Product innovation

We asked our panel for their views on product innovation, the greatest potential for growth and what they think will be the features of successful product development in the next decade. The rise in importance of environmental, social and governance (ESG) considerations for investors was a major theme in panel responses and developments at a European level to establish a legal framework around sustainable investment products could add further momentum to ESG-themed funds and fund managers. Loan origination funds, private debt funds and outcome-based funds were also highlighted as areas of growth. So too were ETFs, the runaway funds success story that has many chapters to run yet according to our panel. ETFs will remain a very strong source of growth for the European funds industry with fixed income, smart beta and thematic investing three areas ripe for further ETF penetration.

Brian Higgins, partner, Dillon Eustace:

In the current economic environment, we continue to see funds established with flexible investment policies such as multi-asset and long/short. In addition, we have seen a notable increase in the number of ESG type funds. Earlier this year, the EU Commission issued a number of legislative proposals to establish a legal framework around sustainable investment products. A key aim of these proposals is to provide clarity on what activities are considered sustainable in order to prevent 'greenwashing' (i.e. the practice of gaining an unfair advantage by marketing a financial product as sustainable even though this is not the case in practice). This should help grow investor confidence in such investment products thereby facilitating long-term growth in this type of product. There is also continued growth in the ETF space. The Central Bank's thought leadership in this area is to be welcomed. The fact that the Central Bank has decided to permit listed and unlisted share classes within the same fund will facilitate further growth in the ETF market (which has been successful at delivering lower cost investment opportunities to investors). However, it is notable that the Central Bank has not amended its requirements in relation to portfolio disclosure. This is a matter which will now be considered at international (IOSCO) level. In the event that IOSCO were to recommend a more pragmatic approach in respect of portfolio transparency, this would provide for further growth in this type of product (particularly in respect of actively managed funds). Finally, the indications are that the long awaited update to Investment Limited Partnership legislation should finally come through next year.

Brian Higgins

Fintech

With huge strides being made new technology solutions across the global financial services industry we asked our panel where they see the greatest potential for fundtech innovation. The use of artificial intelligence, robo-advisory, Big Data and distributed ledger technology-based applications all have the potential to transform the different aspects of the fund industry. However, reflecting the mushrooming of regulation since the global financial crisis most panelists highlight the potential for technology to ease the regulatory burden.

Brian Higgins, partner, Dillon Eustace:

Technology has been central to financial services including the funds industry for a long time now. Fintech provides efficiencies in many areas, from helping to comply with demanding reporting requirements (such as those under AIFMD; MiFID II, EMIR; and SFTR) to collating and reviewing data as part of the investment process. Technology is also an important tool in the distribution of funds (including the production of KIIDs and PRIIPs) and there is great potential for further growth in the area of distribution (for example, through fund subscription portals). However, it is important to ensure that new technology which is brought into operation fits within the existing systems and is robust enough to ensure that it operates in a manner which enables fund promoters and service providers to meet their legal and regulatory obligations in respect of matters such as MiFID II, data protection and IT/cyber security (an area which is the subject of continued focus by the Central Bank). Clearly, this is important not just from a regulatory perspective but also from a reputational perspective.

Opportunities to develop fund distribution strategies

The changing map of European funds distribution has created uncertainty for the funds industry and is driving strategy shifts across the entire funds value chain. Our panel identifies a number of opportunities that this environment is creating including in the related areas of proprietary management companies and third party management companies. Strategies are also being strongly influenced by MiFID II - increased costs under the regime are encouraging the growth of larger institutions operating at lower margins - this is itself is also creating opportunities for example in the area of sub-advisory by 3rd party managers.

Brian Higgins, partner, Dillon Eustace:

Brexit provides opportunities for Ireland (and other EU centres) with firms who are located in the UK seeking to retain access to EU markets and, in the case of UCITS funds, other global markets where UCITS are recognised and successfully sold. Consequently, we have seen an increase in the number of fund managers seeking to establish UCITS management companies, AIFMs and MiFID operations in Ireland. The EU Commission proposals in relation to cross-border distribution of investment funds should help to bring further efficiencies to fund distribution within the EU. However, nearly a year on after its implementation, MiFID II continues to be one of the most significant regulatory developments in the area of fund distribution at a European level. The increased transparency in respect of independence and costs brings increased pressure on fees, while the product governance rules have increased operational costs. This coupled with the focus of many regulators on fees, means that we will continue to see the growth of larger institutions that have the scale to operate on lower margins.

The priorities

We asked the panel what they see as the next steps in enhancing Ireland's regime for funds business. The improvement of Ireland's offering in the fast-growing area of private equity is seen by most as the number 1 priority in this regard. The need for Ireland to 'step up to the plate' on regulation matters at EU level was also highlighted as a major priority to ensure, in the absence of the UK's FS regulatory expertise, that legislative changes are proportionate.

Brian Higgins, partner, Dillon Eustace:

Without the UK's input at EU level, it is important for Ireland to ensure that it is in a position to engage in the debate around any proposed new EU financial services legislation and seek to promote proportionate legislation (i.e. which protects investors while not adding an undue level of cost and burden which is ultimately not beneficial to investors). Last year we saw the government make a very strong pitch for the European Banking Authority to be located in Ireland. We need to ensure that this level of effort is maintained on a sustained basis with the necessary resources behind it in order for Ireland to be able to engage in a meaningful and proactive manner around EU legislative proposals which impact the funds industry. Domestically, it would be good to see procedures in place which ensure that legislation (such as the ILP legislation) goes through the parliamentary process in a far more efficient manner. Financial services is an international industry which is very competitive and waiting lengthy periods for such legislation results in such products being located or serviced in other jurisdictions (which of course has a knock-on effect on the level of employment in the industry and the overall contribution to the State's revenue).