IRELAND AND BREXIT

Ireland’s passport to success in a post Brexit world

ALTHOUGH IRELAND WILL NOT ESCAPE ENTIRELY THE DISRUPTION CAUSED BY BREXIT, THE POTENTIAL FOR THE COUNTRY TO BENEFIT IS SIGNIFICANT AS BANKS AND OTHER FINANCIAL SERVICES COMPANIES CONSIDER MOVING AWAY FROM LONDON.

“Given Ireland’s high level of exposure to the UK economy, we expect the overall effect of Brexit to be negative and material,” said Sharon Donnery, Deputy Governor of the Central Bank of Ireland in a speech in February.

With the UK accounting for about 15% of Ireland’s exports, it is easy to see why policymakers in Dublin are jittery about Brexit. But it is important to put Ireland’s exposure to the UK in perspective in several ways. First, following a highly successful diversification drive over the last 40 years, Ireland is much less dependent on the UK than it was in the 1970s, when more than 50% of its exports went to the UK. Today, the US is Ireland’s largest export market.

Second, although Brexit may have a negative impact on Ireland, it is not going to stop the Republic’s economy in its tracks. Ireland grew by 5.2% in 2016, making it Europe’s fastest growing economy for the third consecutive year. Record inflows of FDI last year, meanwhile, helped to underpin an extraordinarily robust labour market.

According to Ireland’s inward investment promotion agency (IDA), total employment at IDA-supported overseas companies in Ireland now stands at a record 193,877 people, which is almost 10% of national employment.

Third, depending on the form Brexit takes, some sectors will inevitably be hit much harder than others. The probable impact on the financial services industry in Ireland has attracted more attention than most other sectors since the UK’s referendum on EU membership. This is unsurprising, given that financial services in Ireland accounted for about 5% of the total workforce in Q1 2016. Its gross value-added (GVA), meanwhile, accounted for 8% of GDP in 2014, according to a report published last year by the Department of Finance. This compares with just under 5% of GDP in the euro area.

RELOCATION LOCATION

The focus on Ireland’s financial sector is also unsurprising given the widespread belief that Brexit is likely to trigger a relocation among many banks and other financial services companies away from London. Conventional wisdom is that established EU financial centres such as Dublin, Luxembourg and Frankfurt will be the chief beneficiaries of any migration out of the UK. This is principally a reflection of the loss of so-called “passporting” rights, allowing firms in one member country to market their products anywhere in the EU.

Some have argued that the loss of passporting may be compensated for by “equivalence”, whereby laws in non-EU countries can be recognised in the EU if they are judged to be sufficiently tough. But David Dalton, consulting partner and financial services industry leader at Deloitte in Dublin, doubts that London-based firms will be able to rely on equivalence post-Brexit. “Passporting is an important element in the UK’s role as a global financial hub and losing it will be significant,” he says. “Assuming it will be a hard Brexit, this means that many of the structures established in the UK and associated branches across the EU will cease to operate post-Brexit, potentially creating significant disruption to business and customers.”

IN THE INVESTMENT MANAGEMENT SPACE WE SEE A NUMBER OF INCUMBENTS EXTENDING THE SCOPE AND SCALE OF WHAT THEY DO IN IRELAND. —DAVID DALTON, CONSULTING PARTNER AND FINANCIAL SERVICES INDUSTRY LEADER DELOITTE, DUBLIN

“The term ‘equivalence’ has been offered up as a potential solution, but this has a very strict meaning within EU law and doesn’t extend to the more vague mutual recognition interpretation that some commentators have adopted,” Dalton adds. “There is a possibility that such mutual recognition could be achieved via the negotiation process, but this is likely to face fierce political challenge.”

Misgivings about the future of passporting may be one reason why Dublin can be expected to attract a range of financial services companies, which Dalton says should extend beyond the investment management industry. “In the investment management space we see a number of incumbents extending the scope and scale of what they do in Ireland while there is also likely to be a small number of significant entrants, specifically those with UK and US heritage,” he says. “There has been some activity in the payments and fintech sector and we expect that this will continue to gain momentum into next year as the realisation of Brexit takes hold.”

Dalton echoes a number of other observers, however, when he says that while the potential for Ireland is “significant”, he is cautious about a predicting a bonanza for the country’s financial services industry, given that Brexit opens up relocation opportunities for all European businesses. “This could see firms, or certain lines of firms, leaving Ireland,” he says.

A WAITING GAME

Against this backdrop, it is unsurprising that the focus of Deloitte’s clients to date has been on evaluating the competitive credentials of jurisdictions across the EU. “Ireland has generally performed well in this analysis,” says Dalton. “While a number of authorisation submissions have been made to the Central Bank of Ireland, the majority of firms are playing a waiting game and balancing the need to progress their authorisation programme and learning more from the developing negotiation process. These firms have been performing ‘non-regret’ activities in the meantime, including preparing authorisation documentation.”

Again, it is important to put the impact of Brexit in perspective, because the Irish financial services industry had been growing at a very impressive clip long before the UK government announced its plans for a referendum on membership of the EU. According to the Irish Funds Association, more than 800 investment firms are active in Ireland, with €300bn now managed from the country.

For those considering relocating to Ireland, Dublin certainly has plenty to offer professionals. A survey published by Movinga in March on the best cities for professionals post-Brexit named Dublin as top of the rankings for bankers, with Amsterdam second and the established banking hubs of Frankfurt and Paris well behind in sixth and ninth. In the Mercer Quality of Life Survey for 2017, meanwhile, Dublin was ranked 34th out of 231 cities, above London, which was 40th.