



# The IFSC

the international financial services sector in Ireland











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#### **Foreword**

FSI, as Ireland's largest financial industry association, has played a leading role in shaping public policy towards the development of the IFSC since 1987. Over that time, the composition of the sector has changed continually and dramatically. Policy-makers, commentators and potential investors can struggle to keep track of what the IFSC is, what it does, and why it matters.

The perception of the IFSC as a group of international firms, located in the Docklands, and carrying out routine and repetitive activities has to be updated to reflect a new reality. Today, over 30% of those employed are located outside Dublin and more than 10,000 work in Irish-owned and managed firms. With around 500 firms, total employment of 32,700 and a tax contribution of €2.1bn, the IFSC represents approximately 7.4% of Irish GDP. The work done is complex, diverse and sophisticated.

Despite the upheaval in the global financial services industry over the last two years, the IFSC has shown remarkable resilience and strength. Local management have been able to point to the performance of their Irish staff during one of the most traumatic periods in financial history as compelling evidence of Ireland's ability to excel as a financial centre.

This report has been informed by a range of sources and represents an estimate of the 'current' state of the industry. I would like to thank Accenture for their commitment to this project, and our member companies for their invaluable assistance. It is our intention to update this work regularly and I encourage anyone with comments to contact FSI.

The banking crisis in Ireland has raised many questions on what should be the appropriate future public policy for financial services and what role the IFSC should continue to play in the Irish economy. This report aims to provide a broad and high level overview of the IFSC by analysing publicly available information so that we can fully understand the economic contribution of the IFSC and its key constituent industry sectors. We hope that this will provide a context to the current debate.

The IFSC is made up of diverse industry sectors in size, complexity and nature of business. While Funds and Asset Management, Banking and Insurance are large, established and better known sectors, there are also many niche segments. Many of the smaller sectors are strategically relevant for the Irish economy. For example, Aircraft Leasing is a highly specialized sector where Ireland is recognised as a world leader. Payments and Money Transmission is a growth industry globally, where Ireland has made a promising start but is yet to realise its full potential.

Irrespective of the diversity, all IFSC companies are essentially engaged in financial services exports, directly or indirectly. The future of a small and open economy like Ireland has to be based on export competitiveness and investment attractiveness. Given the size and importance of the financial services industry globally, despite the crisis, the IFSC continues to be an important growth opportunity, which requires a robust regulatory environment as well as effective public policy engagement.



Danny McCoy, Director General, IBEC





Alastair Blair, Head of Financial Services, Accenture



#### Introduction and Context

#### **Objectives**

Financial Services Ireland engaged Accenture to produce a high-level survey of the international financial services sector in Ireland with the following objectives:

- review the size, nature and composition of the sector in Ireland;
- identify the business models of the key players and key sectors;
- measure the contribution of the IFSC to the Irish economy.

#### Methodology

The methodology followed by Accenture was primarily based on desktop research, along with analysis of publicly available information and inputs from FSI. This was supplemented with available inputs from Accenture Research and subject matter advisors where applicable.

The publicly available data on the IFSC falls into four main categories:

- macro-economic data collected by the CSO,
   Revenue Commissioners, Central Bank, ECB, and
   EuroStat:
- regulatory data collected by the Financial Regulator;
- company-specific data disclosed in the annual reports of individual firms;
- ad-hoc surveys that have been conducted by various industry associations.

Inherent difficulties arise in the analysis of these data sources. A lack of consistency exists between datasets, since different periods and methodologies are used. Further, since the abolition of the 10% tax rate in 2001, new IFSC companies are no longer directly identifiable by Revenue. Certain firms also engage in both international and domestic financial activities, and difficulties arise in the measurement of the level of activity and resources used for each.

To improve the accuracy of the research, a representative sample of company accounts was examined and further research was conducted in respect of each of the main sub-sectors of the IFSC. While corporate structures and outsourcing arrangements add complexity, it is generally possible to estimate the economic contribution of key firms in each of the major sectors.

From these figures it is possible to estimate with reasonable accuracy the average salaries and the approximate amount of personal taxation paid by these employees. Combining this analysis with higher-level regulatory data, it is then possible to provide reasonable estimates across the industry as a whole.

In respect of some specific sub-sectors, FSI has undertaken limited primary research and surveyed companies directly. These results have been provided in summary form to Accenture where confidentiality required that they not be disclosed in full.



## **Key Findings**

## **Defining the IFSC**

The International Financial Services Centre (IFSC) was established in Dublin in 1987 to attract investment into Ireland from global financial services organizations.

Part of the motivation for the development of the IFSC was the regeneration of the Docklands area of Dublin. To qualify for the 10% corporate tax rate, firms were required to maintain a physical presence in the area. With the introduction of the uniform corporate tax rate of 12.5% in 2003, and its extension to the IFSC in 2006, firms no longer need to locate in Dublin.

Today, the IFSC is best understood as referring to the range of economic activities involving the export of internationally traded financial services.

The term also covers established support networks including legal and accountancy, financial software development, shared services and outsourcing service providers.

#### **IFSC Facts and Figures**

- 500+ firms
- Total Direct Employment of 32,700
- Indigenous firms employ almost 6,000
- Average salary of €60,100
- Firms operate from more than 20 different counties throughout Ireland
- Accounts for 10% of multi-national employment in Ireland
- Contributes 7.4% of Irish GDP
- Contributes approximately €2.1bn to the Irish Exchequer
- Comprises 5% of all EU 27 cross-border financial services activity





Corporation tax resulting from the export of international financial services was at least €1.41bn during 2009, comprising 36% of total receipts.

Economic Contribution Estimates						
	Employee Numbers	Corporation Tax (€m)	Average Salary (€K)	Payroll (€m)	Payroll Taxes (Direct €m)	Taxes paid on Salaries (€m)
Banking	10121	365	73	738.8	74.4	194.5
Insurance	4011	310	78	312.9	31.5	82.5
Funds (incl. Asset Management)	10560	180	43	454.1	45.7	117.6
Corporate Treasury	200	163	77	15.4	1.6	4.1
Asset Financing & Leasing	614	266	111	68.2	6.9	18.1
Payments	3000	20	35	105.0	10.6	26.9
IT & Services	1562	25	54	84.3	8.5	22.0
Professional Services	2638	86	71	187.3	18.9	49.3
IFSC Totals	32706	1415	60.1	1966.0	198.1	515.0

## Corporate Tax

The Revenue Commissioners produce an annual IFSC corporation tax figure. This is based on the tax received from companies that previously held an IFSC licence. It does not include tax received from:

- firms that have established in Ireland since 2006;
- firms that chose not to locate in the Docklands or were indigenously established elsewhere in Ireland.
- professional service providers for their IFSCrelated work;
- technology, third party administrators and other service providers.

Revenue's 2009 numbers show a marked decline, largely due to the carry forward of losses sustained in 2008.

These numbers only relate to those firms who held a legacy IFSC tax designation. Based on the dates of establishment and license issuance, it is estimated that this designation captures less than 50% of the total number of IFSC firms.

			_
Corporation	Tax (Legacy IFSC	Designation)	
Corporate Ta	x Contribution		
2007	2008	2009	•
€1.1bn	€850m	€642m	
	-		

(Source: Revenue)

When a broader definition of the IFSC companies is used, the corporate tax contribution is estimated at €1.41bn.

Department of Finance figures show that overall corporation tax revenue was €3.9bn in 2009, down from €5.1bn in 2008.

Accordingly, IFSC firms account for 36% of corporation tax receipts. Comparable City of London research\* shows that 27% of the UK corporation tax take arises from financial services firms.

<sup>\*(</sup>Source: City of London/PWC, 2010)

## **Key Findings**

#### **Employment Levels**

IFSC firms are large direct and indirect employers. Trade publication Finance Dublin publishes a breakdown of IFSC-related employment in its yearbook.\* This has been supplemented by Accenture research and information from individual companies.

The figures provided by Finance Dublin are based on an annual survey of financial services firms. The Finance Dublin methodology does not seek to capture areas such as professional service providers, technology companies and other niche areas.

<sup>\*</sup> Finance Dublin Yearbook 2010

Employment in International Financial Se	ervices
	2009
Number employed by IFSC	24,692
companies – Finance Dublin	
Estimate of those involved in financial services exports not included	
in Finance Dublin survey; professional services, IT and outsourcing, payments,	
corporate treasury, and understatement	0
of insurance.	8,014
Total	32,706

(Source: Finance Dublin, Company Filings, FSI & Accenture research)

#### **Quality of Employment**

The quality of employment is extremely high. A recent survey of FSI members on salaries and benefits, which covered more than 10,000 employees across 38 companies in a variety of roles indicated an average salary of €56,100.

In certain niche sectors, including aircraft leasing, corporate treasury and professional services, average salaries were higher. As shown in the table on the previous page, the average salary across the IFSC is approximately €60,100.

The 2009 Investment Funds Industry Employment & Staffing Trends Survey conducted by the Irish Funds Industry Association showed that more than 87% of the almost 9,000 employees surveyed were third-level graduates.

#### **Employment Location**

Historically, the IFSC referred to a physical location in Dublin's Docklands. As noted, there is no longer a requirement for firms to establish in a particular location. As a result, many of the people working in the sector are located either in the greater Dublin area or in regional locations.

This trend is most pronounced in the fund administration sector where companies including State Street, Northern Trust, and Citco together employ more than 2,000 people in locations such as Drogheda, Limerick and Cork. In addition, recent decisions by insurance companies such as that of Generali to invest in Navan show that this trend is continuing.

When the 1,000 people employed by Bank of America/MBNA in Carrick-on-Shannon and the 800 employed by Fexco in Kerry are included, along with the many technology, payment services and aircraft leasing firms based outside Dublin, it is estimated that up to 30% of all IFSC employment (approximately 10,000 jobs) is now located outside the capital.

Total IFSC employment stands at approximately 32,700. IFSC companies pay in excess of €1.966bn in wages and salaries, resulting in personal and payroll tax receipts of €713m.

#### **Ownership**

The IFSC was originally established as a way of attracting investment by foreign-owned financial institutions and they account for the majority of the employment in the sector. However, one of the key emerging trends is the rapid growth of indigenous firms. Figures provided to FSI by Enterprise Ireland show that there are now more than 5,900 people working in EI client companies engaged directly or indirectly in the export of financial services. Collectively, these firms generated exports of more than €800m in 2009.

#### **Professional Services**

A key element of the success of Ireland as a financial centre has been the strong professional and advisory support available to firms. The legal, accountancy, actuarial and management consultant sectors feature international players alongside significant domestic firms. FSI surveyed these firms directly as part of the research for this report and estimates that within the professional services firms, the total number of employees working directly on international financial services activity is approximately 2,640 and that total fee income of €448m is generated by these activities.

Sample Indigenous F	irms Related to Financial Services Exports
Sector	Sample Companies
Electronic Payments	Fexco, Continium Commerce, Card Commerce, Fintrax, Monex, Omnipay, Realax Payments, Sentenial, Trintech, Sysnet, Currency Fair, and Taxback.
Insurance	Exaxe, Percana, Phoenix Technology, Distinct.
Specialist Finance	Greenstone Aviation, Delta Index, Worldspreads
Funds	Abbey Capital, Apex, Quintillion, Moneymate, Biommetry, Newgrange Fund Management
Financial Software	Bankhawk, Corvil, CMS, CR2, Econiq, Fineos, Intuition Publishing, Norkom, Rockall, Softco

The Enterprise Ireland figures do not take account of the international financial service activities of the major domestic banks, employing an estimated 1,500 people. Operations include AIB's Capital Markets division and Bank of Ireland's Securities Services and Asset Management businesses.

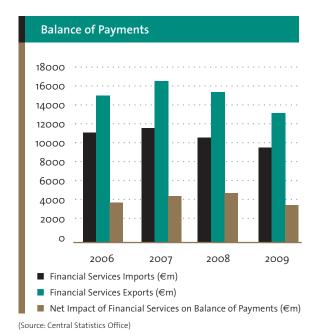
The bulk of employment continues to arise in foreign-owned companies. Multinationals employ approximately 240,000 across all sectors of the economy.\* On that basis the IFSC accounts for almost 10% of MNC employment.



<sup>\* (</sup>Source: IDA Ireland)

## **Key Findings**

Ireland is the seventh-largest provider of wholesale financial services in the EU.



Comparative Importance of the IFSC to the Irish Economy

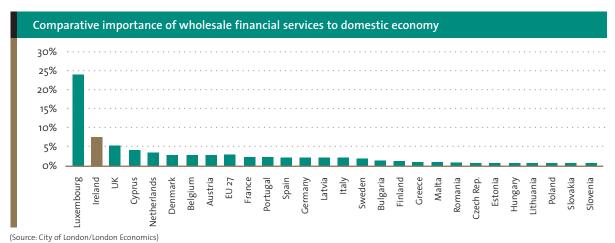
One of the most important conclusions to emerge from this study has been the extent to which Ireland has become a location of choice for investment by financial services firms. In 2008 and 2009, the Corporation of the City of London commissioned London Economics to estimate the importance of wholesale financial services to the economies of EU member states. For a small open economy like Ireland, the proportion of wholesale

financial services is a reasonable indicator of the size of the international industry. Their 2009 results show that wholesale financial services contributed €11.7bn to Irish GDP in 2008, or 7.4% of the total, second only to Luxembourg.

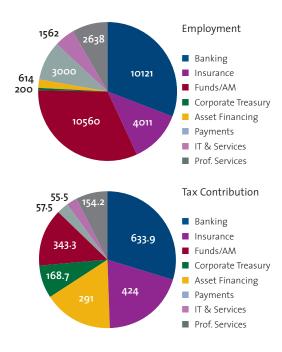
Ireland accounts for 5.3% of wholesale financial services in the EU, making it the seventh-largest provider, reflecting the leading role that has been played in the development of internationally traded financial services in the EU single market.

While this position reflects activities in various sectors, Ireland has an even greater share of activity in the cross-border insurance, aircraft leasing, fund administration, transaction processing and payments sectors.

Share of EU who	Share of EU wholesale financial services activities	
Member State	Market Share	
United Kingdom	36.3%	
Germany	13.1%	
France	10.7%	
Italy	6.9%	
Netherlands	6.5%	
Spain	6.3%	
Ireland	5.3%	
Luxembourg	3.7%	



## **Sector Overviews**



## **Funds and Asset Management**

## **Banking**

### Insurance

## Aircraft Leasing

## Securitisation

## Payments and Money Transmission

## **Corporate Treasury**

## **Technology and Service Providers**

- Funds with an asset value of €1,441bn are administered in Ireland
- 58 international banks operate, employing 10,121
- Nine of the top ten aircraft lessors operate in Ireland
- The ISE is the world-leading listing venue for fund and structured debt products
- Payment services firms employ approximately 3,000 people
- Treasury firms contribute €163m in corporate tax

## **Funds and Asset Management**

#### Introduction

Investment funds are established to give individual savers and investors the ability to pool their resources to achieve better returns and spread risk. The industry consists of three principal groups: promoters such as banks and insurance companies who market and sell the fund to potential investors, fund managers who make the investment decisions, and fund administrators who are responsible for day-to-day transactions and investor management.



While there are some fund promoters and managers based in Ireland, it is estimated that about 80% of employment is related to the administration and servicing of funds. The firms involved in this area are a mix of international and indigenous firms and range in scale from small firms with fewer than 10 employees to major operations with more than 2,000 employees across multiple locations.



#### Asset Management firms include:

Skandia Global Funds	
Scanam Asset Management	
Pioneer Investment Management	
Pinebridge	
Oasis Global Management	
Comgest Asset Management	
Mediolanum Asset Management	
Harbourmaster Capital Management	

Key Activities			
Sub Sector	Sector Overview	Illustrative Companies	Activities
Fund Management & Promotion	Professional management of various investment vehicles to meet specified investment goals for the benefit of the investors.	Mediolanum Pioneer	Portfolio Modelling Fund Launch & Promotion Portfolio Management & Investment Decisions Fund Registration Trade Execution & Reporting
Fund Administration & Servicing	Activities that are carried out in support of the actual process of running a collective investment scheme	BNY Mellon CITCO Citi Northern Trust State Street	Settlements & Valuations Custody Client Servicing Reporting Fund Accounting Performance Management Audit

## Fund Managers & Administrators include:

Admiral Administration
Apex Fund Services
Bank of America Merrill Lynch
Bank of Ireland Securities Services
BDO Simpson Xavier Fund Administration
BNP Paribas
BNY Mellon
Brown Brothers Harriman Trustee Services
Caceis Fastnet Ireland
Capita Financial Administrators
Citco Fund Services
Citi
Confluence
Daiwa Securities Trust Europe
Euro-VL
FundAssist
GAM Fund Management
GlobeOp Financial Services
HSBC Security Services
International Fund Services
Invesco Global Asset Management
Irish Life Investment Managers
JP Morgan
Man Corporate Services
Metzler Ireland
Morgan Stanley Fund Services
Northern Trust
Phoenix Fund Services
PNC Global Investment Servicing
Prime Fund Solutions
RBC Dexia Investor Services
SEI Investments Global Fund Services
SIX Telekurs
State Street International
Trinity Fund Administration
UBS Fund Services

#### **Employment**

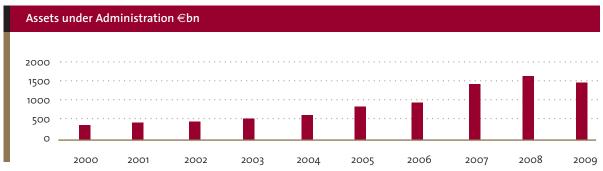
Both Finance Dublin and the Irish Funds Industry Association conduct annual employment surveys showing that current employment in fund administration and servicing stands at 8,800 in January 2010, down from 9,500 the previous year, while total employment across the sector stands at 10,560, down from 10,650 at the end of 2008. The types of work carried out by these employees include fund accounting and administration (44%), transfer agency (18%), custody and trustee functions (8%), client relationship management (4%), and others (28%).

More than 87% of people working in the sector are third-level graduates; the average length of service is 2-5 years, and more than 50% have management or supervisory responsibilities. Despite the drop in overall employment numbers, fund administrators hired 566 new employees in 2009, 21% of whom were previously unemployed or were reentering the labour market.

The level of employment in this sector is directly linked to the number of funds that are administered in Ireland and the value of the assets in those funds. A number of jurisdictions compete for this business, most notably Luxembourg. Over the course of 2009 the number of funds administered in Ireland dropped by 524 – during the same time the numbers employed in administration fell by 724.

## **Funds and Asset Management**

At the end of 2009, €1,441bn in assets were administered in Ireland, with €749bn also domiciled here.



(Source: Financial Regulator, IFIA)

#### **Global Position**

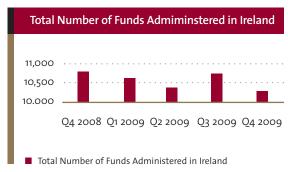
Ireland has competed successfully in this sector and has developed a global reputation for the domiciling and administration of investment funds. This has been due to a number of factors including:

- regulatory expertise;
- availability of a skilled workforce;
- favourable legal and fiscal environment;
- international profile of Irish Stock Exchange fund listings;
- high quality legal and accounting services.

These factors have led more than 358 fund promoters to choose Ireland as the location for the administration and/or domiciliation of their funds. The overwhelming majority of fund promoters who choose Ireland as a domicile originate in the UK (46%) or the USA (39%).\*

#### **Domicile and Administration**

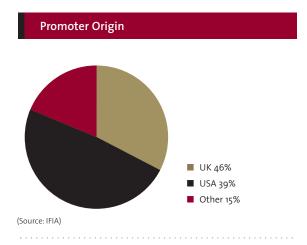
Funds that are domiciled in Ireland are legally established here and it is a condition of their establishment that they are also administered from Ireland. However, many of the assets that are administered in Ireland are domiciled in other jurisdictions. At the end of 2009 a total of €1,441bn of assets were administered in Ireland; of these €749bn (52%) were also domiciled here.



(Source: Financial Regulator, IFIA)

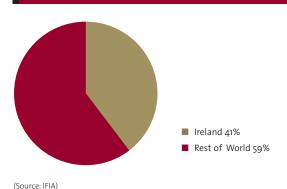
 $<sup>^{</sup>st}$  (Source: Lipper Ireland Fund Encyclopedia, June 2009)

41% of alternative investment fund assets are administered in Ireland.



The number of funds that are not domiciled in Ireland but are administered here recovered somewhat in late 2009. Having fallen to 5,360 it has recovered to 5,756 but has yet to match its 2008 peak of 5,912. One interpretation of these figures could be that while fund administration companies have been successful at competing for business internationally, there has been some erosion in the relative competitiveness of Ireland as a domicile location.

#### **Administration of Alternative Investment Funds**



#### **Alternative Investment Funds**

The funds administered in Ireland are of two types:

- UCITS are an EU harmonised fund product: this is the most prevalent fund type and is used for retail investment products that are more highly standardised and regulated. These funds, once authorised in an EU Member State can be marketed throughout the EU with no further authorisation requirement.
- Non-UCITS funds are used for various alternative investments including hedge funds, real estate and private equity funds. Once authorised by the Financial Regulator they can be marketed to retail and institutional investors. Non-UCITS are categorised by investor type: retail, professional and qualifying investor (institutional/high net worth individuals).

Of the €1,441bn of assets that are administered in Ireland, approximately €689bn of these are held in alternative investment fund structures, comprising more than 41% of worldwide alternative investment fund assets.



## Banking

58 IFSC banks operate internationally, employing 10,121 people.

#### Introduction

IFSC banks deliver services to corporate and individual clients around the world. In 2010, 40 institutions hold Irish banking licenses, and 33 further international institutions operate branches in Ireland. 15 of these have a significant involvement in the Irish domestic banking market – the remaining 58 firms are engaged almost exclusively in international banking.

Of the institutions regulated in Ireland, the Financial Regulator identifies the international sector as comprising 32 institutions, with a combined balance sheet of €679bn at the end of 2009.

Finance Dublin estimates that the total employment in international banking activities was 10,121 at the end of 2009, down approximately 600 from the end of 2008.

Both the scope and the nature of the activities carried out within international banking vary considerably, as can be seen in the table on page 18.

Many of the largest global banking institutions are present, including Bank of America Merrill Lynch, Citi, BNP Paribas and HSBC, providing a wide and diverse range of services.

Bank of America's operations range from credit-card support functions for MBNA's UK and Ireland business to sophisticated asset finance and leasing. Citi established in Ireland in 1965, now employs over 1,800 people and is home to the firm's global R&D centre.

Firms such as Bank of New York Mellon hold a banking license to allow them to provide a wider range of services to their fund administration clients, while smaller institutions including Volkswagen Bank and Hewlett Packard Bank provide consumer finance alongside cash management and treasury functions within their parent group.

#### International banks include:

Aareal Bank	Elavon Financial Services	Nexgen Capital
ANP International Finance	Fortis Prime Fund Solutions	Pfizer International Bank Europe
Bank of America Merrill Lynch	Goldman Sachs	PNC International Bank
Bank of Ireland Global Markets	Helaba Dublin	Rabobank
Bank of Montreal	Landesbank Hessen-Thüringen	Scotiabank
Barclays	Hewlett-Packard International Bank	Sumitomo Mitsui
BNP Paribas	HSBC Bank	TD Global Finance
CIBC World Markets	ING	Bank of New York Mellon
Citco Bank Nederland NV	Intesa Sanpaolo	Ulster Bank
Citi	Investec	Unicredit Bank
Commerzbank Europe	JP Morgan	Wells Fargo
Depfa Bank	KBC	WGZ Bank
Dexia Bank	LBBW Asset Management	Zurich Bank
DZ Bank	LGT	
EAA Bank	Naspa	

There are also approximately 30 banks, best described as medium sized institutions, which engage exclusively in wholesale banking. Most of these are subsidiaries of European or North American groups, employing 20-40 staff. Many were among the first institutions to locate in the IFSC, and have been in Ireland since the late 1980s/early 1990s.

#### **Global Position**

Ireland has attracted some of the world's largest banks to establish operation in Dublin, based on factors including:

- membership of the Eurozone;
- access to EU markets;
- favourable legal and fiscal environment;
- availability of skilled staff.

As shown below, the international banks grew significantly during the period 2000-2008, both in absolute terms and relative to the domestic industry.

Irish cross-border deposits have grown from \$24bn in June 1999 to \$125bn in June 2009. Deposits peaked

at \$275bn in 2007 while cross-border loans have grown from \$43.4bn in 1999 to \$134bn in 2009. The Irish market share of cross-border assets more than doubled from 2003 to 2007, from 1.5% to 4.2%, although this has contracted over the past year.

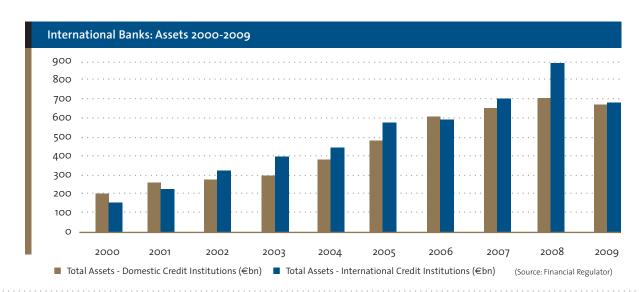
Ireland has also significantly increased its share of the non-domestic debt securities market over the last decade with market share increasing from 1.15% in June 1999 to 2.25% in June 2009 (by value outstanding).

The strength of the parent groups is illustrated by the fact that of the institutions listed above, almost half of them belong to firms who were ranked in the top 50 safest banks in the world by Global Finance Magazine\*.

In general, these banks' direct involvement in the domestic financial system is limited. These institutions hold relatively small shares of deposits placed by Irish households and businesses (7% at end-2009) and they provide a small share of the total credit outstanding to these customers (5% at end-2009).

No IFSC-based bank received any support from the Irish State during the recent financial crisis.

\* Global Finance Magazine, October 2009



## Banking

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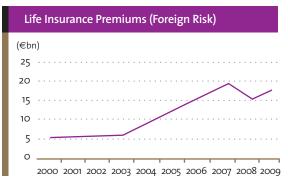
Activity Areas			
Sub Sector	Sector Overview	Illustrative Companies	Sample Activities
Corporate Finance	Overall management of the finances of the companies and may include tailored financing solutions, investment management and M&A advisory.	Aareal Bank Bank of America Merrill Lynch BNP Paribas Citi HSBC KBC Bank	Research & Sales Pricing & Trade Execution Risk Management Client Servicing Data Processing & Validatio Transaction Processing
Corporate Banking	End-to-end provision of banking services, e.g. working capital loans, transaction banking, foreign exchange and interest rate hedging etc. to the corporate sector, including public sector and financial services companies.		
Investment Banking	Operations include the under- writing of new debt and equity issues, proprietary trading, provision of advisory services and facilitating the sale of securities.		
Structured Finance and Securitisation	Transfer of risk from issuers to investors through securitisation of financial assets to generate capital and funding for issuers.  Distribution of risk to investors by aggregating debt instruments in a pool and then issuing new securities backed by the pool.	Bank of America Merrill Lynch BNP Paribas Dexia Guggenheim Partners ING Unicredit Bank	Product Development Pricing Deal Structure Promotion & Sales Admin & Servicing Risk & Compliance Asset Selection & Pooling Setup & Structuring of SPV
Treasury	Liquidity management (ALM), hedging of financial risks, management of holdings in and trading of government and corporate bonds, other fixed income securities, currencies, financial futures, options and other derivatives, high value payments and cash management.	ING Rabobank Scotiabank Unicredit Bank	Intra-Day Liquidity Sourcing and placement of funds Valuation of positions Trade Execution Administration & Reporting
Leasing	Provision of financial solutions; enables a lessee to receive the right to total ownership of an asset based on conditions for a specified period in return for payment. Leases are typically either finance leases, which include an option to purchase, or shorter-term operating leases.	AWAS CIT Group GE Capital Solutions HP International Bank Rabobank/De Lage Landen RBS Aviation	Marketing & Origination Funding & Invoice Review Credit Management

#### Introduction

The ability to provide insurance products on a pan-EU basis has been a crucial driver of the growth of the IFSC. As of 31 December 2009, 69 life insurance undertakings were authorized in Ireland with a further 158 undertakings authorized to carry out non-life business. The vast majority of these firms are involved exclusively in cross-border insurance.

The majority of life business written from Ireland is investment driven, with relatively limited mortality cover. On the non-life side, Ireland has developed itself as a leading centre for both captive insurance (where the insurance is linked to the risks of only one company) and reinsurance, and more recently as a hub for pan-European groups that are consolidating their activities in advance of the introduction of Solvency II.

The sector consists of a large number of small firms, who are often heavy users of third party administration and support services. Many firms also offer both life and non-life services, and maintain shared resources to support this. Accordingly, it is relatively difficult to determine the precise employment numbers; however, it is estimated that the life sector



(Source: Financial Regulator)

accounts for 6o-65% of total employment. The non-life and reinsurance sectors have seen growth over the past 18 months, with jobs created in the newly established cross-border hubs of Zurich and Aviva and other notable investments including:

- the establishment of Everest Re;
- the opening of a new R&D Centre by Aon;
- the decision of Willis to move their Corporate HQ to Dublin;
- the announcement by Generali of up to 200 new jobs in Navan to support their European business.

Cross-Border Life Insurance Activity									
Life Assurance	2001	2002	2003	2004	2005	2006	2007	2008	2009
Gross Premiums (€bn)	5.50	6.40	6.55	9.39	12.73	15.83	20.46	16.04	17.56
Active firms	36	35	39	39	39	40	41	41	40

(Source: Financial Regulator)

#### Life

As noted above, the bulk of cross-border life insurance done in Ireland is single premium business sold into other EU countries as a savings and investment products. Cross-border insurance premiums received have grown from €5.34bn in 2000 to €17.56n in 2009. Ireland is now the largest provider of international life insurance in the EU. The 2009 IIF Factfile contains an analysis of the source of new foreign premiums received by IIF member companies in 2008. Of a total of €5.3bn in new premiums, 89% of these were single premium products, and 98% of premiums came from within the EU.

Ireland's success in this area has been due to our tax and legal system, regulatory familiarity with the industry, and the availability of the specialists skills required to sell into a range of different jurisdictions. In some niche areas of this sector – in particular variable annuities – Ireland is the recognized leader in Europe with companies such as Aegon, Met Life, Canada Life, Axa and Allianz choosing Ireland as the location from which to launch these products.

#### Non-life

There are more than 150 companies based in Ireland providing general insurance and reinsurance on a world-wide basis. Gross premium income from international non-life business was €7.84bn in 2009.\*

The role of reinsurance is to provide a wholesale market for insurance risks and to allow insurance companies to avoid over-exposure to exceptional losses such as a natural disaster or terrorist attack. Ireland has also developed as a leading jurisdiction for captive insurance firms, which allow large corporates to 'self-insure' some of their risks. Of the 202 captive insurers operating in Ireland, those from the USA, UK, France, Netherlands and Germany account for 63% of the market. The management of these captives is typically outsourced to an external firm – providers including Marsh Management, Aon, Willis, Chartis and Eureko together employ 140 people in this area.

\*(Source: Insurance Statistical Review, Financial Regulator 2010)

#### Life firms include: Aegon Eurizon Prudential SEB Life Alico Euroben Allianz Generali Sella Life Arca Viva Halifax Skandia St. James's Place Hansard Aviva The Hartford Standard Life Axa **HSBC** AZ Life The Lawrence Inora CACI UBS Vicenza Canada Life Irish Life Legal and General Zurich CitiLife CNP Mediolanum CUNA Metlife MGM Darta

Non-life firms include:				
Acadia	Carrefour	Partner Re		
ACE Bermuda	Centre	PMI		
Aetna	CODEVE	Quinn		
AIG	ENI	RSA		
Allianz	Euro Insurances	SAGA		
Alreford	Halifax	Wagram		
Amtrust	HSBC	White Horse		
Axa	KPN	Zurich		
Axis	Max Insurance			
Barclays	Miripro			
Beech Hill	Nautilus			
CACI	New Technology			
Carraig	Oney			

Ireland is the largest provider of cross-border life insurance in the EU with premiums of €16.4bn in 2009.

Activity Areas			
Sub Sector	Sector Overview	Illustrative Companies	Sample Activities
Non-Life Insurance	Insurance offering protection for, e.g. physical assets, and facilitating individuals and businesses in risk management.	Assurant Group CACI Non Life ENI Insurance Euro Insurances St Andrews Group	Marketing & Sales Investment Management Policy Administration Risk & Compliance Claims Management
Life Insurance	Life policies vary from single premium, primarily investment products to traditional mortality cover.  Products include mass-market instruments such as unit-linked bonds and variable annuities, and more customized products such as portfolio bonds and protection business.	Aegon Axa MPS Canada Life Eurizon Life Generali Hansard Europe Lawrence Life Legal and General Standard Life UBS Life	Marketing & Sales Investment Management Policy Administration Risk and Compliance Claims Management
Reinsurance	Reinsurance is a means by which an insurance company can 'lay off' risks with other insurance companies.  Specialists include property catastrophe reinsurers, life reinsurers and retrocessionaires and credit reinsurers.  Some firms also perform actuarial and modelling functions and head office functions.	Allied World Everest Re Mitsui Sumitomo Natixis Reinsurance Partner Re	Assessment & Underwriting Marketing Claims Management Investment Management Policy Administration
Captive Insurance	Using a captive insurer is a risk management technique by which a business forms its own insurance company subsidiary.	Baltimore Barclays Carrefour Halifax Porsche International	Risk Assessment Special Purpose Vehicle Captive Setu Captive Certification Risk & Compliance Reporting

## Aircraft Leasing

#### Introduction

Ireland is a leading centre for aircraft leasing. Nine of the of the world's top 10 leasing companies currently operate in Ireland, with operations spanning the industry value chain, from sales to asset management and technical services.

Historically, the success of the sector was founded on the establishment of GPA in the 1980s and the consequent development of local skills and an experienced resource pool. More recently, the key factors in the success of this sector have been the favourable corporate tax regime, human resource expertise and broad tax treaty network. The use of leasing services by the major Irish airlines has also benefitted the sector.

In general, regulatory authorisation is not required for aircraft leasing operations, although a number of active firms are otherwise regulated entities.

Ancilliary service providers such as Shannon
Aerospace have also grown up around the major leasing operations.

Activities performed range across a broad spectrum and include sales, remarketing and lease placement, financing operations, acquisition and management, transaction negotiation, execution and deal structuring and technical services including Irish aircraft registration.

A distinction is generally drawn between long-term financing leases, where an option to buy usually exists, and shorter term operating leases. The recent changes to Section 80A in the Finance Act 2010 enabled greater operating lease activity.

Over the past two decades, aircraft leasing has grown from a niche market to a \$150bn industry. Irish based companies own or manage 19% of the roughly 18,000 commercial craft flying today.

## Aircraft Leasing

Firm	Number of A/C	Value (\$bn)
GECAS	1731	33
RBS Aviation	229	6.7
CIT	229	6.2
Babcock and Brown	272	5.8
AWAS	193	3.9

#### **Economic Contribution**

Employment		Average Salary (€)
Direct	614	111,956
Indirect	380	82,273
Tax Take	€	
Payroll Taxes	34.2m	
Corporation Tax	268.5m	
Other Economic Contribution	€	
External Expenses	132.8m	
VAT	4.9m	

(Source: FAEI/KPMG, 2008)

#### Securitisation

#### Introduction

Over the last 10 years Ireland has developed a position as a global leader in the provision of securitisation services. With the benefit of a legal, regulatory, and fiscal regime that recognised the value of structured finance to the broader economy, Ireland became a location of choice for international banks that wished to raise funding on the international markets.

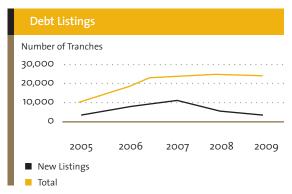
In this report securitisation activities have been consolidated with banking and professional services for the purposes of calculating employment levels, exchequer contribution and salary levels, since securitisation is generally one of a number of functions or activities carried out by firms in these areas.

Securitisation is the process by which finance is raised in capital markets based on the intrinsic credit strength of assets or other sources of cash flow, independent of the creditworthiness of the original owner of the assets.

Securitisation has historically offered significant benefits to the international economy. It has lowered the cost of mortgages and other loans, and has been an essential source of funds for business, homeowners and the wider economy. From an issuer perspective, securitisation offers key advantages by allowing the diversification of risk, reducing funding costs, providing greater choice in how to raise capital, improving balance sheets and enabling access to a broader pool of investors. For investors, it brings a greater choice of investment opportunities along with greater security through insulation from the credit risk of the originator of the assets.

#### **Listing Location**

The Irish Stock Exchange has developed a strong international reputation in the listing of debt instruments and the number of issues listed on the ISE has increased rapidly in recent years, despite the global decline in issuance.



(Source: Irish Stock Exchange)

Preparing the listing application, prospectus and other legal and accounting information requires a significant pool of skilled professionals. This work is carried out by stockbrokers, international banks, law firms, and a small number of stand-alone listing agents. It is estimated that the level of direct employment in the legal, audit and listing services industries arising from securitisation business is in the region of 150-200 people.

#### Administration

After launch, the Irish incorporated special purpose vehicle that issues the debt securities requires ongoing administration and support, including the preparation of accounts, the collection of revenue and the payment of note holders. Statistics relating to Financial Vehicle Corporations (a subset of SPVs) published by the European Central Bank\* show that 819 FVCs are located in Ireland. As all SPVs are not FVCs, it is estimated that there are over 1,000 SPVs currently administered in Dublin.

<sup>\*</sup> Q2 2010 – available from the ECB website at http://www.ecb.europa.eu

#### Securitisation

These services are provided by a range of different firms, from corporate services divisions of larger institutions including AIB, Deutsche Bank and Citco, to more specialised firms including SFM, TMF and Bedell.

Although the exact cost of supporting an SPV varies depending on its complexity and scale, each SPV generally results in the payment of at least €50,000 upon establishment and €50,000 per annum in fees, wages and taxes in Ireland. On the basis that the number of SPVs that are actively administered in Ireland has remained at about 1,000 over the last 4 years the resulting spend is at least €250m on labour-intensive services in those 4 years. The level of direct employment is approximately 250 people.

#### Securitisation

In 'traditional' securitisation of mortgage assets, banks sought to raise funding based on the loans that they had made, and buyers sought a way to invest in the mortgage business. The key for investors is to be able to invest in a limited aspect of the bank's business, rather than the whole bank. The performance of the investment must be completely independent of the chance of bankruptcy of the seller.

To achieve this, a new company (SPV) is set up which buys the assets from the seller, which in turn funds the acquisition by issuing debt securities to investors. In effect, the performance of the loans is linked only to that of the underlying assets. Repayments on the debt are made with the collections from the assets with no recourse to the seller. Different tranches with varying risk/return profiles will be offered to different investors depending on their investment objectives.

#### Section 110

Since the SPV only exists to provide a ring-fenced investment structure, it should be tax-neutral; that is it should not result in more tax than the investors would face if they had bought the loans directly.

The basis of this critically important treatment is Section 110 of the Taxes Consolidation Act 1997. In the absence of this legislation, the SPV would be taxable on the interest it receives, but would not be entitled to a deduction for the interest that it pays. The section also provides for the tax deductibility of bad debts.

To fall within Section 110, SPVs must have qualifying financial assets (including bonds, loan receivables, derivatives etc.) of at least €10m, be resident in Ireland and carry on no other activities than holding and/or managing the assets.

## Investors/Issuers/Collateral Managers and Collateral Administrators

In addition to the administrative functions described above, a small but significant number of investors, issuers, collateral managers and collateral administrators are also active in Dublin. Investors, often banks or pension funds, purchase securitised debt as part of their overall investment strategy.

The level of activity in this area was examined as part of the research into the banking sector. This identified a number of firms that were active as investors, issuers, collateral managers or collateral administrators. These include firms such as Bank of America, Bank of New York Mellon, Unicredit Bank, Avoca Capital, Harbourmaster, BNP Paribas, Aareal Bank, ING, Guggenheim Partners and Dexia. While the scale and complexity of their operations varies considerably, the total number of people employed in this area is 250-300.

#### **Economic Value**

We estimate direct employment in this area to be in excess of 700 jobs across the three main areas described above, with a corresponding direct Exchequer contribution of approximately €75m per annum. Around one job is created for every 1.5 SPVs that are incorporated in Ireland.

However, these figures understate the wider economic importance of securitisation. Section 110 (see side-bar) is a fundamental part of the IFSC's fiscal infrastructure. SPVs and structured finance techniques are used by a cross-section of the international financial services industry in Ireland. Investment funds use SPVs to hold certain types of assets, as does the aircraft leasing sector. The introduction of the Reinsurance Directive and the imminent implementation of Solvency II has led insurance companies to use securitisation techniques as part of their risk management strategies.

## Payments and Money Transmission

#### Introduction

International payment services have been one of the key growth segments for financial services over the last decade. Due to significant advances in technology and security, and regulatory initiatives such as the EU Payment Services Directive, the number and value of payments that are carried out electronically has risen dramatically. A number of major firms have located in Ireland, including Paypal and Chase Paymentech. Indigenous firms such as Realex and Fexco have also emerged.

Although it is difficult to estimate with accuracy the total employment in this sector, it is estimated that these companies employ in the order of 3,000 people in Ireland, in a low-risk and labour-intensive sector.

This sector also provides one of the key potential growth areas for the financial services sector as a whole. Research conducted by the recently established Electronic Money Payments Association has shown that, despite strong competitive advantages in the area, Ireland's share of the industry is relatively low. The UK has 4,300 regulated entities under the Payment Services and eMoney Directives; Ireland has only 34.

Some of the operations in the area are described below - as is evident there is a wide variation in both the nature and scale of these.

Sample Payments Companies		
PayPal's European Operation Centre opened in Dublin in 2003. Since then the number of staff has increased from 25 to more than 1,100. In 2009, it announced an investment of €15m to support the development of a European Centre of Excellence in Blanchardstown. The Dublin centre manages all direct customer contact for PayPal's businesses across Europe.		
Chase Paymentech established its European headquarters in Dublin in 2008, aiming to provide operational support for a 100-person team across Europe responsible for expanding the firm's operations, marketing initiatives and customer support activities outside the United States.		
Based in Monkstown and employing 70 people, Realex provides online payment processing services to a global client base, including firms such as Virgin Atlantic, Vodafone and Aer Lingus.		
Founded in 1981, Fexco has 910 employees in Ireland and almost 1,300 in total, with 800 operating from their Kerry headquarters. While the firm operates a broad range of services, a significant part of their Irish employment covers international payment provision.		
Elavon is a subsidiary of U.S. Bancorp, employing over 200 people in Cherrywood, and provides end-to-end payment processing services to more than one million commercial users in Europe and North America. Services include credit and debit card processing, electronic check services, dynamic currency conversion and multi-currency support.		

## **Corporate Treasury**

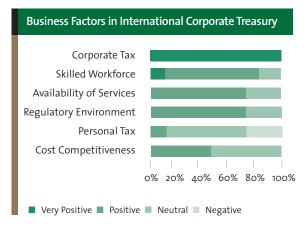
#### Introduction

The Corporate Treasury sector primarily consists of standalone subsidiaries of large non-financial services organisations (e.g. Pfizer, Xerox and Securitas), which conduct in-house treasury functions for their parent, and often serve shared services centres serving multiple locations and functions.

The leading firms are often the global hub for their parent's treasury operation and provide a range of services including cash pooling, debt raising, in-house banking, inter-company netting, and shared services such as payroll and payments.

While the numbers directly employed in this area can be quite small, the quality of the employment is excellent, and the strategic importance of the work that is done here strengthens the case for parent companies to locate or retain other jobs and operations, e.g., manufacturing or support services, in Ireland.

A further aspect of this sector is the provision of 'agency' corporate treasury services by larger institutions. While the number of players has declined in this area in recent years, Bank of America, AIB and FTI maintain a significant presence.



(Source: Financial Services Ireland, Survey 2010)

#### **Corporate Treasury Activities**

High Activity Level Cash Pooling

Investment
Accounting
Reporting
Debt Financing
In-house Banking
Settlements

Medium Activity Level FX Hedging

Inter-Company Netting Interest Rate Hedging Back Office processing

M&A Activity Company Pensions

Insurance

Low Activity Level Equity Financing

Commodity Hedging Shared Services

(Source: Financial Services Ireland, Survey 2010)

Key statistics for standalone firms:

- overall employment is estimated to be approximately 200
- average gross salary of €77,000
- total corporation tax of €163m
- spend on other service providers in Ireland is €8.5m

#### **Outlook and Trends**

The success of the corporate treasury sector has been built on diverse grounds; the key factors have been positive tax provisions, including the corporation tax rate, efficient revenue collection and the tax treaty network, and the availability of skills, both in the workforce and professional services firms.

## **Technology and Service Providers**

#### Introduction

One of the key reasons for the rapid development of the IFSC has been the availability of high-quality technology companies who can provide the technical services and infrastructure required for international financial services firms. The administration of life insurance policies, the processing of cross-border payments, and the protection of confidential data are just some of the areas where technology plays a key role.

Similarly, many of the international firms that have located in Ireland have chosen to establish relatively small proprietary operations that focus on the knowledge-intensive aspects of their business such as risk management and product development, and have used dedicated outsourcing providers to carry out routine tasks.

As a result, to fully state the contribution of the IFSC to the Irish economy, it is necessary to include firms who rely entirely on the IFSC for their business, and whose employees deal exclusively with consumers in international markets. For example, IPSI, a wholly owned subsidiary of Irish Life and Permanent employs 135 people providing software and third party administration services to the cross-border life insurance sector. Percana, recently bought by IFDS, employs over 240 people.

The major Irish and international consultancy and outsourcing providers are also active, with Capita, IBM, Oracle, Accenture, System Dynamics and SAP all maintaining substantial IFS activities.

A related trend has been the growth in international financial services firms choosing Ireland as a location for their group technology facilities.



Some of the more significant investments in this area include:

- Allianz Worldwide Care (30)
- Axa Global Distributors (200)
- Fidelity Investments (300)
- Unum (50 people)

Other technology firms also operate in financerelated areas; e.g. Corvil specifically targets financial institutions aiming to optimize trading networks.

It is difficult to avoid double counting some of the employment in this area, but as a conservative estimate at least 1,500 people work in areas that rely entirely on the IFSC and whose jobs involve providing services into the global market place.

## **Sources and Further Information**

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