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Momentum shifts to positive for post Brexit IFS plans for Ireland



A series of key announcements has shifted the tone to positive for perceptions of Ireland's attractiveness as a key post Brexit centre, as Barclays, Bank of America, Citi, JP Morgan and others announce details of their post Brexit strategy including Ireland as a jurisdiction for the location on FS businesses within the single market: *page 6*

Former EU FinServ Commissioner Hill to speak at Dublin Summit



The Financial Centres Summit, Dublin, 2017, will also be addressed by key Brexit decisionmakers, including new Barclays Ireland CEO, the JP Morgan UK holding co. chair, Sir Win Bischoff, and over 80 other speakers: *page 8*

CSD providers invited to pitch for Irish securities settlement service



Minister for Finance Paschal Donohoe moves to ensure post Brexit solution for Irish settlement services 'sooner rather than later': *page 5*

Hayes champions regulatory 'sandbox'

MEP Brian Hayes hosts stakeholder forum as Commission consults on future EU Fintech strategy: *page 4*

ILP legal changes to plug gap in Irish offering

Revisions to ILP legislation will increase attraction of Ireland as a location for private equity funds: *page 4*

Brexit 'a factor in' not 'driver of' insurer's decision to open in Dublin

Chaucer Dublin will offer new alternatives to clients, says GM Michelle Moore: *page 14*

Irish Tax Monitor: US retreats from Border Tax

The tax, a potential FDI threat to Ireland, is now dropped, as predicted by contributors in earlier ITM editions: *page 16*

European securitisation revival hoped to be on the cards

But Dermot Hardy warns of 'unintended consequences' of new agreement: *page 13*

CBI guidance to put directors firmly in driving seat

New guidance will focus the minds of fund management boards over coming months: *page 22*

Regional hubs the key to unlocking Ireland's GBS potential for multinational companies

Global Business Services (GBS), a new name for Shared Services Centres, International Shared Services or Financial Shared Services, and which incorporates, in certain cases, Business Process Outsourcing, is an activity that is ideal to locate in Ireland writes SkelligBlue Consulting's EAMON O'BRIEN. He says that the optimum way for global firms to conduct GBS activity in Ireland is through a Centre of Excellence model based in a regional hub.

Global Business Services (GBS) is the new name for what we all used to call Shared Service Centres (SSCs) or International Shared Services (ISS) or Financial Shared Services (FSS) and incorporates, in certain cases, Business Process Outsourcing (BPO).

And there is no better location for a GBS centre than in Ireland. But we believe the new Irish model needs to focus on regional hubs. Why?

The following are excerpts of the key recommendations from a consulting report completed recently by SkelligBlue for a large US owned multinational operating in the financial services space.

This company is assessing Ireland as a potential location for a substantial portion of its services arm. In this case Ireland is in competition with a number of other international locations (including the UK). Ireland has been recommended by the Project Consultants, based in London, as the location of choice.

Ireland vs the rest of the world - why Ireland?

Ireland is globally recognised as a centre of excellence for GBS, leading in specialised talent and innovative business services. Finance is the dominant area with 60% of GBSs supporting this service in Ireland. GBS businesses are located throughout the country and are a major employer in Ireland. The sector provides work to approximately 40,000 people across the country.

Ireland is the only English speaking country in the Eurozone and provides an ideal hub for organisations seeking a European base. With Brexit looming it will shortly be the only common law jurisdiction in Europe that has English as its main business language.

Ireland's young workforce is capable, highly adaptable, educated and very committed to achievement. Ireland has the youngest population in Europe with

a third of the population under 25 years old. In addition Ireland has one of the lowest old age dependency ratios at just 18.6%, compared to 27.5% in EU. Ireland's education system ranks in the top 10 countries in the world (IMD World Competitiveness Report 2016). Multilingual skills are also strong and diverse.

Ireland has highly distinctive strengths including the availability of:

- highly-skilled talent,
- a competitive cost base,
- a culture of innovation,
- an efficient fiscal infrastructure and strong client focus.

"The reality is that today a company can have all the advantages of an Irish operation 'plus' if business operations are based in a regional hub location outside Dublin."

The core of the IFS sector in Ireland is the approximately 430 IDA Ireland and Enterprise Ireland client companies which provide internationally-traded financial services and technologies. Half of these companies are Irish-owned while the balance are foreign-owned firms with operations in Ireland. Ireland is the 4th largest exporter of financial services in the EU.

And why Dublin? Or more to the point why not the regional hubs

There is no doubt that Dublin can provide employees and offices for the GBS needs of large multinationals and corporates and for many Dublin is the sole



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place in Ireland that they will consider.

But recent experience is demonstrating that there are more effective (i) staffing and (ii) cost-based solutions available outside Dublin as Dublin itself is getting quite 'full' and hence expensive (higher house prices, higher rents, higher salaries, higher staff turnover).

The reality is that today a company can have all the advantages of an Irish operation 'plus' if business operations are based in a regional hub location outside Dublin.

What are the key advantages of a regional hub over Dublin:

For the employer

Staff is the key asset of any business. Salaries in Dublin are 20% to 30% higher than in the regions and rising. Further in locations like London, Bermuda, New York and Hong Kong, salaries are far higher than in Ireland's regional hubs and international business in these cities is becoming more expensive as salaries, premises and property costs rise sharply in the major cities.

Staff availability is stronger in regional locations as many people are making a lifestyle choice to move out of Dublin and in many cases back to the areas where they grew up.

It is a proven fact that businesses located in Ireland outside of Dublin have far lower staff turnover. Locations in regional hubs in Ireland (i.e. outside Dublin) do not experience this pressure and people do not change jobs as often. Staff turnover is far lower in regional hubs like Sligo, Tralee and Letterkenny as they are not in the catchment area for major cities. So if you live there, you work there!

Local Institutes of Technology (ITTs) will assist companies and will develop and run specialist courses to train the staff for the company's GBS needs.

These proposals do not involve any significant redundancies, but rather would generally be largely facilitated through

natural staff turnover and business growth. There may be a short term need for a temporary transfer of certain management staff at the set up phase.

Salary costs are lower. In general in most cases salary costs are 20% to 30% lower than Dublin

Employees can buy property at a reasonable cost and avoid lengthy commutes.

Premises costs for the company are a fraction of Dublin based costs. Office costs in Dublin are generally 3 times the prices of similar quality offices in regional hub locations.

Regional hubs now have state of the art broadband. So all your IT needs can be fulfilled.

For the employee

House prices are 30% to 40% of Dublin prices (e.g. €180,000 to €270,000 for a 4 to 5 bedroom detached house in Donegal (or other similar locations) versus €550,000 to €900,000 for the equivalent house in Dublin). So people can afford to buy a home.

"The Irish GBS company could also be set up on a bi-locational basis. This model has been successfully proven and is used by State Street who have large fund administration operations in Dublin and another operation in Kilkenny."

Rental prices for houses are about 30% of what they are in Dublin. The average 4 or 5 bedroom house in Dublin is now costing €2,500 to €3,500 per month. The average 4 or 5 bedroom house in Letterkenny is costing €800 to €1,200 per month. So the differential is very substantial.

Commuting times in regional hubs are a quarter to a third of Dublin levels.

And any advantage like this for the employee is ultimately a big 'plus' for the employer.

Examples of state of the art GBS companies in Ireland

Take for example Pramerica (owned by Prudential Financial Inc. currently ranked 57th in the Fortune 500 list) which is located in Letterkenny, Co. Donegal.

It has, over the past 17 years, developed from a start-up of fewer than 100 people to more than 1,300 people. Letterkenny is now the hub for all IT developments for

the worldwide company.

The same thing has happened at UnitedHealth Group (parent company UnitedHealth Group currently ranked 6th in the Fortune 500 list) again, co-incidentally, based in Letterkenny.

This company has developed from an initial start of 35 people to more than 700 staff. The main company growth in the more recent phase is in IT once again and with that key group wide international IT development functions have been located in Donegal.

Most of the staff in both companies are local people (they generally come from within a 20 mile radius, though mainly from the town). They want to live in places like Donegal (and other regional Irish hubs like Carrick-on-Shannon, Sligo, Tralee and Clonakilty).

Many employees looking to return to places like Donegal and other regional hubs like Carrick-on-Shannon, Sligo, Tralee and Clonakilty have been educated in Irish Universities and/or in the local Institutes of Technology and have worked in Dublin, London and the USA. They are relocating by choice in/to Ireland as they want to return home to their local part of Ireland and raise their family. And they bring with them all the excellent national and international experience they have achieved on their travels and settle back quickly in their home community so staff turnover is much lower than in the major cities.

Other considerations

Brexit must be a consideration for all companies with large operations in the UK, in particular in banking and financial services. Having an 'EU approved' service operation based in Ireland would be a key resource to service EU-based operations and customers.

The Irish GBS company could also be set up on a bi-locational basis. This model has been successfully proven and is used by State Street who have large fund administration operations in Dublin and another operation in Kilkenny. So you could locate an operation in Dublin and then have the majority of the middle and back office functions operating in a business location outside Dublin.

The future - a potential starting point

What are the options for CEOs and CFOs of major multinational companies?

A good starting point is to complete a feasibility study and develop a macro GBS plan to carve out from 100 to 250 'back and mid office' jobs and, over a 3

year period, build up a GBS in a regional Irish hub. Our research suggests that many large corporations and multinationals are at an excellent point of their cycle of growth and development to consider this proposal.

The types of roles that we expect to be managed in a Global Business Services company will include a combination of accounting and finance functions; IT development, support & testing; HR & pensions administration; client support and administration; portfolio valuations; policy issuance and claims (for insurance); governance risk & compliance; marketing; R&D, and general admin.

A company setting up a GBS location in Ireland could have target staff levels of:

- Year 1, 20 to 50 staff;
- Year 2, 50 to 100 staff;
- Year 3, 100 to 250 staff.

Corporates can save substantial sums over the forthcoming years by locating outside Dublin due to the lower cost base. And the quality of their staff and their staff retention will be key assets as they move to build their centre of excellence.

Summary

In summary we recommend a structure that will allow companies to create 'The New Model' in Ireland, the outcome of which will be an embedded team of quality employees and an excellent company culture in a low cost location.

We are recommending that companies move to create this new model by building a 'Centre of Excellence' for the company in Ireland outside of Dublin that will have longevity, an excellent quality of operation, a very competitive cost base and solid retention of key staff as its core achievements. A footprint for this business can be established almost immediately.

Eamon O'Brien, FCA, is an international management consultant and CEO of SkelligBlue Consulting. He is a former IFSC CEO with almost 30 years' experience in insurance, financial services and outsourcing services. The company has built a highly experienced team of skilled international consultants including Patrick Byrne, Senior Associate & Consultant who has an extensive track record of working with National Australia Banks across various aspects of the group's European extensive shared services.