SIFI 2018 in figures

7 policy papers, policy briefs and reports including:

2 policy submissions,

1 to each of the Irish and Scottish Governments.

10 events/presentations/summits including:

4 fintech round-table meetings, and involvement in 3 ministerial visits.

2 advisory group meetings with key industry input.

Discussions with 10 of the world’s largest asset managers and asset servicing firms.

Representatives from more than 40 companies brought together.

15 procurement/cooperation discussions spawned by SIFI engagement.
Introduction from SIFI Advisory Group Chairman

I am delighted with the progress that SIFI has made over the past year – in terms of setting an agenda for businesses in both locations, I can confidently say that the initiative has delivered in terms of germinating widely the idea that the Irish Scottish finance corridor has the potential to deliver much more to companies and society in both locations, than it has done in the past. The interest in the meetings, publications and ideas that David, Terry, Pete and the team have put forward is testament to this.

The most important thrust of this project centres on the word “initiative”. It’s about taking the time and effort to try and do something different, by looking at things from a new perspective so as to gain greater benefits. SIFI is about kick-starting engagement at various different levels: between companies in both locations; between trade bodies in Ireland and Scotland; and between those involved in public policy in both locations. It’s about starting new conversations and linking those with a common interest in the development of the financial sector. Already SIFI has brought many fintech companies from both locations together, supported the increased cooperation between the two locations in asset management, linked up businesses with potential buyers, and introduced politicians to key business contacts. In the process, it has created something that we can all value: an increased sense of purpose and goodwill between both places, even as politicians are embroiled in the important task of finding the best way to navigate the Brexit vote in the UK. Most importantly, it has shown that whatever the Brexit outcome, two industries so closely aligned in location, outlook, background and hopes for the future can and should work together where it makes sense to achieve shared outcomes.

My experience probably gives me an ideal prospective with which to view this project. I’m an Irish-based economist. I have worked as an academic for many decades and have had experience of being on boards in the private sector. I headed Ireland’s Economic and Social Research Institute for many years, and spent a decade on the Scottish First Minister’s Council of Economic Advisors. These experiences mean that I know the economic landscape in both locations, which allows me to see their commonality and complementarity and the opportunities they give rise to. While many of those may be small at present, the rapid development of the finance and technological industries means that by bringing the best of what we have in both locations together, we are better able to compete on a global scale in the future. Ultimately, the project will be judged on tangible successes: increased trade, new jobs, and more vibrant industries.

Finally, I want to thank the members of the advisory group that meets quarterly to inform the strategic development of the Initiative. Their expertise has been central in directing effort to the right places and in asking the pertinent questions. Those of us in Scotland and Ireland know the individual strengths of each country and the potential that each has. There have been valuable efforts made to outline strategies that will define and grow the financial sectors in both locations. SIFI contributes to these – its purpose is to find those areas where working together can bring greater rewards. We can see that 2018 has been a good year for the project – I know that 2019 will surpass that and I look forward to many interesting meetings, conversations and ideas put forward by our expanding network.

Dr Frances Ruane, Chairman, SIFI Advisory Group
SIFI Review of the year
This year has been a period of rapid growth for SIFI. With wide acceptance of the basis of the Initiative – that cooperation between the two locations can smooth the operations for companies after Brexit and in the longer term increase trade and the number of jobs – we’ve been able to produce a wide range of events and papers and bring into the fold a broader range of participants. Significantly, we were delighted to receive a grant from the Scottish Government during the year the has allowed us to run the varied programme and increase our presence across the market. The following lists out our key actions throughout the year.

Early 2018:
The earliest part of the year was spent consolidating progress after our 2017 conference and organising our programme for the year.

May:
This month saw the establishment of our Advisory Group. In a teleconference meeting hosted from the British Embassy in Dublin, we set ourselves a framework in which to operate. Namely, our role is to act as a conduit bringing interested parties together for events and discussions and to disseminate ideas and policy on the back of our discussions. We also agreed to divide our time between focusing on shorter term Brexit-related solutions and longer-term growth prospects, particularly in the fintech field.

Late May also saw the publication of our academic paper on the prospect for fintech in both Ireland and Scotland, written by academics in the University of Strathclyde and University College, Dublin. The paper showed conclusively that even at the most basic level of cooperation in fintech new jobs would be created on the back of this coordination.

June:
In June we hosted a very successful fintech orientated mini-conference in Edinburgh, kindly supported by our event partners PwC. In front of a group of fintech professionals, our panel of SIFI fintech expert Pete Townsend, University College Dublin academic Andreas Hoepner and Stephen Ingledew from FinTech Scotland presented a wide range of perspectives on how the fintech industry is developing. Our speakers spoke passionately about the topic, in particular in how fintech is democratising the relationship between financial companies and the end client. To maintain forward momentum, participants agreed to examine the setting up of a series of roundtables to promote activity amongst our fintech companies. Minister Derek Mackay MSP, Scotland’s Cabinet Secretary for Finance, Economy and Fair Work, addressed attendees at a post-event reception, and also heard from the experts themselves at a dinner later that evening.
July/August:
During the summer lull SIFI didn’t take a rest! In fact we used the opportunity to broaden our engagement by reaching out to the asset servicing and recruitment sectors, a process that has continued right through to the end of the year and will provide valuable background in our writings on these two sectors.

September:
We were delighted in this month to be able to continue our partnerships in order to rollout our fintech programme. Through our fintech expert Pete, we worked closely with Enterprise Ireland to bring a number of fintech companies over to Edinburgh for the day. At a morning session we introduced the companies to a range of Scottish wealth and asset managers, where the latter group were able to explain the issues they faced, especially in relation to data management as increasing regulation takes hold. Our Irish fintech entourage then used the opportunity to discuss some of the solutions that they are able to offer. At lunchtime the companies heard from Irish business minister Heather Humphreys TD, who was visiting Scotland on a trade mission.

Our second session that day allowed us to introduce Scottish and Irish fintech companies together for a first ever summit, an event where we partnered with fintech Scotland and that was kindly hosted by Pinsent Masons. The main thrust of the discussions revolved around the difficulties that fintech companies face in dealing with the large financial institutions that make up the bulk of their prospective clients. It also set in train a process whereby SIFI will attempt to construct a common set of principles to underpin the fintech sector, something that we hope could be promoted throughout the world as a means of putting both Scotland and Ireland on the fintech map.

October:
During this month we were delighted to organise for Scottish Minister Kate Forbes MSP to attend the PwC EMEA asset management conference in Dublin. During the social events surrounding the conference, we were able to introduce the Minister to representatives from the Irish asset management and servicing industry, while the Minister herself gave a speech to a wide range of representatives from asset management companies from across Europe as part of a Brexit solutions session.

Parallel to the event, SIFI had arranged for the Scottish Minister to meet in a round-table setting representatives of the Irish fund industry brought together by the trade body Funds Ireland. At the event the Minister heard an authoritative outline of the issues facing the Irish, European and global fund industries from Funds Ireland Chairman Brian Forrester. SIFI set out some of the main points that arose during the meeting and these will be used to drive cooperation between the sectors in both Ireland and Scotland in coming months and years, and we look forward to many more similar discussions. The Minister then went on to Dublin City University to meet some of the innovators in fintech there.

Later in the month we sent in a submission to the Irish Government’s 2020 Financial Services industry review.
November:
In mid-November we were delighted that Ireland’s Minister responsible for financial services Michael D’Arcy TD took a day out to come to Scotland and engage with the asset management community in the city. Our first event, a breakfast Q&A briefing, allowed a wide range of voices from the community to discuss with the Minister the outlook for the financial services sector, particularly against the backdrop of Brexit. The Minister outlined both the risks but also the opportunities that the industry faced, and the progress that Ireland had made in supporting the industry in recent years.

Following on, the Minister attended a smaller round-table meeting with the chief executives of Scotland’s largest asset firms. Following the Minister’s departure back to Dublin, our chief executives then met with Minister Derek Mackay to discuss further how Ireland can interact with Scotland to benefit the fund industry and also heard in detail how Scotland itself is focused on attracting inward investment.

Later that month we also partook in a round-table organised by EY on behalf of the Scottish Government, and after the event sent a submission through to outline how the cooperation with Ireland can boost the Scottish finance industry.

December:
In December we were delighted to get a two-page spread in Finance Dublin magazine outlining our vision of how Ireland can benefit from cooperation with Scotland. This followed on from successful engagement with media throughout the year promoting the SIFI message to the finance community. We are now in the process of outlining our agenda for the coming year, details of which appear elsewhere in our report. My thanks to all our supporters, and in particular to Terry, Pete and Frances, and Andy, Allan and Cathorina at PwC.”

David Clarke,
Policy Director and Head of SIFI
Developing our finances and support
At SIFI we are privileged to have had such a groundswell of support, financial, pro-bono and in-kind, through both government and the private sector. In 2019 we are looking to advance our programme and work through a corporate sponsorship scheme that will provide excellent value to our individual supporters, as well as benefiting them by helping build stronger industries with more corporate opportunities. The programme will be rolled out in the spring led by Administrative Director Terry Quinn.

Asset management progress
While discussions about Brexit continue to be held in the abstract, companies and industries are becoming more concerned about the uncertainty they face. The asset management industry is no stranger to this and its health is vital to the economies of both Ireland and Scotland. Ireland has built itself as a key fund base for sales into Europe and globally, with many UK firms using it as a base to sell internationally. Likewise many international firms have used it as a bridgehead to sell into the UK. Scotland has significant asset servicing, but also has an asset management sector that is looking to continue to sell around the world, and in particular into Europe after Brexit.

Many in the industry have taken vital steps to ensure that they are prepared for any eventualities, including some Scottish firms setting up European operations in Dublin. It is obviously in everybody’s interest that delegation continues, while there are indications that central banks are working tirelessly to ensure a smooth transition into whatever relationship the UK has with the EU.

It is therefore clearly in both Ireland and Scotland interests that the freest relationship possible continues in relation to financial services. While Ireland can argue from inside the European Union for a continued liberal attitude to the trading of financial services, Scotland can do its part by reinforcing liberal trade instincts within the UK and ensuring that those in Britain who would support a more restrictive environment do not gain the upper hand.

The contact between industry and government that we have organised has allowed vital conversations to take place so as to ensure that all parties are onside when it comes to ensuring nothing is introduced that could damage the competitiveness of our industries. At SIFI we will do all we can to help encourage a conversation between the various parties so as to maintain the environment the has allowed financial services to flourish in both Scotland and Ireland.
The CTA – some certainty amid the Brexit fog
As we go to print the whole Brexit process is up in the air, a level of uncertainty that is causing distress to many companies and individuals. Fortunately the governments across these islands, along with the EU, have committed to the continuation of the Common Travel Area (CTA). This allows citizens of both Ireland and the United Kingdom to move and work freely between both countries. It may be particularly useful to Scotland after Brexit should new rules limit the availability of EU workers. Fast-growing industries such as fintech and asset servicing will still be able to access highly qualified and experienced employees from Ireland. Likewise, Ireland will still be able to attract employees from the UK, and there is an opportunity for both Scotland and Ireland to benefit should some Scottish labour be able to help plug short-term Irish overcapacity issues.

Again, SIFI is committed to helping overcome whatever problems companies may have, and we are in the process of putting together a directory of the services that are available in both locations so as to help companies navigate through any Brexit-related restrictions and difficulties.

SIFI’s Fintech programme – what we learned, and what next
SIFI’s Fintech specialist Pete Townsend, who spent 20 years in the corporate world before taking the leap as an entrepreneur, helps connect fintech firms with established corporations. Here he explains why establishing the connection for these businesses across the Irish sea makes good sense, and what lies ahead.

In the last few months, with SIFI, Enterprise Ireland and the Scottish development agencies, I’ve led four round-table sessions on both fintech and ‘techfin’, or the technology that powers finance as well as other industries. All of the sessions are B2B focused, which is the core theme of SIFI – increasing B2B activity between the financial industries in Scotland and Ireland. With the round-table participants drawn from across wealth and asset management, banking, insurance, fintech, regtech, and broader data-driven tech ventures, we’re getting different mindsets to the table. For me, the SIFI banner is a conduit - and a meaningful one at that with my Scots-Irish-Bostonian bloodline - for a problem worth solving. That problem is the slow pace of technological change in global financial markets. When that change quickens, it can deliver benefits to the end customer.

Some say that the pace of change in global financial markets is slow because financial markets are so heavily regulated. I recognise this, as I lived it for over 20 years. But what we’re trying to do is change the mindset, and influence others to think differently about large firms and small firms working together. What we’re finding in the round-table sessions is that there are creative ways to speed up innovation that still respect the need for compliance.

What have we learned?
It’s been refreshing to hear about large financial firms putting in place specific project management methods, procurement policies and stakeholders for working with small tech firms. This means that the larger players can benefit from the expertise in newer technologies and faster development cycles that differentiate the smaller tech providers, while still controlling the risk of contracting with smaller players. One of the old-school mindsets we still hear about in large firms is “what if the start-up
I’m working with goes belly-up tomorrow?”. This is not a problem restricted to small firms, although the risk is higher. Large financial firms working with the financial technology giants have counterparty risk as well. There are ways in which large firms contracting with the financial technology giants protect themselves that small players are open to as well – you just need to ask.

From the side of the small tech firms, we’ve had lessons learned as well. Getting paid for your time is a big thing, but the context is going to be different each time. How much development is required to fit your product into the large firm? Do they just want the core of your platform and not the user interface? Do they just want the user interface, or do they want your whole product? How will your product fit into the existing digital landscape for that company? Can you carve out a portion of your small team to deliver the customization and then backfill? You need funding to dedicate part of your team to a large firm, so structuring it as a paid project is absolutely necessary or you’re handcuffed. What should we put in place up front to respect the intellectual property that each firm brings to the table?

Why does it matter?

All of these questions are already being answered in other industries and geographies, and what we’re trying to do with SIFI is make it easier to answer these questions together by learning from our friends across the sea. In Scotland, we have a financial industry dating back hundreds of years, an engineering heritage geared towards problem-solving and a vibrant academic community leading research in newer technologies. In Ireland, our more recent history as an international financial services hub and as a European home for the global tech giants and their highly-skilled teams numbering in the tens of thousands have spawned a fintech ecosystem punching above its weight for a nation of five million people. The backdrop to collaborate is there, but the channel is not as active as it could be.

What’s happening next?

To find the right path, we need to look at where fintech is headed. In the last five years, we’ve moved from an environment dominated by the financial technology giants, to one with far more diversity. When the important customers of large financial firms come calling for end-to-end digital solutions, CEOs are listening. Five years ago financial technology innovations came mostly from institutional demands, and it was the institutional customers that had the CEO’s ear. With smartphones now a virtual extension of ourselves, individual customers of financial firms are voting with their fingers and leading the demand for financial technology innovation. Individual customers are not asking CEOs for better financial apps; they just talk to their friends, find the latest and greatest, and delete your app. There are still plenty of pipes and plumbing behind these apps; it’s just digital rather than analogue piping.

The digital asset revolution began with individuals buying bitcoin as a digitally-unique asset 10 years ago. But the way in which financial services are delivered has become far more digitalised since 2008, not only with the apps we use, but at the very core of how financial markets operate. In 2019, we will see mainstream investment funds issuing shares as digital assets, or tokens, that can be delivered securely to a digital wallet owned by an institution or individual. We will see clearing houses, exchanges and central securities depositories bringing order and safety to the wild west of digital assets that spawned from the crypto markets.

Where do we go from here?

The digital revolution underway in the financial markets, however, doesn’t solve the problem of manual processes, paper-laden operations and ‘ever-changing and not-worth-competing-on’ regulatory reporting. This is where today’s fintech helps, as does the historical closeness of Scotland and Ireland in knocking down the virtual barriers to collaborating between larger and smaller firms. Before we become fully digital, we need to draw a line in the sand on the old way, and make it cheaper, faster and better. The fintech players that have grown up over the past five years can help now, while the digital asset revolution is spawning new players, new markets, and new liquidity. Combining the two at a later stage is the real challenge. However, the mutual heritage and complimentary financial market and tech ecosystems we have between Scotland and Ireland enables us to build a stronger B2B relationship and solve today’s problems, learning more about each other’s businesses in the process and forming partnerships in joining the digital revolution.

Pete Townsend,
SIFI Fintech consultant
Helping Fintech firms to sell

Many of the problems that fintech companies face when selling to larger financial businesses are related to issues wholly outside of technology. In fact, as we can see from our meetings, those involved in the technological side in established finance businesses are enthusiastic about what they are able to do with fintech companies. The problem comes in terms of shoehorning smaller fintech companies into a procurement process that is normally designed around working with established major businesses – in other words the procurement process for working with IBM should not be the same procurement process for working with a company that employs 50 people and has a relatively new product or service.

At the same time, it is clear that smaller fintech companies are not necessarily fully equipped in order to mount a successful sales and marketing strategy to these larger firms. For one, given the origins of most of these businesses, their key task and the destination of most resources is involved in the technological solution. While the companies themselves are acutely aware of what they envisage are the needs of larger institutions, they may not always have the resources, or the financial strength, to navigate the complex and often multi-year procurement processes of large financial companies.

From the viewpoint of the larger financial institutions, they are, as stated, keenly aware of the benefits that will accrue from engaging with fintech businesses. This appreciation now extends from those at the coal face right up through to senior executives in those businesses. As a result, these businesses are earmarking considerable investment for innovation in areas such as data management. However not all are putting the same amount of resource into developing the procurement and relationship management systems that will allow the smooth integration of much-needed fintech IP into their businesses.

Various solutions have been suggested to overcome these problems. Significantly some companies have instituted specific procurement processes that deal with all of the issues encountered by fintech businesses seeking relationships with large institutions. A key component for this may be putting someone specifically in charge of developing this line of engagement. Alternatively, given the trust issues that dog conversations within financial institutions about contracting small, newer companies, some large institutions have established arm’s-length divisions or units with a specific purpose of bringing new technology via small fintech companies into the fold.

SIFI will continue to work with our fintech firms to make sure they’re able to sell their services effectively, and we are planning on a stream, building on the findings from our roundtables, to help with this activity.
Fintech and ethical principles

One of the most enlightening addresses we have had in relation to fintech came from FinTech Scotland CEO Stephen Ingledew at our event in June. In a powerful speech, he underlined how important fintech could be in helping the finance industry serve its customers better and ensure that customers get the best value from their investments, savings and financial products.

At present, the finance industry is a data heavy, process heavy and highly regulated sector. Much of this makes sense – the large amount of data is needed to ensure that customers are understood and that their complex financial needs are met, and this obviously requires many processes as well. And to ensure everything works smoothly in a complex environment, a high degree of regulation is needed. However, all of this can add considerable costs onto the consumer, while their understanding of what is undertaken on their behalf is somewhat clouded by the technicalities involved. Fintech can help alleviate this by making more efficient use of data, streamlining processes and ensuring that financial companies are helped in their dealings with their clients. That mission – to help the underlying client – was evident when we brought fintech companies together.

At SIFI, we think this is one of the most marketable aspects of fintech. Helping companies serve the clients better, and helping clients be better served, is something that all of us support. But fintech companies often struggle to engage with established financial firms. We believe that establishing some agreed bedrock principles to guide fintech companies as they become more established will be vital not only in promoting the sector, but also in providing quality-like assurances that they can adhere to and benefit from in their early stages. And what better way to demonstrate this collective endeavour than to establish it at a supranational level. We will be working on this in the New Year and will come back with our findings and suggestions on how to take this forward.

Scotland has lots to offer in sustainable finance

One of the areas that’s ripe for cooperation between Ireland and Scotland is in sustainable investing. In this article, Edinburgh-based expert Fran van Dijk talks about the wealth of experience that Scotland can bring to this discussion.

Scotland has a reputation for taking climate change, social inclusion and environmental protection seriously. It has an impressive target to cut carbon emissions by 90% by 2050, and a National Performance Framework whose outcomes are currently being aligned with the UN’s Sustainable Development Goals (SDGs). Scotland’s forward-thinking policy landscape makes a natural foil for its growing sustainable and ethical financial sector.

Considered niche for over two decades, sustainable and ethical finance, Socially Responsible Investing (SRI), Environmental Social and Governance (ESG) concerns and, more recently, impact investing are enjoying rapid growth. “Sustainable investing will be a core component for how everyone invests in the future,” BlackRock Chairman and CEO Larry Fink has told the FT. “We are only at the early stages.”

In Scotland however, the ethical finance sector is already mature. Aberdeen Standard has a long-standing and award winning UK Ethical Equity Fund. Launched in 1998 and with a diverse portfolio of UK assets, it now totals £290 million. Apart from larger funds, maturity also means wider diversity. A much more specialised fund is the newly launched Aberdeen Standard UK Equity Impact – Employment Opportunities Fund. This focuses on successful businesses that demonstrate fair job creation, and is developed in partnership with Big Issue Invest, an established impact investor.

For those approaching the ethical investment area fresh, the UN’s 17 SDGs offer an effective impact investing framework. Designed to end poverty, fight climate change and promote inclusion, the goals help guide investors to drive positive impacts, from education to climate action and innovation. According to the Business and Sustainable Development Commission, the SDGs offer market opportunities of up to $12 trillion per year by 2030, but will cost $5-7 trillion per year.
to implement – far more than governments can afford. Luckily, the financial sector has seen their business potential and SDG investment activity is already burgeoning in almost every asset class.

In Scotland, Baillie Gifford’s Positive Change Fund is a global impact investment fund designed to contribute to the SDGs and promote innovation for sustainability. Apart from sound performance, Baillie Gifford says its impact has gone beyond financial. Focused on making a difference, it has sparked growing interest in ESG around the organisation, and helped support a culture that’s attractive for new hires. Taking a different approach, Scotwest, one of the most innovative credit unions in the UK, has integrated the SDGs into its culture, strategy and policies. Specialising in inclusive finance and helping build resilience amongst customers it is a natural fit.

The Principles for Responsible Investment (PRI) provide guidance for signatories who want to integrate ESG approaches into their investment processes. Though adopted widely, some signatories merely pay lip service to their requirements. Others, like Edinburgh-based Martin Currie, take them more seriously. Rather than create separate ‘ethical’ funds, Martin Currie takes an integrated approach to investment, aiming to weave ESG into all investment decisions. They have achieved the highest rating from PRI for strategy and governance, incorporation and active ownership.

Edinburgh’s long-standing reputation as a financial centre has helped it attract talented teams. The Green Investment Bank was launched in 2012 with offices in London and Edinburgh, and proved very successful at delivering project finance to reduce carbon emissions and protect natural resources. It was sold by the UK government to Macquarie Group in 2017 and renamed the Green Investment Group. It now comprises one of Europe’s largest teams of dedicated green infrastructure investors and to date it has invested in 100 green infrastructure projects, committing £3.4 billion to the UK economy.

While some of this activity could take place elsewhere, the fact that Scotland has a thriving network of sustainable finance professionals helps build momentum and has catalysed the exchange of ideas. Since 2015, three Edinburgh-based Global Ethical Finance Conferences have attracted world class speakers delegates from all over the world, Edinburgh is also home to regular Ethical Finance Roundtables, attracting enthusiastic support from the financial community.

In summary, there’s a social and political backdrop that has allowed the growth of this type of investing to flourish in Scotland. It has a lot to offer potential partners such as Ireland.

Fran van Dijk,
Sustainable finance expert
Upcoming events:

18 January
SIFI will be represented at the Killarney Economic Conference, where Policy Director David Clarke will chair a panel on finance and fintech in rural development. We will also be working with Fexco, an Irish payments business based in rural Co. Kerry on a paper to look at the advantages and challenges of operating outside of the big cities.

February
We are looking at a joint event on Fintech with the Dublin Business School and also hope to organise an event in Glasgow.

March 6
Save the date for our keynote Dublin Mini Conference of 2019, to be hosted by our event Partners PwC. We are looking to bring in senior speakers from Government, industry and regulation to address our audience. Details to follow soon.

Further events in planning:
- Fintech Round-table on blockchain
- Fintech Round-table on payments
- Round-table on sustainable finance
- Recruitment round-table
- CEO Round-table events in both Scotland and Ireland
- Brussels European Parliament event