

Although fintech is a bit of a catch word right now, Ireland has for a long time been to the fore in this dynamic and fast growth industry.

Since the establishment of the IFSC, Ireland's fintech industry has continued to grow and stay ahead of the curve. Just as technology continues to develop, so too has the ability of tech pioneers to deliver compelling offerings for the financial services industry. This has led to the establishment of many interesting and high growth fintech firms. Some are established by experienced industry hands, others by less experienced but visionary millennials.

What they all share is a passion for delivering financial services that are far more connected, efficient, compelling and cheaper than what is currently being provided by the traditional banking, insurance, payments and investment industries.

Some were established to 'cherry pick' specific aspects of the banking and insurance value chain. These players don't wish to provide, for example, a full banking service, but rather focus on specific services, such as foreign currency (CurrencyFair), money remittance (TransferMate) and providing credit (GRID Finance).

Others are gearing up for new EU regulations which will allow non-banks to use existing bank infrastructure to provide bank accounts and without being a full blown bank.

This is a sea-change, but the real revolution in fintech is the application of data analytics and artificial intelligence to this new banking model (such as Cogni). And the same applies to insurance, such as peer-to-peer personal and motor vehicle insurance, and to asset management, which is being disrupted by such creatures as 'robo-advisers'.

THE LONG GAME

The growth prospects for some of these innovative disrupters are quite staggering but don't expect gigantic profits overnight: rather focus on transaction volumes and revenue generating capability.

If this sounds fanciful, think of the success of another tech firm - Facebook. It's a straight-forward social media play that just happens to sell advertising as an added value service. Its sales turnover increased by a whopping 51.9% to \$5.4bn last quarter and the number of active users jumped 15% year-on-year to a staggering 1.65bn. That's the power of the internet - interconnectedness.

If you consider that the US fintech firm Stripe processes about \$20bn a year, having only been



INDUSTRY INSIGHT

Powering forward

The growth prospects for innovative disrupters is immeasurable, writes **Peter Oakes** as he discusses the prospects for Ireland's fast growth fintech industry.



Peter Oakes, founder, **Fintech Ireland**

established in 2010, then you might find it hard to believe that it is valued at \$5bn plus. When you think that Irish fintech pioneer firm Realex Payments, which in 2015 processed €28bn (\$9.2bn more than Stripe), was purchased by a global heavy weight for €115mn last year (\$4.23bn less than Stripe), you might feel that Irish fintech firms are a better buy?

FUNDING FINTECH

First and foremost, the question which every entrepreneur must consider is whether proposed funding terms are fair. Many start-ups obtain their first round of financing, in addition to the founders' own pockets, from family and friends. After that, things are not necessarily easy in Ireland, leading many to look to London and further a field where investors don't seek as much equity as those in Ireland.

To me this is critical. Ireland really needs to up its game in this space if it wants to keep local talent local.

It is great that we have programmes like those of Enterprise Ireland, accelerators and innovation hubs, which can provide advice, strategic thinking and access to both mentors and potential clients. But if the level of funding is insufficient, if the amount of equity give-up is too much, if

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investment terms sheets are too one-sided and convoluted, then of course our fintech industry entrepreneurs must look overseas where, quite frankly, investors 'get it'.

GLOBAL OPERATIONS

Irish investors need to understand that they operate in a global world. We also don't have that many established technology investors in Ireland. The UK, US and Nordics region adopt a more holistic approach when investing in fintech. They are not looking to make an immediate buck off the transaction. They know we are going through the fourth industrial revolution.

This is especially the case when it comes to overseas public and co-operative society investors. They share their countries' view that it is best to future proof their economies by establishing high-tech and high-value jobs and industries. I have seen first-hand offers which other countries are making to entrepreneurs, such as interest free 'settling-in' grants and loans, free accommodation for staff, rent-free cars and six figure non-recourse investments with no equity give-up.

IRISH ATTRACTIONS

Although Ireland may not be the most competitive, it is certainly in the top half, perhaps top quartile, in terms of attracting fintech firms to establish a base here.

Admittedly, not everyone will agree. It depends on where your fintech business is on the maturity curve, and of course the specific area that you are focussing upon.

IDA Ireland has had many great successes in getting blue chip technology firms to set up in Ireland. Many of these, such as Microsoft, have turned their attention to financial services and have thus morphed into fintech while here. Other fintech and payments giants, such as First Data, are increasing their Irish footprint through strategic expansions. But it's a different thing altogether when it comes to the smaller entrepreneur which either moves to Ireland to establish their HQ here or a native and who set up here in Ireland.

SELLING THE STORY

It's hard to sell Ireland when they feel that availing of Enterprise Ireland's funding offers means giving up 10% of their company for €50k. I am not saying that this is the correct characterisation of the schemes, but unfortunately this is the perception many have when they read through the terms and conditions.

It is not until firms meet with Enterprise

Ireland do they get the fuller picture and hear the context explained. And let's remember that we have many successful home-grown stories including Trustserv, Fernergo, Corlytics, Currency Fair and Deposify, where Enterprise Ireland has travelled with them on their journeys.

SEA CHANGE

We have a strong and respected educational system. A number of third level educational institutions have evolved their offerings aligned to industry. Indeed, a number of them are actually well ahead of the curve. Again, I would cite the IFS 2020 Strategy. A number of action points under the four strategic priorities are aimed at ensuring that the right skills needs of the sector are adequately reflected in the national policy for our further and higher education systems.

However, we cannot afford to be complacent. Recently the co-founders of a large EU-based technology company published a three-point complaint, addressed to the countries politicians, in the national newspaper in which they said that: the city's congested housing market was making it hard to lure foreign talent; the country's education system was skewered towards old economy vocations at the expense of computer programming; and the countries fiscal policy promoted a high tax system for entrepreneurs and businesses, especially when stock options were involved.

They went on to say that this was making them consider leaving the country and expanding their business elsewhere. Ireland is one of many EU countries where these statements could equally apply. In this case, the company was Spotify and the country was Sweden.

FUTURE PROSPECTS

Many of the fintech firms that are entering the landscape are payments services and e-money firms. In January 2018, a new payments services directive will take effect in Europe. The new directive will not only create new payments sub-industries, but more importantly from a regulator's perspective will require additional types of payments business to fall under the regulatory umbrella.

This is an exciting time in payments but also a challenge for regulators, including the Central Bank, as prospective licensees have many jurisdictions from which to choose.

It would be a huge blow if Ireland built out its technological capabilities but was unable to engage with and process applicants in an industry which is all about speed to market. ■

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