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## Ireland Insight

How has growth in Ireland's fund administration market affected the rest of the industry?

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# The luck of the Irish

Ireland's prominence in the fund administration industry has heightened in recent years, how has this affected the demands of the fund industry?

*Maddie Saghir reports*

As Brexit approaches and the uncertainty of a deal or no-deal scenario comes to bear, the finance industry, like the UK, stands on a cliff-edge. Ireland, one of the UK's largest trading partners, could potentially suffer as a result. So far, however, Ireland has had positive outcomes, and with a bit of Irish luck, industry participants hope that Brexit will provide some opportunity.

The luck of the Irish prevailed after the 2007/8 financial crisis, where Ireland enjoyed growth: a rise in total fund asset services, funds and sub-funds, as well as fund processing figures. On top of this, of the largest UCITS domiciles in 2017, Ireland recorded the largest net asset increase at 15.9 percent.

Additionally, Ireland has gained a reputation as a regulation onshore jurisdiction and there has been strong growth in bond domiciled and non-domiciled assets. Technology improvements have helped enhance and empower change in the industry, and as technology continues to advance, this could prove to work further in Ireland's favour.

Pat Lardner, chief executive of the Irish Funds Industry Association, indicated that Ireland's reputation as a regulated onshore jurisdiction with a very strong service offering has held it in good stead.

"As the breadth of fund types and strategies have expanded, so have the capabilities of the Irish industry—whether these be alternative strategies, common contractual fund structures, liquid alternatives or exchange traded funds (ETFs), the list goes on," Lardener explained.

"A combination of a very experienced regulator, a supportive government and a dynamic industry sector have enabled the industry to adapt and thrive to these changing demands."

For Frank Carr, CMO of FRS, the biggest factor affecting the demands of the funds industry has been the continuing push for cost efficiencies in fund administration fees.

Elaborating on this, Carr said: "This cost challenge has been met by software vendors providing technology solutions, enabling providers to administer a much greater number of funds from within their existing human resource capabilities. The demand for more comprehensive analytics capabilities is a more recent feature."

Carr continued: "Technology improvements over the last ten years have empowered major change here reflecting the operational efficiency and low risk frameworks that global asset managers and life companies deploy. For example 10 years ago it would not be unusual to have one person per 10 funds."

The grid below shows some live statistics from FRS's clients reflect this change:

Figure one

Firm	Number of Funds	Operations Staff (FTE)	Efficiency Ratio
A	438	2	219:1
B	2,850	8	356:1
C	1,882	3	518:1

Carr said: "This type of technological advancement has facilitated business growth in Irish domiciled funds."

According to Carr, another big change has been more regulation, consumer protection is driving a new layer of regulation particularly as workers are mandated to make provision for retirement.

## Trends

Increasing enhancement of technology marks one of the key trends in the industry. Given the large technology hub in Ireland, Lardner outlined that the integration of technology into asset management is adding to the sense of vibrancy and excitement.

Other trends include a greater number of investment management firms creating or increasing their presence in Ireland, which will add greatly to the ecosystem, Lardner revealed.

From Carr's perspective, providers are positioning their firms for growth, creating operating models that can scale without a corresponding increase in headcount.

Carr explains: "On a short term basis we are witnessing Packaged Retail and Insurance-based Investment Products key information document solutions being deployed in preparation for 2020 introduction for UCITS."

Another trend is cross-border products, which are increasingly seen by asset managers as the optimal path for growth, Tadhg Young, senior vice president, head of global services Ireland and the Channel Islands, at State Street, revealed. He explains that almost two thirds (64 percent) of managers are planning to launch cross border products in the next five years.

"However, the majority (88 percent) see distribution-related data as a challenge in achieving this, and believe the pace of change is only accelerating with more than half (57 percent) worrying about new entrants from the world of technology," said Young.

According to Paul Nuan, managing director of Link Fund Solutions, trends will continue in ETFs.

Nuan commented: "I can see continued ETF growth as well as more money going into real assets such as property."

"I see private equity growing significantly in the coming year, and looking outside that, I think automation is going to start having a real impact on fund service providers."

## New heights

Meanwhile, in May this year, data from the Central Bank of Ireland revealed that the Irish Funds industry net sales broke new record levels of €298 billion, which further highlights growth in Ireland.

The new record level marked the highest net sales ever of Irish domiciled funds, constituting for more than twice the amount of the previous record in 2016 and representing over 30 percent of net sales of all European funds.

Another recent report by the European Fund and Asset Management Association (EFAMA) and SWIFT revealed that Funds processing automation rates have reached new heights.

The report, which surveyed 29 transfer agents from Ireland and Luxembourg, found that industry automation rates reached 88 percent of cross-border fund orders in the last quarter of 2017, which represents an increase of 1.3 percentage points compared to the fourth quarter of 2016.

The total automation rate of orders processed by Irish transfer agents increased to 92.1 percent in the fourth quarter of 2017, from 90.6 percent in the fourth quarter of 2016.

Meanwhile, of the largest UCITS domiciles in 2017, Ireland recorded the largest net asset increase at 15.9 percent, and speaking on this topic, Young noted that Ireland houses €1,831 billion in European UCITS assets.

Young said that since its establishment more than 30 years ago the investment funds industry in Ireland has delivered a very stable and globally recognised environment for the establishment and servicing of investment funds.

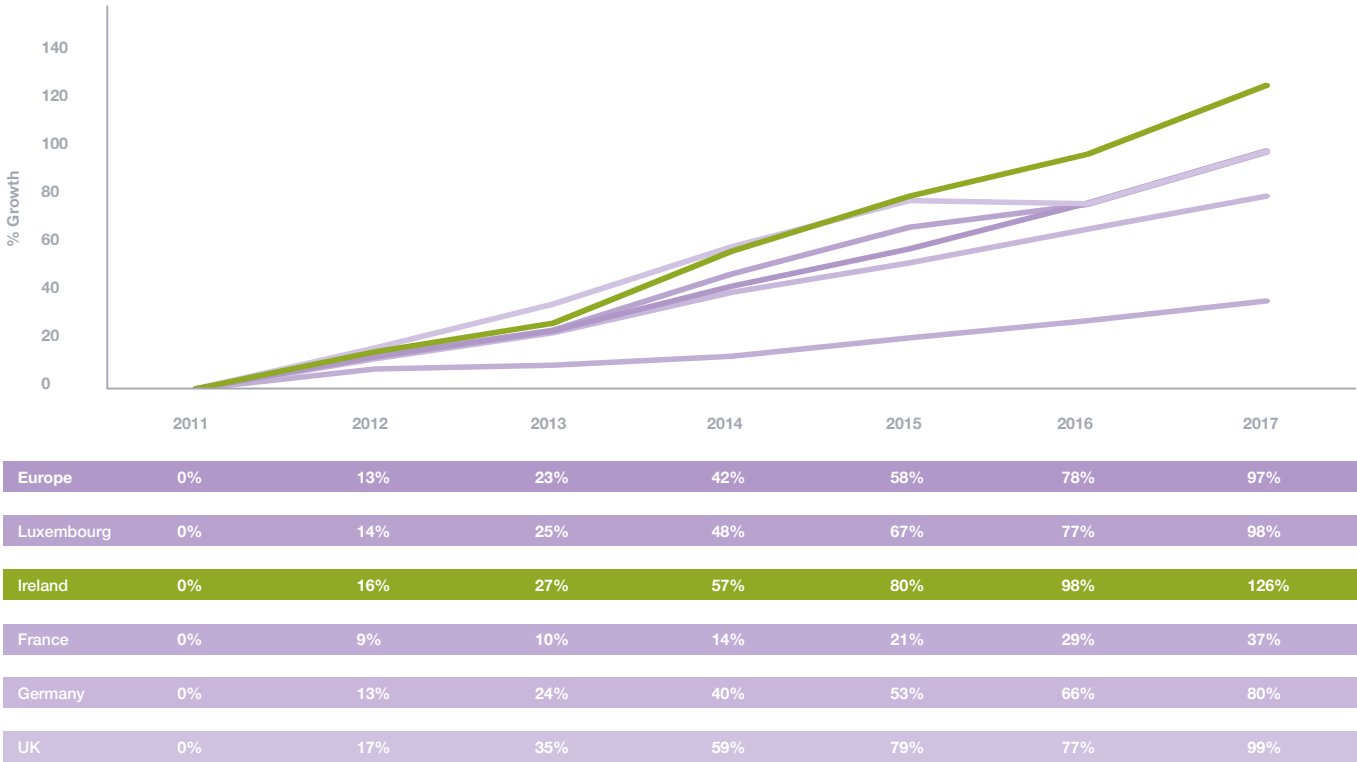
Agreeing on the continued growth, Lardner said: "We are confident that we can continue to provide confidence to managers who want to be able to execute their international cross border strategy."

Carr recognises that maintaining 16 percent growth "will not be easy", but "Ireland remains a top choice to list funds".

Audrey Behan, head of AIFM, Intertrust Ireland, commented: "Assets in Irish domiciled funds have been the fastest growing of the five largest European domiciles over the last four, five and six years. Ireland is growing at approximately twice the European average in terms of net sales into Irish domiciled funds." (see figure one and two)

The graphs below illustrate these trends.

Figure two



Source: EFAMA Statistics

Figure three



Source: Central Bank of Ireland 2018



## Onwards and upwards

Ireland's funds rebounded after the financial crisis and Irish Funds' chart of Irish Domiciled Funds demonstrates this, proving that since the crisis, the Irish economy has been on an onwards and upwards track.

In reference to the chart, Lardner explains that the increase in the number of funds domiciled here [in Ireland] over the period suggests there is a broadening of manager's offerings.

He continued: "While we have seen growth across all segments, the most pronounced growth in more recent years is in the area of ETFs where Ireland is the leading European domicile for such funds."

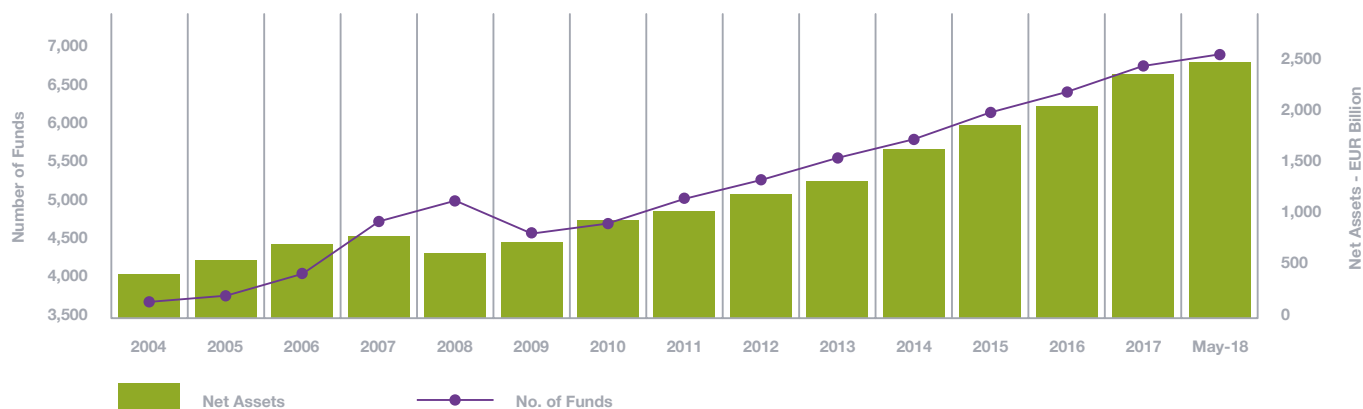
The luck of the Irish is demonstrated in its rebound from the financial crisis, as Carr points out: "Aside from the global shock in 2007 the appeal of liquid alternatives continues to grow as global institutional investors increasingly seek access to hedge fund and other alternative strategies through regulated fund structures, such as Irish UCITS funds. Irish domiciled ETFs represent approximately 50 percent of the total European ETF market and over 40 percent of global hedge funds are serviced in Ireland, making Ireland the largest hedge fund administration centre in the world."

Behan added: "While there has been growth across a broad spectrum of products in recent years, there has been significant growth in exchange traded funds and in real assets (alternatives). Ireland is a leading European domicile for exchange traded funds, representing approximately 50 percent of the total European ETF market. Over 40 percent of global hedge fund assets are serviced in Ireland making it Europe's leading hedge fund domicile."

## Onwards and out

Uncertainty still clouds opinions regarding Brexit, and earlier this year, in an Irish Fund's Alternative Investment Seminar, one panellist warned that Brexit will affect Ireland especially, as the UK is Ireland's largest trading partner.

Figure four



There has been much debate over whether Brexit will bring opportunities or challenges regarding regulation in Ireland, for Nunan, it could potentially bring both, and that is the challenge.

Whether you are an asset manager or an asset servicer, the uncertainty surrounding Brexit seems to be the most troublesome aspect for industry participants.

Nunan elaborated on this point: "It really depends on what sort of Brexit we get and that is the current challenge. It is causing more and more frustration within the industry."

"We have regulators across Europe stating that they expect the industry to have detailed plans in place and to start engaging with them, but the possible outcomes are so diverse that this is very difficult for managers to plan for. I am an optimist, so I do think that common sense will prevail. We will see significant challenges but there is always the possibility of it bringing opportunities and Ireland is very well placed to assist managers whatever the eventual outcome."

Looking to the future, Behan explained that for Intertrust Ireland, there has been significant demand from their global client base for fund solutions in alternatives, primarily unlisted, illiquid assets.

Behan added: "Our alternative investment fund managers solution has grown very strongly from inception in 2015 to present. We expect underlying demand from clients to continue to grow and this trend to be broadly reflected in the Irish jurisdiction."

Predicting what the next five years would look like, Young said: "Cross-border products are increasingly seen by asset managers as the optimal path for growth, with almost two thirds (64 percent) of managers planning to launch cross-border products in the next five years. However, the majority (88 percent) see distribution-related data as a challenge in achieving this, and believe the pace of change is only accelerating with more than half (57 percent) worrying about new entrants from the world of technology", Young warned. **AST**