

IRELAND'S – A HUB FOR EUROPEAN FINANCIAL SERVICES



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Finance Estonia, Nov 2014

Key points

- The provision of finance in Europe is on the point of some very significant changes, particularly with the roll out of Banking Union
- Europe also needs to see more active capital market and non bank financing tools like greater use of asset backed securities
- For this to happen, some significant structural reforms are desirable at the European and national levels and in regulatory rules
- These changes will create both challenges and opportunities for smaller open economies like Estonia and Ireland
- Ireland has already used the post crisis reforms to rebalance the financing of its economy and reduce over reliance on bank funding
- The international financial services industry in Ireland is now poised to take advantage of the broader European changes

1

European FS
changing

2

National impacts
differ

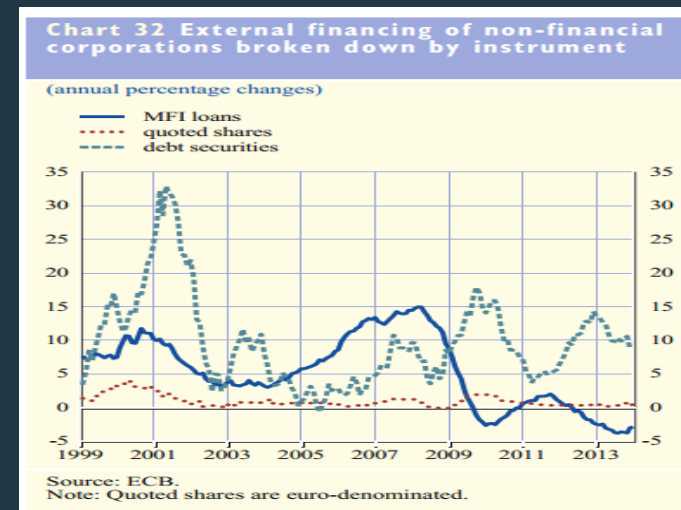
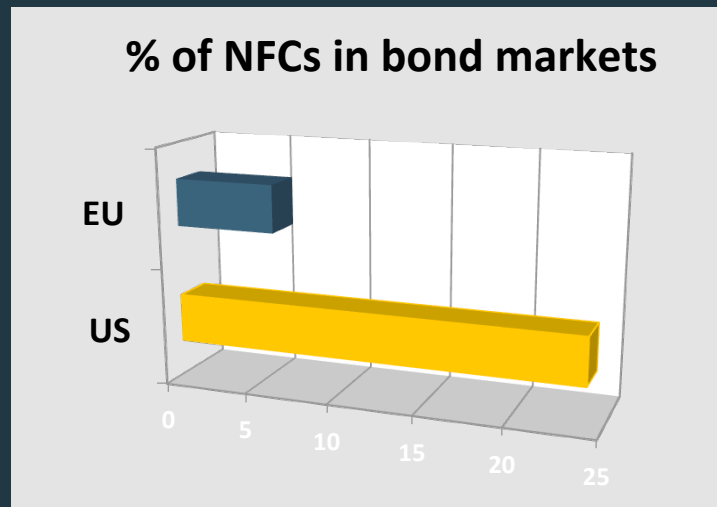
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Ireland already a
hub for EU FS

The Changing Face of European Banking

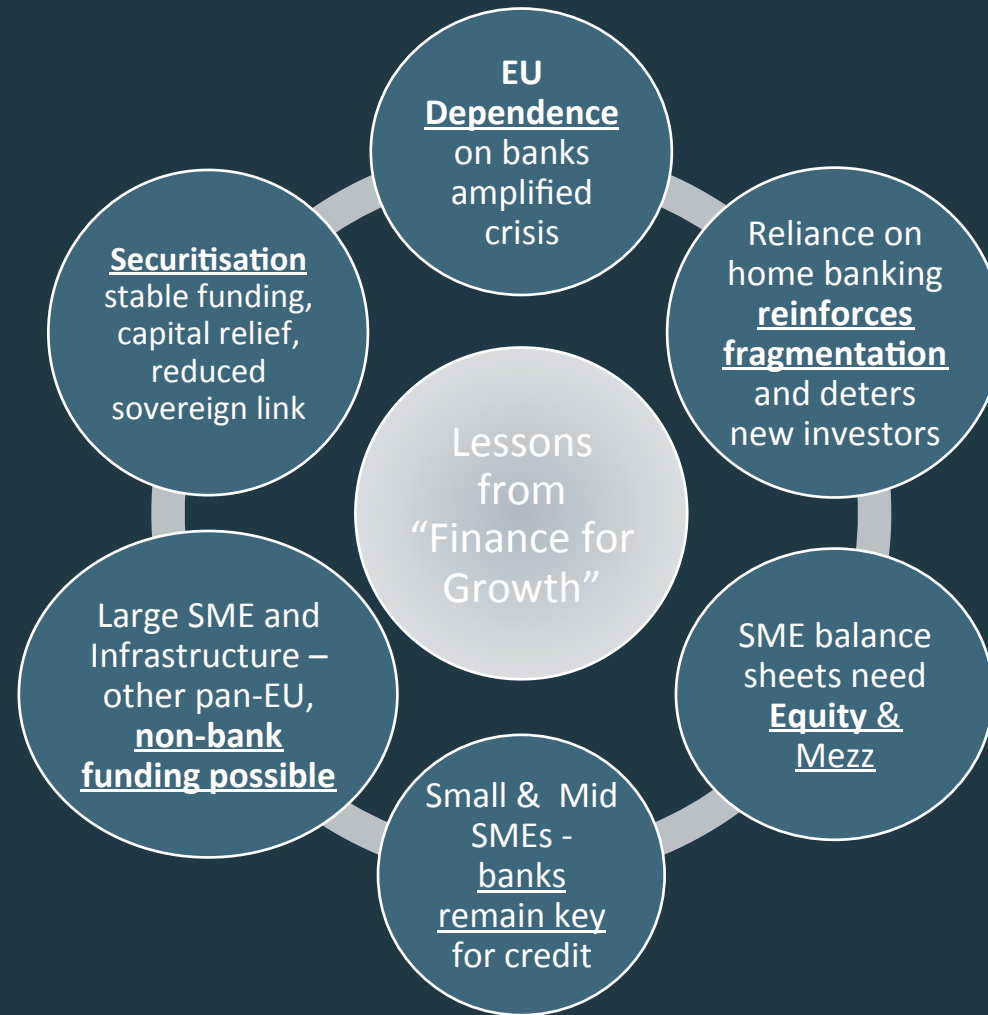


Dependency on Banking: Europe and our SMEs/Infrastructure Sector



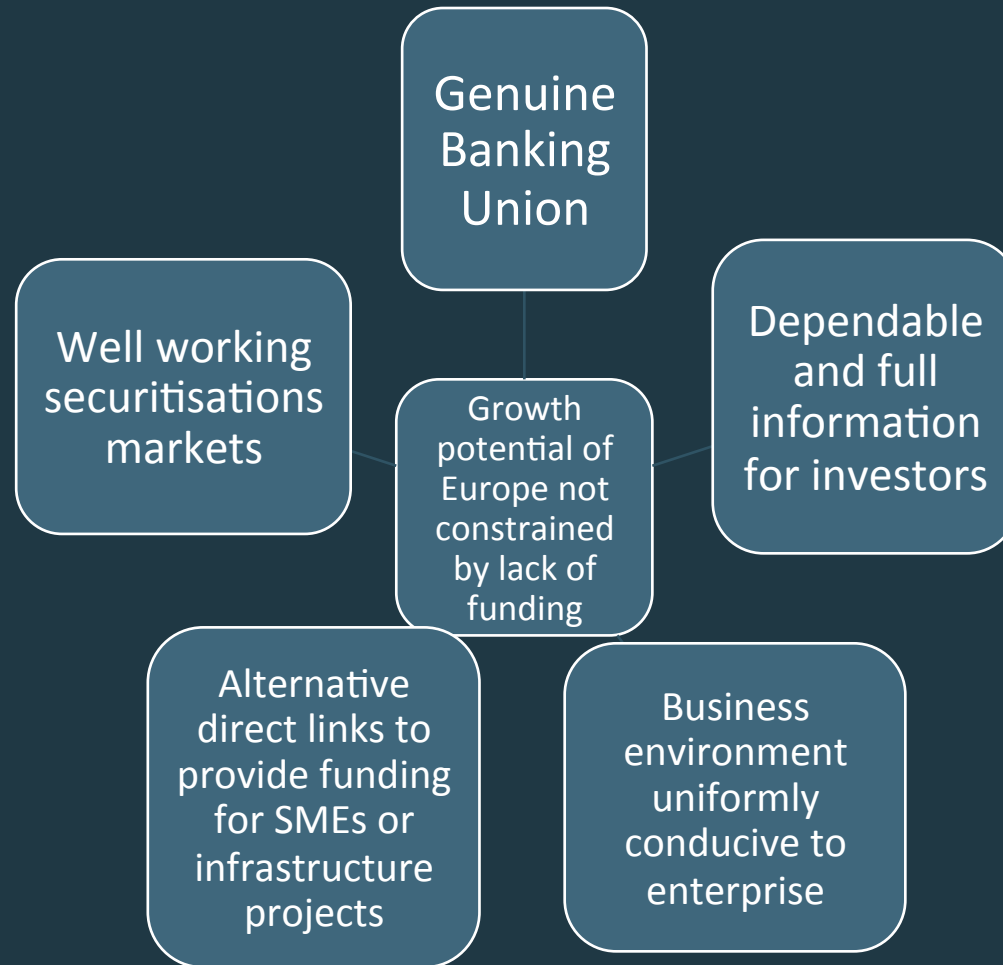
- 80 % of debt financing in the EU provided by banks, in the US 20%
- Aggregate balance sheets of EU banks about 4 times EU GDP -- US 0.8 of GDP
- SMEs and infrastructure funding directly affected by this

What lessons from "Finance for Growth"



Now, imagine a Europe in which:-

This is the vision of the HLEG which formed the basis for the recommendations set out in the Report –
"Finance for Growth"



A new Cross-Cutting paradigm

Area of Focus	Relevant Measures	What's needed
Financial & Business Environment	<ul style="list-style-type: none"> Achieving best pricing requires that MSs have best in class rules, ideally standardised across the EU 	<ul style="list-style-type: none"> Identification of best practices across a range of important business environment criteria (e.g., bankruptcy) which bear on pricing of risk. Member States, set up regulatory reform committees, evaluate their own business environment against best practice and establish reform processes EC to consider CSR tool to advance specific items
Transparency and Data	<ul style="list-style-type: none"> Reduce mechanistic way ratings used by investors Greater Transparency for investors and additional improved Data Infrastructure 	<ul style="list-style-type: none"> More information for investors for example, Credit Rating Agencies to explain the rating and impact of the sovereign effect. Transparency and Data will be key in both SME and Infrastructure sectors
Addressing Fragmentation from the Supply Side	<ul style="list-style-type: none"> Pooled Investment Vehicles National / Public Development Banks 	<ul style="list-style-type: none"> Market based financing may allow by-passing of sovereign stressed banks ELTIFs and passporting of funds (on both the assets and liabilities side) throughout the EU. EIB and NDBs play a greater role in reducing fragmentation working across borders, if necessary.

A new paradigm for funding SMEs

Area of Focus	Relevant Measures	What's needed
Small and Micros	<ul style="list-style-type: none"> • Bank lending is key • Other forms like crowd funding, government schemes can be developed but important equity is provided too. 	<ul style="list-style-type: none"> • Banks remain key and EIB/NDBs may provide cheaper funding or guarantees to encourage lending to Small and Micros • Other new forms of P2P lending like crowd funding could be developed • Encourage schemes to provide start up and growth capital (e.g., Venture Capital) perhaps with aid of EIF
Medium sized companies	<ul style="list-style-type: none"> • Bank lending remains key but pressure on bank capacities needs to be relieved • Done initially by EIB and NDBs but more sustainably by securitisation type funding 	<ul style="list-style-type: none"> • EIB-EIF as creator of high quality securitisation standard and initial underwriter of securities where markets reticent • Regulatory rules must not be harmful to banks sponsors or regulated buyers of securities for high quality securitisations • Pan EU quality label and ECB accepting of securities as collateral
Larger scale SMEs ("mid-caps")	<ul style="list-style-type: none"> • Use of more direct debt and equity options such as Private Placements, lending from funds, issuances on Public Equity Markets or the use of Mini-Bonds can release bank capacity 	<ul style="list-style-type: none"> • MS to investigate and implement national private placement markets for SMEs, to create EU wide market • Funds to be able to passport both assets and liabilities • MS to investigate best practice abroad and how that can be replicated at home. • Ecosystem of brokers, analysts and market makers will be key here to new listed offerings. • Retail bonds should be developed.

A new paradigm for funding Infrastructure

Area of Focus	Relevant Measures	What's needed
Dependable and full information for investors	<ul style="list-style-type: none"> Facilitating Access to Historical Information on all EU Infrastructure Projects Credible pan EU Transaction Pipeline Information 	<ul style="list-style-type: none"> Pool MS data on Infrastructure projects in the previous 10-15 years – how each project was developed and completed –timelines and prices – how each project was financed. Harmonised pan EU database of projects in planning or procurement stages to be established without delay
Adjusting rules of the game to make it easier for investors	<ul style="list-style-type: none"> A Strong PPP Market across Europe Uniform Public Procurement Procedures to Attract More Investors 	<ul style="list-style-type: none"> MS to work with European Commission to publish 3 year forward looking national investment plans. Stabilise tariffs in MS over life of the projects. Procurement rules adjusted uniformly to attract available non-bank financing options. Standardise documentation across EU.
Enable funding of scale	<ul style="list-style-type: none"> Channeling Pools of Capital into EU Infrastructure Projects Strengthen Multilateral Banks Involvement 	<ul style="list-style-type: none"> European Infrastructure Guarantee Facility for stressed MS or those without PPP experience. At MS level, develop national vehicles to pool capital for smaller projects. Extend the EU-EIB Project Bond mechanism.

Ireland – a hub for European Financial Services



Two Parallel Financial Sectors

Domestic Funding Structure

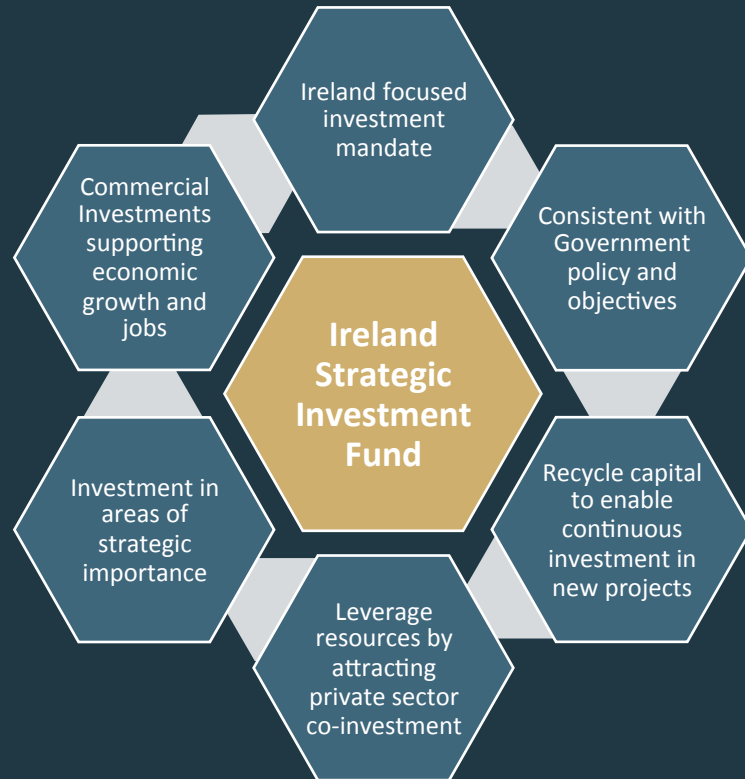
- Concentrated number of banks (3 large players)
 - Domestic – Allied Irish Bank, Bank of Ireland, ptsb
 - Foreign – Ulster Bank (RBS), KBC, Danske Bank
- Non bank Options
 - Strategic Banking Corporation Ireland, SIF
 - REITs
 - Alternative Investment Loan Funders,
 - Venture Capital,
 - Irish Stock Exchange, etc

International Financial Services

- 33000+ employees – 500+ firms
- 7th Largest Provider of Wholesale FS in EU
- €820 billion assets of foreign controlled FS operations
- 2.2 trillion of investment fund assets under administration
- 41% of global AI firms administered from Ireland
- Largest provider of cross border insurance in the EU
- 50% of World's commercial aircraft owned or managed

Ireland Strategic Investment Fund (ISIF)

The ISIF was launched on 5th March
 absorb the NPRF's resources -
 €6.5bn of commercial investment
 capacity to support economic activity
 and employment in Ireland



Selected NPRF commitments

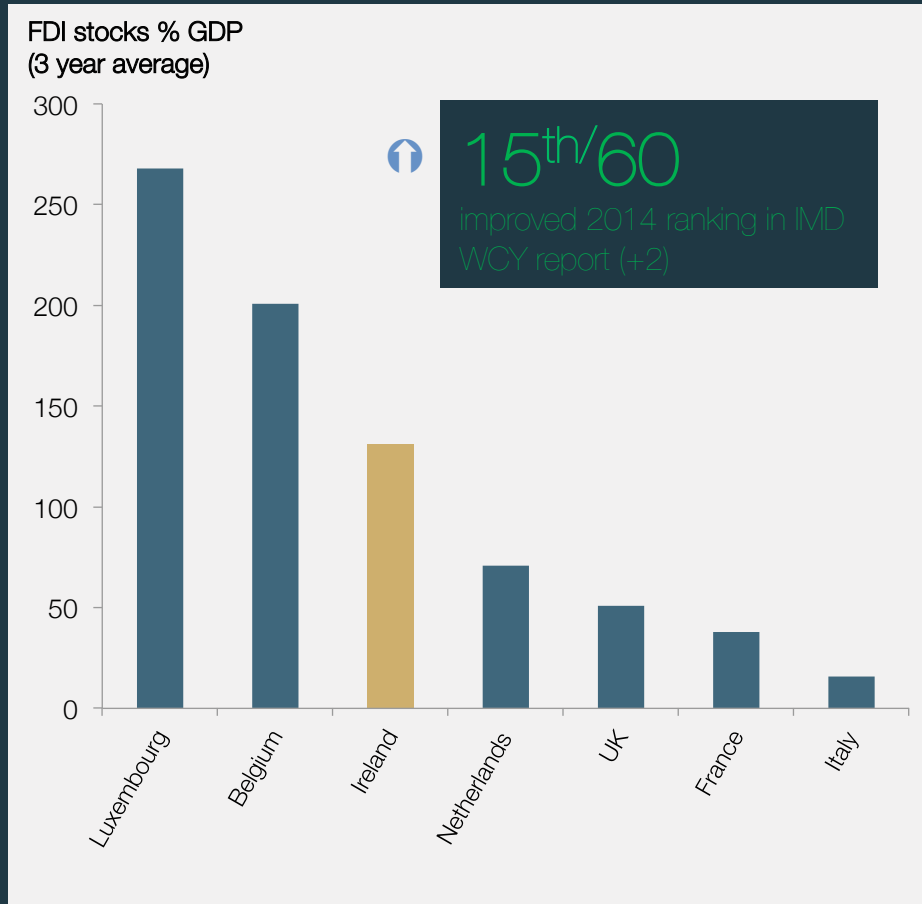
<p><i>SME Turnaround Fund</i></p> <p>€100m</p> <p><i>NPRF commitment</i> €50m</p> <p>January 2013</p>	<p><i>SME Equity Fund</i></p> <p>€300m - €350m</p> <p><i>NPRF commitment</i> €125m</p> <p>January 2013</p>	<p><i>SME Credit Fund</i></p> <p>€450m</p> <p><i>NPRF commitment</i> €200m</p> <p>January 2013</p>
<p><i>Irish Water Financing of water meters</i></p> <p><i>NPRF commitment</i> €250m to-date</p> <p>2013</p>	<p><i>Irish PPP Projects</i></p> <p>€25m to-date</p> <p>2012/2013</p>	<p><i>Innovation Fund Ireland</i></p> <p><i>NPRF commitment</i> €125m</p> <p>2010</p>

FDI strengths

↑ 1st

Best country for business
(December 2013)

Forbes



Source : UNCTAD country reports 2010, 2011 and 2012

↑ 13th/189
position in 2015 in
World Bank rankings
(+4 places)



Key points

- 1st for flexibility and adaptability, 1st for availability of skilled labour, 1st for attitudes to globalisation, 1st for investment incentives (WCY 2014)
- 1st for Inward Investment by quality and value and 1st in Europe for no of investment jobs per capital (IBM Global Location)
- Employment grew at FDI firms by 4% per annum since 2011

International FS Industry in Ireland

500+
Firms

33000+
Employees

7th Largest
provider of EU
Wholesale FS

CONTEXT REMINDER:-

Irish population 4.6 million, GDP €175 billion

Some types of On-going Activities

International Headquarters

International Operations Centres

Customer Support

Financial Shared Services Centres

Research and Development

Innovation Labs

Software Engineering Centres

IT Development Support

Data Centres

Alternative Investments

Global Transaction Services

Global Treasury

International Payments

Asset Management

Fund Administration

Trustee/Custodian Services

Compliance and Risk

Advisory Services

International Banking

Aircraft Leasing

Banking

9th LARGEST INTERNATIONAL BANKING MARKET

€820 Billion TOTAL ASSETS OF FOREIGN CONTROLLED FS OPERATIONS

Over 80 International Banks
in IRELAND

PAYMENTS – 5000 people employed in a strong cluster of international payment companies

Funds and Investment Management

€2.2 trillion

INVESTMENT FUNDS UNDER
MANAGEMENT

41%

OF THE WORLD'S
ALTERNATIVE FUNDS
ADMINISTERED FROM
IRELAND

12,000 PEOPLE EMPLOYED

Insurance

LARGEST
PROVIDER OF **CROSS BORDER**
LIFE INSURANCE IN THE EU

LEADING LOCATION
FOR
REINSURANCE

CROSS BORDER LIFE
INSURANCE PREMIUMS OF
€28 BILLION

€26 TOTAL PREMIUMS
WRITTEN BY
Billion INTERNATIONAL
NON LIFE AND
REINSURANCE COs

60 HEAD OFFICE LIFE INSURERS LOCATED IN IRELAND

Aircraft Leasing

9 of top 10

GLOBAL AVIATION LESSORS
HAVE OPERATIONS IN IRELAND

41%

OF THE WORLD'S
COMMERCIAL
AIRCRAFT OWNED OR
MANAGED FROM
IRELAND

OVER 40 AVIATION FINANCE FIRMS
LOCATED IN IRELAND

Recap of Key Points

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- For this to happen, some significant structural reforms are desirable at the European and national levels and in regulatory rules
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Thank-you for your attention