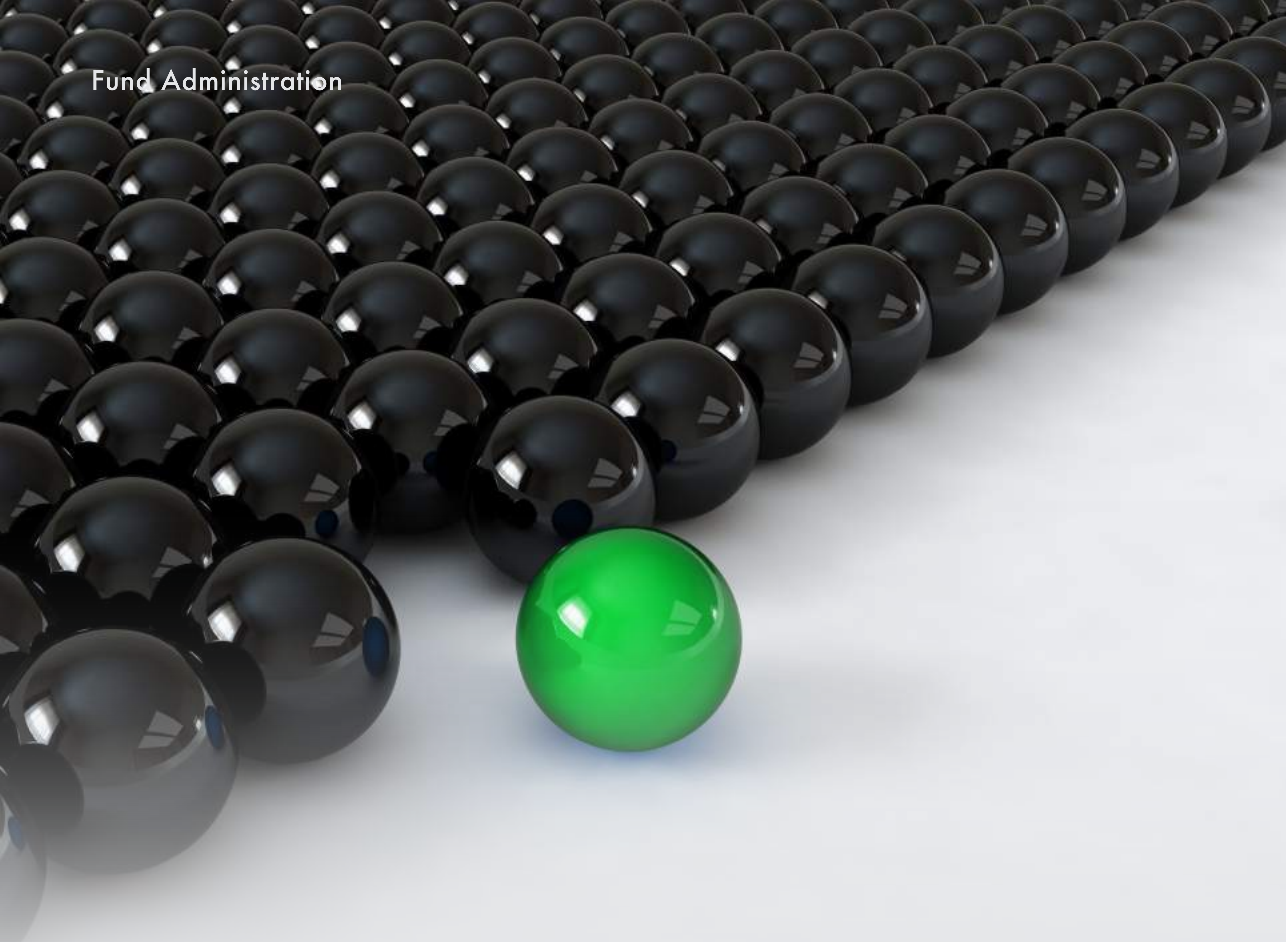
- State Street Securities Finance internal data



Embracing alternatives

Investment options in Ireland mean the Emerald Isle remains a haven for alternative funds, according to Shane Geraghty of Dillon Eustace

A report by PwC proposed that, between 2015 and 2020, alternative assets may to grow to between $13.6 trillion and $15.3 trillion. By 2020, private equity and real estate investment are expected to grow to $6.5 trillion and $2.5 trillion, respectively.

This growth and the ensuing investor demand is expected to be matched by a corresponding growth in the launch of pooled fund products to house alternative investment strategies.

The Irish qualifying investor alternative investment fund (QIAIF) is an attractive structure for meeting such requirements.

Ireland's funds industry

Ireland has a mature and vibrant investment funds industry and is a leading alternative investment fund domicile in Europe with over 6,300 Ireland-domiciled investment funds, of which almost 2,000 are QIAIFs with a significant majority of the balance being UCITS funds.

All of these funds are authorised and regulated by the Central Bank of Ireland and can benefit from the pan-European marketing passports of the Alternative Investment Fund Managers Directive (AIFMD) and UCITS. In addition, the central bank has a fast-track 24-hour approval process for QIAIFs.

Irish funds have been established to invest in a range of alternative assets or pursue alternative investment fund strategies.

These include QIAIFs for less liquid and illiquid alternatives such as hedge funds and funds of hedge funds, as well as private equity, venture capital, development capital, real estate, credit, distressed debt and private debt funds. In addition, Ireland is a leader in the area of alternative UCITS. Investors in alternative UCITS funds can gain access to a variety of alternative strategies via a highly regulated product that is subject to significant portfolio regulation and liquidity requirements. UCITS funds still dominate the funds marketplace in Europe.

Ireland's strong reputation in the UCITS and alternative investment fund space means it is well placed to capitalise on this projected growth in alternative asset classes.

ICAV as the preferred legal structure

The Irish collective asset management vehicle (ICAV) has become the preferred corporate fund structure in Ireland since its introduction and it offers distinct advantages, particularly from an operational and management perspective, over the public limited company (PLC) while at the same time preserving many of the PLC's key features, including having separate legal personality.

ICAVs can be a standalone or umbrella structure with multiple sub-funds, and provide significant operational and administrative benefits

These include:

- There is no requirement to comply with Irish company law
- An ICAV can, in certain circumstances, amend its constitutional documents without shareholder approval
- AGMs can be dispensed with
- Financial statements can be prepared on a sub-fund by sub-fund basis
- They 'check the box' to be treated as tax transparent for US tax purposes, subject to certain requirements

The ICAV is now well established as the most used corporate legal structure for Irish investment funds.

QIAIF requirements

QIAIF structures are highly customisable and very flexible in terms of the types of investments they can invest in and the extent to which such investments can be concentrated.

In contrast to UCITS funds, they are subject to a very limited number of investment restrictions and, unlike the Luxembourg specialised investment fund (SIF), for example, no diversification requirements.

QIAIFs can generally only be marketed to professional or other sophisticated investors and are subject to a minimum initial subscription requirement of €100,000 per investor, except in certain circumstances.

The flexibility of the QIAIF combined with the range of available legal structures means that Ireland continues to be a centre of excellence for all manner of alternative investment funds and offers a variety of customisable solutions for fund managers.

Future developments and outlook

Ireland should see continued growth in the area of investment into alternative assets and strategies via the QIAIF and alternative UCITS structures.

In addition, further refinement of the law and tax treatment relating to investment limited partnerships in Ireland will assist in attracting more alternative asset managers.

It will also attract, in particular, those managers pursuing private equity investments where the use of limited partnerships is common.

The importance of investment funds to Ireland will ensure it will continue to be Europe's pre-eminent jurisdiction for alternative funds.

> Ireland should see growth in the area of investment into alternative assets and strategies via the QIAIF and alternative UCITS structures
>
> Shane Geraghty
> Senior associate for financial services
> **Dillon Eustace**

The oldest question of all:
Who administrates the administrators?

The domicile's level of fund activity in 2016 may be putting pressure on the jurisdiction's administrators, whose historical predilection for outsourcing had already attracted the attention of its regulator, the Central Bank of Ireland

Ireland achieved record levels of assets and net sales in its funds in 2016, with Central Bank of Ireland data revealing the headline figures of €2.1 trillion and €139 billion, respectively.

This level of activity may be putting pressure on the jurisdiction's administrators, whose historical predilection for outsourcing had already attracted the attention of the regulator.

The Central Bank of Ireland issued recommendations in March 2017 to fund administrators that outsource part of their fund activities, following a review of outsourcing arrangements that considered operational risk.

The review found that between 48 and 61 percent of administrators' activity were carried out by full-time equivalents at outsourcing service providers, as of 31 December 2015.

On average, firms outsourced to 10 locations and primarily to other group entities. Reviewed firms were found to generally be subject to concentration exposure to one or more outsourced locations.

The Central Bank of Ireland said in a letter to fund administrators: "The level of outsourcing observed in this review is likely to be at or close to the outer limit of what is appropriate for this industry. In this regard, the central bank is undertaking a review of outsourcing across all financial sectors."

The central bank noted that, while outsourcing business processes can help to improve efficiency and reduce costs, it also brings challenges as firms remain responsible under the Requirements on Outsourcing of Administration Activities in Relation of Investment Funds.

It added that these risks can be managed through effective oversight and governance, but expressed concern that many firms do not have this in place, with many failing to properly maintain outsourcing records.

Further, the majority of the firms reviewed were found to have no tolerance level in place with regards to how much outsourcing is permitted, and many of the outsourcing providers were found to be either not regulated at all, or not regulated in the same way as Irish fund administrators.

Michael Hodson, director of asset management supervision at the Central Bank of Ireland, said in March: "This review found that outsourcing in larger fund administrators is extensive and continues to grow. Certain good governance arrangements, where firms were adequately managing risks in relation to outsourcing were observed, but some weaknesses in the oversight of service providers remain."

"Fund administrators should review the examples of good practice outlined in the central bank's letter. The information provided aims to support the development of consistent industry practices to assist in ensuring compliance by firms with the outsourcing requirements."

The recommendation advised that firms should ensure their compliance monitoring programmes are conducted in compliance with the regulatory obligations, and that compliance risk should periodically reviewed.

The board of a firm should also be given all the necessary information regarding regulatory risks of outsourcing arrangements.

Fund administrators should review both sides of the outsourcing agreement, and strive to make sure it has compliance resources at the location of the service provider.

They should conduct 12-month reports on outsourcing arrangements, which should be "sufficiently detailed" and confirm regulatory compliance.

Internal audits should, at a minimum, ensure that the service provider relationship is aligned with the firm's business strategy, identify, manage and report all risks, respond to breaches or disruptions, and ensure the appropriate staff is in place to perform due diligence and monitoring of service providers.

Firms should review their processes for identifying and managing concentration risks that may arise from relying on a single third party for multiple activities. Finally, clients should be notified of any outsourcing agreements, with proof of this made available to the central bank.

Irish fund administrators should assess their current outsourcing activities in the light of the recommendations "to ensure that they have strong controls in place around the governance and oversight of their outsourcing arrangements", Ireland-based law firm Arthur Cox suggested.

"Fund boards are likely to require more information from Irish fund administrators about the controls in place in relation to their outsourcing arrangements and may require assurances about a firm's adherence to the recommendations issued by the Central Bank in this letter."

Dominating the domestic market

Increased competition is among the challenges ahead for Irish real estate funds after a slow start to 2017, but investment will surpass the 10-year average, predicts Kenneth Rouse of BNP Paribas Real Estate

How healthy are current inflows into Irish real estate funds?

Capital inflows to Ireland remain robust. Approximately 60 percent of the €4.5 billion investment volume in 2016 came from cross-border investors, 80 percent of which went into the Dublin market. In total, €1.3 billion of Dublin investment was spent on office assets and €1.8 billion was spent on retail assets.

These were primarily made up of two large shopping centre transactions: Blanchardstown, which was acquired by Blackstone for €947 million, and Liffey Valley, which was acquired by BVK for €632 million. The largest office building in Dublin, One Spencer Dock, was also bought by an international investor from the Middle East, AGC Equity, for €240 million.

While volumes of €475 million in Q1 2017 were relatively modest compared to previous quarters, there were still notable transactions attributed to US and UK investors.

The level of incoming inquiry is still very solid with investor demand remaining strong, particularly for core assets.

A slow start to the year has been reported. Is this what you're seeing?

The slow start to the year in terms of actual monetary turnover is really a function of a supply squeeze for larger ticket properties. In fact, on a like-for-like basis, the absolute number of transactions in Q1 2016 and 2017 are more or less identical.

Due to bank deleveraging programmes reaching a cyclical end in 2016, the supply of product has been naturally curtailed. Also, if you profile the recent buyers in the investment market, they tend to be 'buy-to-hold' investors attracted by income quality and as such are not internal rate of return-focused, seeking quick profit in a short-time frame. They have been flipped to Irish domestic pension funds, insurance companies and European property funds, which have a longer term view.

BNP Paribas Real Estate (RE) is forecasting overall investment volume to be €2 billion in 2017 which is approximately half the volume of 2016, but still above the 10-year average of €1.9 billion. Investor demand remains healthy and the pace of product coming to market has been gradually increasing throughout Q2, with some good investment properties currently for sale, including office space One Grand Parade and retail asset 100/101 Grafton Street.

What strategies are you pursuing to attract investment into the country?

We are utilising and leveraging our parent BNP Paribas, as one of the largest financial service providers in the world with a network of more than 180,000 staff. Our parent has strong corporate connections spanning the globe, a very prominent private wealth network and access to some of the very largest sovereign wealth funds.

Within BNP Paribas RE itself, Ireland also benefits greatly from the support of our international investment group (IIG) led by Etienne Prongue. IIG operate two international platforms designed to source and accompany global capital flows from Asia Pacific and Middle East to the European market and this initiative is certainly beginning to reap dividends for the Irish office.

What are the challenges that lie ahead for Irish funds?

The main challenge for Irish funds is the competition from foreign investors. Ireland is now very much an established investment market that attracts North American investors, and core European funds from France, Germany, Switzerland, as well as strong interest from further afield such as the Middle East and the Asia Pacific. This will translate into competitive bidding for best-in-class assets that Irish funds traditionally target and which in turn will inevitably lead to a sharpening of prime yields. However, given their local knowledge, a domestic investor will always have the advantage of being able to take a harder view of the market as and when needed.

How will the UK's exit from the EU affect the Irish real estate market?

The UK's departure from the EU is incontestably not good for the Irish economy and will continue to be a drag on GDP into the foreseeable future, with particular turbulence likely to be felt by Irish exporters who have performed very strongly in recent years and are the backbone of the economic recovery.

However, from a real estate perspective, one can certainly expect an uplift to the occupier market, evidenced by recent announcements from J.P. Morgan, Barclays and the Bank of America, which will have a positive impact on take-up as well as helping to sustain current rental levels and capital values.

Notwithstanding this, BNP Paribas RE believes the take up in Dublin City Centre attributable to Brexit-related activities might not be as pronounced as some as our competitors are championing. The addition of new jobs/arrival of new entities will come in a piecemeal fashion.

Early feedback suggests that there are obstacles to overcome. Of primary concern is that the Irish regulatory system is ironically proving onerous to some potential banks/insurers looking to relocate to Dublin in addition to the high rate of personal tax for top executives. There are also some secondary concerns around housing availability and infrastructure.

The reality is that Dublin faces stiff competition from other major European cities and the fact that English is the spoken language is not a good enough unique selling point for relocation, so the holistic package has to be compelling.

Other provincial locations such as Cork and Galway with good infrastructure access may benefit as cost-effective alternatives for non-core activities.

> Given their local knowledge, a domestic investor will always have the advantage
>
> Kenneth Rouse
> Deputy managing director and head of investment and finance with responsibility for capital markets business line in Ireland
> **BNP Paribas Real Estate**

The power of partnership

Successful asset managers need to partner with technology companies that undertand early trends and inspire innovative solutions to engage with a new generation of investors, according to Edward Glyn of Calastone

Radical changes in society, industry and trade have reset the way in which individuals and businesses conduct themselves. The asset management industry is not immune and many asset managers across Europe are redefining their core business models in the face of:

- A significant increase in the number of people needing stable and reliable retirement income
- Rapid change in how individuals evaluate and access financial services
- Historically low interest rates and squeezed profit margins just as investors are becoming more demanding in their search for steady returns
- A re-purposing of resources away from servicing wealthy baby boomers towards engaging with a new generation of cash-starved millennials with little concept of delayed gratification

At the same time, the industry is facing unprecedented challenges, as the disruptive force of the internet and related technologies grows exponentially. Perhaps the most significant challenge for asset managers is the requirement to adapt to their target market's consumption of financial services.

Generation change

There hasn't yet been a profound technological shift in wealth management, but now many financial institutions are starting to question the viability of their future existence. The new generation of investors are questioning the traditional intermediary and considering newer direct channels and technology platforms such as robo-advisers.

Meeting the investment needs of these investors—and doing so profitably—is no small challenge for asset managers. Some are rising to the challenge, realising that there is an opportunity to engage with the end investors in a radically different way.

These managers are collaborating with financial technology companies, looking for new ways to drive profitability via products and services that are low-cost and easy to understand for a generation who earn less, and are less well-educated about finance than their parents, but who are used to running their lives via apps.

A key opportunity for traditional asset managers is discovering the latest buying patterns. How has the 'herd mentality' evolved? How do continually connected and 'social' investors discover investment ideas? Whose guidance, if any, do they trust? How do they execute an initial transaction and monitor and refine their portfolios on an ongoing basis?

Traditionally, asset managers have manufactured and managed investment products such as unit trusts, which have been marketed to consumers by banks, independent financial advisers and insurance companies. As people choose to consume financial services via their personal devices, they come to expect speed and simplicity in all their transactions.

Today, it is normal to spend seconds to 'tap and go' at the supermarket, and complex mortgage applications can be completed within 30 minutes. Those seeking to invest will flock to the platform with the best technology. Many asset managers are not structured to provide the necessary consumer experience in an efficient and profitable manner. We will most likely see successful asset managers collaborating with the new platform offerings to more effectively engage with the end investor, which is a definite reversal of the trend that we have seen over the last decade where asset managers have become increasingly disintermediated from the end client.

The unfolding fintech landscape

This increased collaboration between asset managers and fintech companies derives naturally from their own separate priorities. Asset managers need to move beyond traditional distribution channels, and have struggled to achieve scale in an environment that has been littered with mis-selling scandals.

Fintechs are a new start, aligning themselves with modern customer behaviour while providing the necessary low-cost enablement.

Regulation in the European market is concerned with improving trust, engagement, choice, transparency, value and outcome for consumers.

Asset managers can use consumer regulation and new technology competitively, as the market deepens its focus on bringing down cost and ensuring consumers have access to engaging, individually tailored, long-term goal-orientated, savings and investment solutions.

When will a truly global giant such as Amazon or Google decide the time is right to flex its tech muscles in the investment space? Will there be an 'Uberisation' of the savings and investment space, where previously underutilised asset management products will be subsequently adopted in the mass market?

The digital distribution supply chain available to established asset managers means that they can view the rapid changes brought about by fintech companies as opportunities to be embraced.

As an industry enabler, Calastone is already helping industry players deploy powerful data tools to better monitor and understand their global distribution activities in real-time, and to adapt to emerging regulatory requirements.

Successful asset managers will partner with the technology companies that are driving the industry by understanding early trends and inspiring innovative solutions to engage with a new generation of investors.

Regulation in the European market is concerned with improving trust, engagement, choice, transparency, value and outcome

Edward Glyn
Managing director and head of global relationship
Calastone

Resolvent-cy II

Many captive owners are exploring alternative forms of capital in order to strengthen their base in a more efficient manner, says Brian McDonagh of Marsh

How well is the Ireland insurance industry doing? Are numbers still on the up?

A review of the list of regulated insurance and reinsurance undertakings produced by the Irish regulator, the Central Bank of Ireland, shows that overall numbers for licenced insurance and reinsurance entities are down year on year, 2016 to 2017. Behind that headline number are myriad stories and views. For instance, this is a reversal of the positive developments during the 2015 to 2016 period when Ireland experienced an increase in the number of new captive authorisations issued by Central Bank of Ireland.

The continuation of the soft insurance market is probably the main driver, a story that resonates globally. Ongoing consolidation of regulated entities owned by multinationals (both captive and non-captive) could be another factor in the downward trend. However, one should not assume a trend based on a one-year review.

Surprisingly, the number of captives increased during 2015 in advance of the implementation of the new Solvency II regime. However, it does appear that the market is currently waiting to see an appropriate application of the proportionality principle to the regulation of captives (as defined within that legislation) in the new Solvency II era.

Dialogue between European Insurance and Occupational Pensions Authority, local supervisors and the insurance industry needs to be reflected in a proportionate approach to the supervision of captives and lower-risk entities to ensure the continued growth of 'onshore EU' as a sustainable location for captives.

What trends are you currently seeing in the captive insurance market in Dublin?

Under the banner of Solvency II, many captive owners are exploring alternative forms of capital, second- and third-tier capital, in order to strengthen their capital base in a more efficient manner. To date, options including the use of letters of credit, parental guarantees, subordinated debt, and unpaid share capital have received regulatory approval.

We are seeing a greater call for the services of captive managers and advisers as captives address evolving aspects of the solvency capital requirement optimisation and focus further on a fully integrated service solution across all three Solvency II pillars.

The owners and managers who have fared best through implementation are those who have invested in integrated IT platforms to ensure maximum automation with respect to solvency capital requirement calculation and reporting. This again has proved to be crucial as we move through the first annual reporting cycle due in mid-May.

Multinational organisations have increased their focus on consolidation and alignment of their global employee benefit costs, which continues to be the single biggest growth area for these firms. Many multinationals are involved in projects and feasibility work or have gone to the implementation phase, which often involves using a captive for portions of that retained employee benefit risk.

There appears to be little doubt that the sophistication by which non-life covers have been managed by multinationals for many decades will be replicated in the employee benefits space over the medium term.

Cyber is the other high profile risk area. This is reflected in the increase in the number of captives underwriting that specific risk.

Finally, there are many conversations around the virtual captive concept and once again that will continue to be an area for rapid growth.

How is the reinsurance industry developing in Dublin? Are you still attracting new clients?

My personal view is that aspects of the continued development of the reinsurance industry market have been 'on hold' for a number of years as the uncertainties of how the Solvency II regime will be supervised in each EU location continue to play out.

That uncertainty may now be offset by opportunities created in the aftermath of the Brexit vote and the triggering of Article 50 in the UK. Brexit represents an opportunity for the reinsurance industry and the larger international financial services industry in many EU locations, including Dublin.

Specific to the Dublin reinsurance market is the continued growth of the insurance linked-securities (ILS) sector. There have been many repeat bond issuances replacing the typical three-year cycle afforded to each catastrophe bond programme and Dublin has seen new entrance to this specialised market in the past 12 months.

How is Ireland faring against economic uncertainties at present?

There never will be, nor should there be, a period when world economic uncertainties do not have an impact on how people go about their business. How one reacts to those uncertainties determines whether these are threats or opportunities. Since the 1950s, Ireland has pursued a strategy of attracting foreign direct investment essentially to provide employment opportunities to a growing population. Since that time, Ireland has managed to remain an attractive location for multinationals by providing a well-educated English-speaking workforce and a stable commercial, business, and tax environment.

This strategy has remained the cornerstone of every government since that time and has proved to be a successful strategy even up to today. As a result, it is likely that adapting to each new global reality has been subsumed into the fabric and culture of the international financial services sector here.

How has Brexit affected Ireland as a captive insurance and reinsurance domicile?

To date, the Brexit project has being an exercise in contingency planning. While some operations currently based in London have made decisions on where and how they may reorganise themselves in a post-Brexit environment, most are still researching and/or considering their options.

The decision of 'where' is the opportunity for other EU financial centres, including Dublin, and we are keeping as close as possible to those prospects.

The existence of an international insurance market, combined with a regulator who has staffed up in expectation of new applications, make me optimistic that Dublin will land more than its fair share of those opportunities.

As a further angle to this, EU captives who access the UK commercial reinsurance market will also need to follow developments closely. Current thinking is that it is likely the UK will look to achieve "equivalence" similar to Bermuda, Australia, Japan, and Switzerland.

This equivalence status would be necessary to ensure appetite for EU companies to access the UK reinsurance markets.

In addition, credit ratings for reinsurers and insurers should also be closely monitored for potential downgrades and knock-on effects of the captive's solvency capital requirement under Solvency II.

Brexit represents an opportunity for the reinsurance industry and the larger international financial services industry in many EU locations

Brian McDonagh
Managing director
Marsh Captive Solutions Dublin

The land of insurance

A wealth of capital markets opportunities exist for captives in Ireland

The process for setting up in Ireland, and interaction with the Central Bank of Ireland (the sole regulatory authority for financial services), initiates a strong relationship with the applicant from the outset.

The Central Bank of Ireland has recognised the principle of proportionality within its risk-based framework for supervision via its Probability Risk and Impact System (PRISM). Firms with the lowest potential adverse impact are supervised reactively or through thematic assessments.

Under PRISM, insurers and reinsurers ranked as ‘low’ or ‘medium low’, such as captives, are subject to less onerous requirements. For example, the Central Bank of Ireland’s governance code allows for fewer directors and less frequent board meetings.

There are more than 100 captives domiciled in Ireland. These are direct insurance companies as well as reinsurance companies. Regulated companies can avail of freedom of services and freedom of establishment to write cross-border business in the EU from an Irish base. The types of risks traditionally underwritten by captives in Ireland includes: accident, sickness, aircraft, property damage, business interruption, goods in transit, motor vehicle liability, credit, employers’ liability and general liability.

Captive insurers and reinsurers also cover non-traditional risks such as: employee benefits, including US employee benefits through US-domiciled branches of Irish captives; product liability; miscellaneous financial loss; and workers’ compensation retentions.

The Central Bank of Ireland has prepared a set of templates available for captives that wish to apply for a direct or reinsurance licence. These are available at www.centralbank.ie.

Ireland applies Solvency II, which is the risk-based regulatory EU regime for the insurance, reinsurance and captive industry. Most captives have opted for Solvency II’s standard formula under Pillar I to calculate their minimum regulatory capital but partial internal models once authorised are also used by captives.

Other than the requirements under Pillars II and III of Solvency II, the CBI published its Corporate Governance Code for Captive Insurance and Captive Reinsurance Undertakings in 2011, which sets out minimum statutory requirements on how captives should organise their governance functions, including membership of the board of directors and the role and responsibilities of the chairman and captive manager/CEO.

There are a number of contacts to support the new entrant to the Irish market, including several highly skilled legal and consultancy firms. Insurance Ireland is the professional association for the insurance, reinsurance and captive management sectors in Ireland. With effect from 1 January 2017, the Dublin International Insurance & Management Association merged with Insurance Ireland, to become the voice of insurance and reinsurance in Ireland.

More information on captive insurance in Ireland can be found at www.insuranceireland.eu

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