

Irish Wealth Management: A Fast-Evolving and Growing Marketplace



Ireland's domestic wealth management sector is changing rapidly, driven by an increasingly sophisticated investor base focused on growing its wealth over the long term, industry consolidation, and the adoption of technology.

A SIZEABLE, CAUTIOUS MARKET

Trying to put a value on the size of the Irish savings marketplace is challenging; best estimates indicate it is worth roughly €350 billion. In addition, according to the Central Bank of Ireland, there is a significant cash balance of €125 billion, currently held on deposit with credit institutions. These deposits grew by €14.2 billion in the year to December 2020, most likely due to the impact of the COVID-19 crisis, which prompted the Irish public, which has always had a conservative approach to saving, to become even more cautious.

Of the remainder of the wealth market—what might be described as the investment product market, around €250 billion is invested with life assurance companies. In addition, investment firms tied to life assurance companies comprise a large proportion of the 100 MiFID investment firms in Ireland (the remainder include wealth managers, broker dealers and product intermediaries).

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In total, there are close to 2,500 regulated investment-related firms operating in Ireland, encompassing credit institutions, credit unions, non-life firms, and investments intermediaries.

The wealth management sector, with an estimated €40 billion of assets under management (AUM), has traditionally been serviced by stockbrokers. The market has grown rapidly and the providers, operating as MIFID investment firms, have focused on transforming their business model to become wealth managers offering

a broader set of life cycle financial solutions. As the marketplace has matured and the volume of investments grown, mass affluent and high net worth investors have increasingly sought to exercise greater choice in their investments, invest in more complex products, and achieve greater transparency in terms of fees. As a result, wealth managers have proved an appealing one-stop shop for financial services.

WEALTH MANAGEMENT IS EVOLVING

Historically, wealth managers focused largely on execution-only services and it is estimated this model accounts for more than two thirds of the market in terms of volume. The marketplace is changing and many providers are now evolving beyond the traditional stockbroker model to embrace additional services catering for the needs of investors and a wider sophisticated client base.

Wealth managers are placing a greater emphasis on both advisory and discretionary services such as cash management, tax planning and financial planning where they can add value and help investors to achieve their long-term objectives.

While the wealth management industry is expanding due to changes in consumer behaviour, it is also benefitting from constraints on life assurers. Life products are balance sheet-intensive given the need to hold capital against them to meet regulatory requirements. In contrast, the wealth management model does not have such capital requirements. Moreover, as a sticky annuity-style business based on flows, it offers attractive returns.

The growth potential of the wealth management model and the comparative constraints on the life model are vividly reflected in the decision by Irish Life, part of Great-West LifeCo, to enter the wealth management industry.

NEW OPPORTUNITIES ARE EMERGING

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The wealth management sector anticipates a significant potential boost in the coming years due to various external developments. One of these is negative interest rates. While rates have been negative in the eurozone for a number of years, to date these have only been passed on to corporate and SME customers. However, with rates likely to fall further, there is an expectation that retail customers in Ireland will soon have to pay to keep funds on deposit.

Faced with negative rates on bank savings, wealth managers see a potential opportunity to convert idle cash into longer-term asset growth. Equities and bonds provide investors with a traditional route to the market but wealth managers are also promoting the advantages of alternative financial products. For example, structured products provide a partial capital guarantee (in return for a cap on the potential upside of the product). For cautious investors unused to market exposure—a large proportion of the current Irish market—such products are proving appealing.

Digital assets such as bitcoin and ethereum have attracted considerable interest among experienced investors, and both regulators and wealth managers will need to decide how best to service and regulate this sector in the future.

Separately, the Irish pension environment is due a shake-up with auto-enrolment offering a potential growth opportunity for wealth managers. The reform is due to be introduced in 2022 in an effort to bridge the pension gap caused by increasing life expectancy. Employers will have to introduce a workplace pension scheme (if one does not already exist), enrol their employees into it, and contribute a percentage of an employee's salary to help fund their retirement. Although details have yet to be announced, life insurance companies may be the initial beneficiaries of auto-enrolment funds, although in time the broader wealth management sector could also benefit.

THE MARKET IS ATTRACTING INTERNATIONAL INSTITUTIONS

Ireland's wealth management industry remains dominated by long-established domestic stockbrokers such as Davy and Goodbody. However, there are a handful of international players, most notably Brewin Dolphin, which substantially increased its presence in Ireland in 2019 with the acquisition of the local wealth manager Investec.

Brexit has also prompted some UK firms to establish a presence in Ireland. Before Brexit, UK firms could service non-UK clients, such as expats in Spain, from the UK. Following Brexit, they have lost their EU passporting rights and can no longer do this. As a result, a number of UK firms have established an EU entity in Ireland. In time,

these entities may also begin to target the domestic market. Separately, a handful of UK firms have acquired Irish investment firms specifically to target the domestic market.

While international interest in Ireland's wealth management is currently limited, the market is easily accessible to foreign firms. Ireland is renowned as a secure jurisdiction with a reliable and transparent regulatory system. It uses the English language, has a similar culture to the UK (and other English-speaking countries) and a common law system, familiar to wealth managers from other common law countries, such as the US, the UK, Hong Kong and Australia. Ireland's EU membership makes it a viable location for firms wanting access to the European market.

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THE NEED FOR SCALE WILL DRIVE CONSOLIDATION

A number of factors are driving consolidation in the Irish wealth management market. Firstly, there continues to be a relatively high number of investment firms in Ireland given the country's population of just under five million people. As clients' expectations in terms of service offering, product range and technology platforms grow, it becomes more difficult for smaller investment firms to compete without increasing scale.

Secondly, and perhaps most importantly, there is a widespread acknowledgement of the opportunities presented by Ireland's growing wealth management market: Ireland is one of the wealthiest countries in the OECD and the EU-27, and has one of the youngest median ages in the EU at 38.2 years. Consequently, financial services firms are vying for the opportunities that will emerge in the coming years: competition is increasing and consolidation is seen as an important way to capture market share.

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The recently announced acquisition of Goodbody by Irish bank AIB, as well as Irish Life's purchase of Harvest Financial Services, one of Ireland's largest independent wealth managers, indicate the importance placed on wealth management by the broader financial industry. These deals reinforce a consolidation trend that began a few years ago: the client portfolios of Investec Wealth, Campbell O'Connor and Merrion Stockbrokers have also either been acquired or transitioned in recent years.

THE COVID-19 CRISIS IS ACCELERATING DIGITISATION

Although advances have been made in recent years, the adoption of technology by the Irish wealth management industry lags behind that of the UK and US. While large firms offer online retail platforms, functionality such as mobile apps has been more limited. Instead, Ireland's wealth management industry continues to rely upon personal relationships, focusing on developing trust and offering a personal touch. This is also evident in the continuing demand by many investors for physical certificated dealing (although this is being challenged: the Central Securities Depositories Regulation (CSDR) mandates dematerialisation of newly-issued securities in 2023).

The wealth management industry pivoted to online engagement and remote working in the early days of the COVID-19 pandemic, demonstrated its depth and ability to adapt to both market and client needs.

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Ireland's market infrastructure showed strength and resilience during the market turbulence and record trading volumes in March and April 2020 when the COVID-19 pandemic first struck and lockdowns were imposed. Crucially, wealth management firms proved sufficiently flexible to service their end clients despite remote working. Investment managers have successfully worked from home in a real-time environment while the network of supporting vendors withstood the volatile market environment and investors' increased need for information about their investments.

To some extent, the experience of COVID-19 has accelerated the digitisation of the Irish wealth management industry. The nature of the Irish market, where relationships and personal service are prized, means that interaction via the telephone (and to a lesser extent in person) will continue to be important. However, wealth managers are expected to invest significantly in technology in the coming years—facilitating mobile stock trading, instant portfolio analysis and other functionality—in order to meet consumers' growing expectations and to differentiate their offering in an increasingly competitive market.

In conclusion, the Irish wealth marketplace is changing rapidly. Providers are evolving their offerings and product mix in response to changing client expectations and new opportunities. The potential for growth is vividly reflected in increasing competition between domestic firms and growing interest among international players. To achieve their goals in this increasingly dynamic market, wealth managers will need to plan how to respond to new investor demands and the broader market environment, not least in terms of their digital capabilities. For those that get it right, Ireland's wealth management sector offers considerable growth potential.

ⁱ <https://www.centralbank.ie/docs/default-source/statistics/data-and-analysis/credit-and-banking-statistics/bank-balance-sheets/money-and-banking-statistics-december-2020.pdf?sfvrsn=4>

ⁱⁱ [https://www.worldometers.info/world-population/ireland-population/#:~:text=Ireland%202020%20population%20is%20estimated,\(and%20dependencies\)%20by%20population.](https://www.worldometers.info/world-population/ireland-population/#:~:text=Ireland%202020%20population%20is%20estimated,(and%20dependencies)%20by%20population.)

About Pershing

Pershing is a MiFID investment firm regulated by the Central Bank of Ireland; it has had an established legal and operational entity since 2004. Pershing provides services to leading wealth managers, stockbrokers and other investment firms in Ireland that enable them to service their retail and high net worth clients effectively. Pershing adds value for its clients through superior execution, settlement and custody services that utilise a wide range of domestic authorisations and licences, and draw on the firm's deep understanding of local market requirements and dynamics.

As part of BNY Mellon, Pershing offers world-class solutions that leverage its expertise in the EU, the UK and globally.

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