

# A&L Goodbody

## The Irish Fintech Ecosystem

The global fintech sector is a rapidly evolving ecosystem. This is a trend which will remain a characteristic of this emerging industry which is inherently disruptive in nature. The choice of location for investment in the fintech sector is particularly important. The relative success of government policy implementation at national level is essential for promoting the right conditions for innovation, investment, and collaborative activities in this rapidly changing landscape.

Ireland has its sights set on matching the success of the top global fintech players such as London, New York, Silicon Valley and Singapore. Dublin is fast emerging as one of the world's leading fintech hubs. According to Deloitte's 2017 Interim Hub Review, of the \$17.4bn invested globally in fintech deals in 2016, Ireland accounted for \$524m, ranking fourth globally behind China, the US and the UK.

Growth in the fintech industry is a priority for the Irish Government's economic policy. It is a key component of IFS 2020, a five-year strategy for the development of Ireland's international financial services (IFS) sector launched in 2015. IFS2020 seeks to consolidate and grow Ireland's position as the global location of choice for specialist international financial services.

The fintech industry currently employs approximately 5,000 people in Ireland, and this number is expected to quickly double by 2020, in keeping with the strategic targets of IFS2020. Growth is anticipated to arise from the increasing connectivity between the fintech sector and traditional financial services companies, which move to replace their legacy platforms and IT architecture in order to grow and innovate.

### WHY IRELAND?

Ireland has a long-established track record for both financial services and technology. Over 400 financial



**MARIA MCELHINNEY**  
BANKING & FINANCE  
PARTNER, NEW YORK OFFICE  
A&L GOODBODY

services companies are located in Ireland. There are 37,000 people employed in technology companies in Ireland today with tech titans such as Facebook and Google having located their EMEA headquarters in Dublin. The preponderance of large tech firms in Dublin results in a high concentration of talent in areas such as data analytics, APIs, blockchain, cloud computing and integration technologies. In addition, there is a high concentration of regulatory (regtech) focused startups based in Ireland, supporting

Dublin's many fund management servicing businesses.

Home grown success stories like TransferMate, Realex Payments, Stripe, CurrencyFair, Fenergo and FundRecs operate in Ireland alongside global financial services behemoths. These include First Data, Visa and Paypal in areas such as payments, lending, wealth management, crowdfunding, distributed ledger technology and digital currencies.

Success stories include the acquisition of Realex Payments by Global Payments in March 2015 in a deal estimated at €115m. Founded in 2013, FundRecs has developed efficient and cost effective reconciliation software and was named European Startup of the Year at the ICT Spring Conference in 2016. Fenergo secured \$85m in funding from Insight Venture Partners and Aquiline Capital Partners in 2015, and is quickly becoming the industry standard for Client Lifecycle Management solutions.

In addition to the long established Irish association with financial and technology industries, Ireland is quietly confident of furthering Dublin's position as a "booming FinTech hub", by leveraging some of the country's other innate advantages. Ireland's low corporate tax rate of 12.5% is a major incentive for start-ups or companies looking for a location for their business investments.

Other attractive features of Ireland's tax code for relevant companies include R&D tax credit regime, a stamp

duty exemption available for the transfer of a wide range of intellectual property, a key employee reward mechanism, Ireland's Double taxation agreement network. There is also the potential 6.25% tax rate under Ireland's Knowledge Drop Box on profits arising in certain IP assets which are created as a result of qualifying R&D activity carried out in Ireland or the European Economic Area.

In addition to an attractive and stable corporate tax regime, the Irish government offers funding and grant support that may be available to fintech companies doing business in Ireland, including:

- the IDA, the Irish government's inward investment promotional agency
- Enterprise Ireland, the government organisation responsible for the development and growth of Irish companies in world markets
- Ireland Strategic Investment Fund (ISIF), an €8bn sovereign development fund with a statutory mandate to invest on a commercial basis to support economic activity and investment in Ireland. Recent ISIF investments include Kabbage, Motive Partners and Muzinich & Co

The private funding sector is also increasingly active in Ireland. Irish technology firms have raised over €1bn through venture capital in 2017 and fintech investments accounting for roughly 20% of that figure. Although most Irish fintech start-ups are raising funding through traditional funding mechanisms there has been a recent increase in crowdfunding, peer to peer lending platforms, and initial coin offerings and token sales.

### WILL BREXIT HAVE AN EFFECT?

Dublin is now vying with the likes of Frankfurt to emerge as the EU's predominant fintech hub, following London's exit from the EU. Many companies are now assessing their options, in particular fintech businesses who seek to freely access the European Union market of 500m consumers.

Post-Brexit, fintech firms that are authorized by the UK financial regulator will no longer be able to passport into the EU and will need to relocate operations to an EU jurisdiction in order to qualify for EU passporting. Fintech companies authorized by the Central Bank of Ireland can offer their products and services across other EU member states without the need for further authorization in the relevant member state.

Ireland's commitment to the European Union, our position as the only remaining English speaking EU member state, along with our innovative business sector, our competitive tax regime and talented workforce strengthen our ability to become the EU jurisdiction of choice for fintech companies seeking access to the European market. While the Brexit decision was one which was not generally welcomed in Ireland, the Irish Government and the existing financial services community are well prepared and best placed to minimize the fall-out for companies affected and ensure they have continued access to the broad European market.

### AUTHOR

#### **Maria McElhinney**

*Banking & Finance Partner*

*A&L Goodbody*

*T: +1 646 975 4900 • E: mmcelhinney@algoodbody.com*

*The Chrysler Building*

*405 Lexington Avenue, New York 10174*

*www.algoodbody.com/offices/new-york*