Emerald Isle takes steady strides towards recovery

By *Anonymous*
Created *04/06/2009 - 17:30*

Ireland, a small, flexible and open economy, was one of the hardest hit when the economic downturn started unfolding across Europe. The banking sector has seen a downturn, the property sector is still reeling from a slump in prices and demand, and job losses in many other sectors have been significant.

However, even though parts of the country's financial services sector, especially the domestic side, are in poor shape, the international business focused on Dublin's International Financial Services Centre, which includes many of the world's largest financial services firms, is now hoping for a sustained recovery boosted by a raft of new government-led initiatives.

While some of the issues that emerged over the last year have cast something of a cloud on the country's international reputation, industry observers believe that there has been good progress in stabilising the banking system and expect a strong recovery in the medium to long term.

Ireland's economy certainly took a beating during most of last year, but it was not unlike what most Western economies were experiencing - with the notable exception of the scale of the impact on the domestic and international financial services sectors.

'The domestic sector, especially the banking system, is undergoing a severe and brutal adjustment because of the global environment and the bursting of the credit and the property bubbles in Ireland,' says Willie Slattery, country head of State Street in Ireland.

'We seem to be halfway through the restructuring phase. In terms of the international financial services sector, some areas have been impacted severely, such as securitisation and financial and hedge fund administration, but in most cases the extent of the actual attrition has been surprisingly small.'

In fact, a survey by the Irish Funds Industry Association has revealed, to widespread surprise, that employment in the country's fund administration sector actually increased by 2 per cent last year.

Andrew Dillon, managing director at insurance brokerage Baronsmead Partners Ireland, says the mainstream banking sector has been hit hardest, with the fallout from lending practices over the past 15 years taking its toll on the major domestic institutions. 'Going forward, I think we will require enhanced corporate governance practices to be in place, particularly with regard to listed companies,' he says.

Many sectors will have to adapt to changes such as increased regulatory requirements. Says SEI managing director Barry O'Rourke: 'Ireland has always been committed to establishing a stable, regulated environment and had tremendous growth as a result. With this continued focus, the country will be in a good position to capitalise on the eventual market upswing.'

The question now being asked across Ireland is when that upswing will occur, and how. There is widespread confidence about a range of interesting initiatives and strategies designed to boost the financial services sector.

First up is the establishment of the National Asset Management Agency (NAMA), a state body set up to purchase toxic debts from Irish banks to which Brendan McDonagh, a former director of finance at the National Treasury Management Agency, has been appointed interim managing director. McDonagh played a pivotal role in formulating the government's response to the banking crisis, and in his new role will steer NAMA as it buys up bad debts from Irish banks in an effort to free up credit in the banking system.

Many industry experts believe the establishment of NAMA is the key to the recovery of the financial sector, although the scope and scale of its task currently remains difficult to quantify.

At the same time, the severe domestic economic contraction is resulting in a large improvement in competitiveness through labour and other cost savings. Once characterised by an overheated property market and the high cost of skilled manpower, Dublin is now basking in the dramatic availability of labour and office space.

Slattery notes: 'Internationally traded businesses, possibly the only businesses who might be hiring at the moment, have now a huge choice, as the skilled unemployed join the pool of university graduates. Undoubtedly this represents a vast improvement in the labour market environment.'

However, industry members say that the financial sector faces other hurdles on the road to recovery, notably the tax changes that have been pushed through by the government as part of its economic rescue programme.

'The personal taxation introduced in the supplementary budget is very counter-productive,' Dillon says. 'The state is punishing the most productive people in the economy whilst not dealing with the real problem, which is a woefully inefficient public sector.'

He believes that a concerted effort to attract new business would have been a better approach. 'We could try to attract and build a robust asset management industry. The budget in the UK would have facilitated this to some degree, as many high earners would consider a switch to a more equitable tax environment. Unfortunately, we have taken the easy option of targeting personal taxation without addressing the issues that really drain our public finances.'

Adds Slattery: 'Now the income tax environment is much less attractive to mobile employees, which in turn is damaging to Ireland's competitive advantage as a jurisdiction for internationally-traded services.'

More changes are expected in terms of additional regulation. A new chief executive of the Financial Regulator will be appointed, along with a new governance structure, and the reintegration of the supervisory authority with the Central Bank has been announced. But industry members doubt the value of additional regulation unless it is enforced effectively.

According to Slattery, Ireland needs to ensure that any changes to the country's regulatory approach and infrastructure preserves the environment that has won international respect and delivered substantial public welfare benefits in the form of a broad-based and successful international financial services industry employing 25,000 people nationally.

O'Rourke is optimistic, saying: 'Irish regulators understand the pressure that changes in legislation, infrastructure and taxation can bring, so they have been working closely with industry participants to ensure that Irish products continue to be at the forefront of market developments.'

Dillon believes the regulatory authority could do with some new blood and fresh ideas. He says: 'I would like to see some private sector experience added to the mix and perhaps some regulatory experience from a foreign jurisdiction.'

Ireland's fund administration industry has been grappling with a much more challenging business environment, with many firms having to make significant adjustments to cope with an unprecedented decline in assets under administration, but leading members of the sector believe their companies will emerge from this turbulent period leaner and more efficient.

Ireland still remains a very attractive domicile for funds, they say, and is well placed to benefit from any move by hedge fund managers to create more regulated products. Ireland is also seeing a significant number of US-based managers enter the market for the first time, mostly with Ucits products.

Among investors, transparency and liquidity are the order of the day. 'They simply won't stand for anything less,' Dillon says. 'From an Irish perspective this fits really well, as we have the skills to service all types of fund vehicle. Ireland is doing extremely well with ETFs - a large number of these vehicles are established at the moment with very significant pools of assets.'

Other sectors like insurance and reinsurance continue to attract many top names to Ireland, but they are also experiencing changes. Says Dillon: 'A large part of this is being driven by directors of investment funds, some of whom were previously content to be covered under a manager's group policy.

'This cover is potentially dangerous for directors, as they may not have access to the broke or insurer, which will generally be located in an overseas jurisdiction. Removing themselves from these group policies ensures that the cover in place for the directors is there for their protection (and indirectly the investors) only. A standalone directors and officers policy also ensures that the cover is less restrictive than when combined with managers' professional indemnity insurance.'

Ireland is taking a range of steps to maintain its international position, built not only on its low standard rate of corporate income tax but its status as a well-established financial services jurisdiction, a high level of experience and quality in the workforce, the globally acknowledged solidity of its regulatory framework and the commitment of local industry participants. Says O'Rourke: 'It is these factors that keep the Irish financial services sector so well placed to benefit when the global economy stabilises.'

- Articles and Features

Source URL: http://www.hedgeweek.com/2009/06/04/emerald-isle-takes-steady-strides-towards-recovery