



Minutes of the *Ireland for Finance* Joint Committee

**29 September 2020
10.45
Online meeting**

Attendance

PRESENT

High Level Implementation Committee (HLIC): Minister of State Seán Fleming TD (Chairperson); Michael J McGrath (Department of Finance); Nigel Clarke (Department of the Taoiseach); Michael Lonergan (Department of Foreign Affairs and Trade); William Beausang (Department of Further and Higher Education, Research, Innovation and Science); Jean Carberry (Department of Business, Enterprise and Innovation); Kieran Donoghue (IDA Ireland); Dr Carol Gibbons (Enterprise Ireland)

Industry Advisory Committee (AIC): Olwyn Alexander (PwC); Gary Conroy (TransferMate); Aidan Holton (SCOR Re); Derek Kehoe (BNP Paribas); Declan Lynch (Elavon); Ruth McCarthy (Fexco); Barrie O'Connell (KPMG); Deirdre O'Connor (International Member); Ann Prendergast (State Street); Andrea Reynolds (Swoop Funding); Cecilia Ronan (Citi); David Swan (SMBC); Tadhg Young (State Street)

HLIC Secretariat: Karen Cullen (Department of Finance); **IAC Secretariat:** Maurice Crowley (Banking and Payments Federation of Ireland)

Observer: Gerry Cross (Central Bank of Ireland)

APOLOGIES

Martin Fraser (Department of the Taoiseach); Niall Burgess (Department of Foreign Affairs and Trade); Dr Orlaigh Quinn (Department of Business, Enterprise and Innovation); Jim Breslin (Department of Further and Higher Education, Research, Innovation and Science); Julie Sinnamon (Enterprise Ireland); Martin Shanahan (IDA Ireland)

IN ATTENDANCE

Mila Sullivan, Justin Sullivan, Padraig Kelly, Cathal Kelly (Department of Finance); Pamela Malone (Department of the Taoiseach); Felix O'Kane (Department of Business, Enterprise and Innovation); Maeve McConnon, Andrew Noonan, Brendan Walsh (IDA Ireland); Enda



McDonnell (Enterprise Ireland); Eoin McManus (Central Bank of Ireland); Gavin Purtill (IAC Secretariat)

1 Changes in members and introduction

Minister Fleming noted changes of membership since the last meeting and welcomed recent appointments:

- Michael J McGrath, Assistant Secretary General, Financial Services Division, Department of Finance (replacing Dr Paul Ryan)
- Ann Prendergast (State Street, nominated by IAIM; replacing Victoria Brown during leave)
- Andrea Reynolds (Swoop Finance, nominated by Enterprise Ireland)
- Cecilia Ronan (Citi, nominated by FSI)
- Maurice Crowley (IAC Secretariat, BPFI)

Minister of State Fleming outlined the scope of his brief as Minister of State for Financial Services, Credit Unions and Insurance and summarised some recent and planned meetings with industry bodies.

He identified digital finance or ‘FinTech’ as a priority issue for the coming period, and noted that the European Commission very recently published its digital finance package. He noted that the European Commission also published an action plan on CMU. He also identified sustainable finance as a key issue.

2 Minutes of previous meetings

Minister of State Fleming noted that the COVID-19 pandemic resulted in an interruption to the usual cycle of meetings and that as a result two sets of minutes fall due to be corrected or approved at this meeting.

There were no corrections to the draft minutes of the Joint Committee meeting of 9 December 2019 that had been circulated before the meeting, and they were approved.

There were no corrections to the draft minutes of the Joint Committee meeting of 28 May 2020 that had been circulated before the meeting and they were approved.

3 Progress on Q3 Measures in Action Plan 2020

Minister of State Fleming reported that the following measures were all ‘on track’:

- Measure 2 ‘Double Taxation Agreements’, led by Department of Finance



- Measure 8 'Ireland as a global location for private equity funds', led by Department of Finance
- Measure 9 'Finance Green Ireland Committee', led by the Finance Green Ireland Committee
- Measure 10 'International collaboration to mobilise global financial centres in support of the sustainability agenda', led by Sustainable Nation Ireland
- Measure 11 'Continue to raise awareness of the Environmental, Social & Governance (ESG) agenda and best practice across all asset classes in Ireland' led by Sustainable and Responsible Investment Forum Ireland
- Measure 23 'Focused training and development' delivered by the Institute of Banking

On Measure 8, Minister Fleming noted that he had led the debate on the Investment Limited Partnerships (ILP) Bill at second stage in the Seanad on Wednesday 23 September and will be in the Seanad for the committee stage on 30 September. He said he hopes to see it completed in both houses of the Oireachtas by the end of October.

4 Next steps on publication of Action Plan 2020

Minister of State Fleming reported that Government approval of the Action Plan 2020 had been postponed when the general election was called in January. It has been updated to take account of developments since then. Minister of State Fleming approved the updated Action Plan on 8 September and Minister Donohoe then approved it for circulation to all of the other Departments on the e-Cabinet system. The intention is to put the Action Plan for 2020 on the agenda of the Government on 6 October, and to publish it shortly after that.

5 Covid-19 impact on the sectors

Minister of State Fleming noted that Covid-19 has affected many sectors in the economy, but that it appears that the financial services sector has demonstrated resilience. He noted that the Government has made substantial investments to enable firms keep relationships with employees. He noted that the financial services sector has been one of the sectors that has continued to contribute tax payments to the exchequer.

M Crowley (IAC Secretariat) introduced the IAC members who had agreed to provide an overview of how the sectors within international financial services are responding to Covid-19 and the issues that it has generated.

D Kehoe (BNP Paribas) provided an update on the international banking sector. He said that in contrast to the Global Financial Crisis, in Covid-19 banks have been part of the solution. They had continued to provide a full suite of services and products. FIBI members have prioritised (i) adherence to Government and regulatory guidance, (ii) staff wellbeing; (iii) ensuring the right customer outcomes; and (iv) preparing for what comes next. Banks have



provided liquidity drawdowns and access to urgently needed capital. A survey of FIBI members highlighted the importance of technology in helping clients to maintain operations. FIBI has proposed a number of action measures for the *Ireland for Finance Action Plan 2020* on the 'Technology and Innovation' pillar, including the adoption of supervisory technology in Ireland and enhancing the Central Bank innovation hub to include links to an Enterprise Ireland FinTech accelerator and mentoring programme. Of FIBI members, 23% identified digital innovation as the top priority, and 61% ranked the establishment of a Central Bank Stakeholder Engagement as the top priority. The fluidity of FIBI members' engagements with the Central Bank during the crisis have been beneficial. FIBI had a successful CEO Forum meeting with the Governor of the Central Bank. FIBI proposes the establishment of sector-specific engagement groups with the Central Bank. This would allow international banks engage on issues that are specific to the industry, such as how Central Bank inspections can be progressed virtually or on-site with limited personnel available onsite, or how executive committee members can return to the office and, in some cases, the State and how can appropriate governance be maintained in this instance.

A Prendergast (State Street) provided an update on the investment management, asset management and funds sector. Firms had to mobilise people very quickly so that everybody could work from home, as has been outlined for the banking sector. The funds sector experienced huge volatility in investment markets. This crisis differed from the GFC and was more a liquidity crisis than a credit crisis. The underlying assets and securities were not the issue, it was trying to trade those securities. Central banks stepped in globally to support markets, though in the case of some funds in Ireland it took a little time for that support to work its way through the system. The huge amount of engagement with regulators in both Ireland and the EU during the crisis was welcome. External events such as the US elections may affect markets between now and year end. All matters relating to ESG are very much a topic for industry, and during the crisis have become more important, though sustainable finance may have taken a little bit of a back seat given the focus on more short-term issues.

A Holton (SCOR Re) provided an update on the insurance sector. He reported that service levels have been maintained. Business contingency plans had assumed disruption at a particular location and moving to a 'hot site' were adapted quickly to working from home. The industry expects to pay in excess of €13bn in claims and benefits this year. In respect of prudence, capital levels are good and solvency is stable. The board of Insurance Ireland met EIOPA and the view is that Solvency II is shown to be a good regime and Insurance Ireland expresses its confidence in it. One concern the industry has is capital freedom, and the insurance industry has seen some retreat behind national boundaries. If this does not revert to normal after the initial uncertainty around Covid-19, then Ireland could potentially become a capital trap, particularly for capital coming from the international sector. The industry would encourage the Government continues to drive the regulatory and supervisory convergence across Europe.



R McCarthy (Fexco) provided an update on the FinTech sector. She reported that the experience of the pandemic has been mixed for firms in the sector. FinTech firms tend to focus on a particular niche and the experience of a firm depends on whether business in the relevant niche has been affected or has continued as normal. Therefore, some FinTechs will trade as normal through the pandemic but others will experience problems. For example, many of Fexco's products are travel-related and the pandemic immediately affected the firm. It has seen SARS, MERS, and 9-11, but none of these had as such a significant impact on travel as Covid-19 has. Fexco undertook a restructure to cut a lot of costs out of all of its businesses across the group to enable it weather an extended pandemic. Fexco's focus is on maintaining a very strong cash flow to ensure the balance sheet has sufficient strength to continue the growth of the business at the end of the emergency. However, younger start-ups are very vulnerable. Some are very dependent on equity investment and might be midway through an investment cycle. We may miss a phase of growth if those businesses cannot maintain themselves. However, changes during the pandemic such as the increase in the use of contactless and virtual payments technology and working from home show that the future is FinTech, and the EU Retail Payments Strategy and EU Digital Finance Package are relevant developments to note. Also, the experience of those staff who did leave Fexco in its restructuring is that their skills in FinTech are in very high demand. Finally, remote working has proven to be a success.

Minister of State Fleming made the following points and asked the following questions in response to the presentations:

- if D Kehoe could provide more information on the meeting FIBI had with the Governor of the Central Bank
- if A Holton could provide a major geographic breakdown on claims or payments
- that the issue of capital retreating behind national boundaries during Covid-19 is something that may need to be considered in the Action Plan for 2021, and
- if R McCarthy could clarify the issues behind her comments on the risk of FinTechs missing a growth phase.

Derek Kehoe was unable to respond because of a technical difficulty.

A Holton (SCOR Re) said he would ask Insurance Ireland to provide a geographical breakdown of the claims paid to the Minister of State after the meeting. He said that the issue of capital freedom is a key issue and a genuine concern to Insurance Ireland.

R McCarthy (Fexco) said that new FinTech firms may not emerge at the rate that would be wanted because of the pandemic. Challenges will arise for all new firms, but financial services firms in particular have high levels of sunk costs, notably IT investment when a firm does not have customers, market share or partnerships. Some will have costs associated with being regulated, and will need to meet certain standards before established financial



services firms can consider them for outsourcing partnerships which will require capital investment. As a result, FinTech firms can have spent a large amount of money but not have any income because, for many, their income is transactional. The lack of cash flow – for example, if they are exposed to the hospitality sector – can result in closure of the firm. Funders may not provide funding for a second funding round because the firm has no cash flow.

C Gibbons (Enterprise Ireland) said that EI recognises the particular challenges for FinTech firms. The Sustaining Enterprise Fund has assisted a number of companies during the pandemic. She also reported on supports to a number of specific FinTech firms to assist them raise capital. Enterprise Ireland is providing support to help stabilise companies now so that they will be able to return to planned development paths in 2021.

Kieran Donoghue (IDA) reported that it has seen firms adapt to respond to the pandemic. However, IDA's IFS business has been affected by the pandemic. The numbers of site visits, client meetings, and major corporate visits have dropped. IDA has moved as much of its business as possible to a virtual setting. IDA is likely to deliver about 40 investments with about 2,000 roles before the end of the year, and these figures are about 80% and 75% respectively of the 2019 outturn. That output reflects conversion of legacy pipeline over the last 18 months, and that challenges will begin to be seen in 2021.

Minister Fleming asked for views and insights on gender balance in the industry, and on the wider diversity situation in the industry. On national diversity, Minister Fleming noted that the pandemic has seen people work from home who had not done so before, and for some that would mean working from other countries and whether there are risks or opportunities with that development.

O Alexander (PwC) reported that in asset management, she believes gender balance is good, though it could be improved upon. She said that more generally, Ireland has significant potential for growth in the asset management industry. However, other jurisdictions continuously provide new products. The ILP legislation is very welcome. Ireland has a significant opportunity in passive funds and on alternatives. There is significant money waiting to be invested outside of public markets, and the ILP should be a good vehicle but a watching brief will be needed to make sure it is fit for purpose or whether further amendments might be needed. Irish Funds has made a submission proposing that an annual Bill be used to make tweaks or accommodate new products. It is an exceptionally competitive market.

C Ronan (Citi) said that on diversity, Covid has had a greater negative effect on women. More broadly, the focus on diversity should be across a number of 'stripes' and, importantly, diversity of thought.



T Young (State Street) reported that his firm has a young workforce and many of them have gone home, and it has worked. Post-Covid, regionalisation will be better. Flexible working will be fundamental to broadening the labour market. However, it will only be possible to have a growing workforce in the funds sector if it has diversity of product. The movement on the ILP is fundamental but unless Irish firms can provide more than passive products and alternatives and get into private market structures, they will not be able to develop in those markets.

G Cross (CBI) said that the financial sector approached the crisis with a good degree of underlying strength, resilience and capitalisation. During the period of volatility in March and April many key discussions were held, and held quickly, between the bank and industry. Measures were taken that gave effect to the counter-cyclical measures, such as the release of buffers, and implementing forbearance and flexibility. Contingency planning and business continuity stood up well. Nevertheless there are lessons to be learned. It is very important for the industry to take cognisance of the fact that the crisis is not yet finished. The credit and insolvency impact of the crisis on the economy generally has not yet manifested itself. The liquidity challenge may transform into a solvency challenge. The path of the virus is still uncertain, and it is very important that firms look closely at the risks they face, that they provide for those risks and that they are not over-optimistic. One of the common features of discussions the Central Bank has with firms at the moment is the degree of optimism. It is important that there is realism and that downsides scenarios are built in.

G Cross (CBI) said the second main question has been how the industry handles questions of customer interest and consumer protection. One example, in banking, is the issue of how the banks approach the issue of the end of the payment breaks. A second example, in insurance, is how the question of business interruption and other policy claims are dealt with.

G Cross (CBI) said the third main question concerns the asset management sector. The European and international perspective is that the funds sector did come through, but not without a number of important questions crystallising and raising concerns for the future. The level of central bank supports were very significant, and raises the question why that was necessary. The Central Bank of Ireland and others have identified questions about how the money market funds sector is structured, how less liquid assets are dealt with in the funds sector, the issue of leverage in property funds, and overall, the issue of how collectively funds respond to a crisis and do they play an amplifying role in how those crises materialise.

G Cross (CBI) said this set of issues raises questions and need for action in the international and European settings across all of the relevant bodies. The issues around outsourcing, delegation and the third-country nexus is a hot topic at the moment. Those sets of questions are important to the sector in Ireland over the next 6, 12, and 24 months.



G Cross (CBI) said the question of capital trapping is an important one and one the CBI is aware of. He noted that the Minister for Finance has identified Banking Union as a priority issue in his role as President of the Euro Group. G Cross (CBI) said achieving Banking Union is central to achieving better flow of capital. On insurance, a recovery and resolution framework at an EU level is crucial. On sustainable finance, there is no doubt that there will be no relaxation of the pressure, and that there is a lot of support for it in Ireland. On technology, Covid-19 has been a ‘game changer’ on how technology is embedded in the financial system and that brings both challenges and many opportunities on which the Central Bank of Ireland has been focused.

Minister Fleming said that sustainable finance will be a key issue for Action Plan 2021.

A Prendergast (State Street) said that the ILP legislation is important to allocating capital to green products and green projects. In public and listed finance, State Street in Ireland serves clients across Europe and sees a strong push from both trustees and members of pension schemes for their investments to do good, not just sustainable issue but also social and governance issues. The initial focus has been on the equity markets, but increasingly on other asset classes like green bonds, fixed income, cash, and real estate.

Michael McGrath (Dept. Finance) said that diversity is very important. On the question of capital retreating behind national boundaries, the CMU will be very important. Council conclusions will be presented to Ecofin during the German Presidency. The High-Level Forum on CMU, chaired by Thomas Wieser, reported to the European Commission during the summer and it sets out an action plan. That action plan will need to be assessed, and dialogues such as in the Joint Committee or with representative bodies are important in informing the Department of the views of the industry. Under the *Ireland for Finance* strategy, the Talent pillar and skills, and the sustainable finance horizontal priority and the broader ESG agenda will be important and will need to be linked to the work on CMU. On the ILP legislation, it has moved far slower than anyone would have wanted. The aim now is to have the legislation enacted by the end of October, all going well. On the suggestion of an annual bill on financial services, the Department is attuned to dealing with issues as they arise and Minister Donohoe has previously indicated that fiscal matters will be dealt with on an annual basis in the Finance Bill, but other matters will be dealt with as needed and not in an annual bill. On the suggestion of amendments to the ILP Bill, the priority is to get the current Bill enacted and the Department is open to hearing views once that is in place.

6 Action Plans 2020 and 2021

Minister of State Fleming reported that Action Plan 2020 will be published shortly and that the focus is now shifting to the preparation of Action Plan 2021.



Minister of State Fleming reported that work on preparing Action Plan 2021 has begun. Officials in the all of the Departments, agencies and industry bodies represented on the Joint Committee have been contacted and asked for suggestions for measures to be included in AP2021. Responses are being received and some organisations have asked for extensions to the deadline and are being accommodated to the extent possible.

Maurice Crowley (IAC Secretariat) said that he has liaised with Irish Funds, Insurance Ireland, FSI, and FIBI to make sure the Minister gets the submissions he needs. He hopes that the outstanding submissions from the industry representative associations will be provided later in the week.

David Swan (SMBC) asked Minister Fleming if he was in a position to give an indication of what his priorities for AP2021 were. Minister Fleming said that sustainable finance; diversity, including nationality and diversity of thought; technology and innovation; and regionalisation have been priorities.

7 European Financial Forum 2021

Minister Fleming reported that the IDA had reported at the HLIC that it will host and organise a Financial Forum in February next year and has commenced some preliminary discussions with potential providers.

8 International Member's Update

D O'Connor (International Member) reported that the US elections will have implications for the markets. US business stimulus, regulation, taxation, and foreign relations could change dramatically. Continued differences between the political parties in the US could extend the pandemic. That combined with other factors such as stretched state-level budgets could lead to a double-dip recession. However, activity restarts are ahead of expectations in many advanced markets. Improving macro indicators leave investors moderately pro-risk. Three signposts for recovery are activity, policy and permanent scarring. The positive restart indicates that the shock from the virus should be a fraction of that from the GFC, although the harder part of the recovery is in the future. So far, there is limited evidence of permanent damage to the economy, although many firms and individuals are going through a period of painful readjustment.

D O'Connor said that US–China relations are a sensitive topic in the US elections. Serious issues in trade and human rights with China should not be ignored. However, investors cannot overlook the enormous growth in China's economy, through the emergence of its middle class, the technology and innovation of its companies, and the growth of its financial markets, and by 2030 China will be the largest economy. China is now the second largest equity and bond market in the World, after the US.



D O'Connor said that asset owners have increasingly identified ESG as an area for strong growth, with new products and innovations. 84% of asset owners are pursing ESG strategies. One driver is younger investors, who are particularly focused on this sense of purpose. A second is that governments across most major geographies are increasing their regulatory focus on incorporating sustainability considerations into investing, although the US stands apart. US guidance on retirement investment plans stresses fiduciaries must not put ESG goals ahead of financial ones.

9 AOB

9.1 Minister Fleming invited A Reynolds (Swoop Funding) to introduce herself following the technical difficulties that had prevented her from doing that at the start of the meeting.

A Reynolds (Swoop Funding) asked the minister to add to his priority list the goal of making Ireland the no. 1 FinTech hub of Europe. She said there is a lot of opportunity for attracting FinTech firms to Ireland, particularly from the UK.

9.2 Minister Fleming noted that Brexit is a key ongoing issue but that there was nothing specific to add at this meeting as all participants are aware of the urgencies with their firms or organisations.

9.3 K Cullen (Dept. Finance) reported that the European Commission has published a number of proposals on digital finance. The Department would be happy to receive observations from industry on the 'DORA' file and on the 'MiCA' file as the German Presidency is establishing Council Working Parties on these.

An updated action plan on sustainable finance is expected from the European Commission shortly.

Finally, climate finance week will take place on 2–6 November.

The Minister of State adjourned the meeting.

Ends.