



# Ireland's Fintech Future

September 2023

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**Financial Services  
Ireland**  
**ibec**



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# Foreword

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At FSI we are ambitious for Ireland. We work to ensure Ireland is the best place for financial services companies to achieve success, for customers, clients, society and themselves.

We want to make this country a centre of excellence in all aspects of financial services. And our ambition extends to making this country a hub for the next generation of financial services firms.

The financial services industry has always embraced developments in technology, from mainframe computing, to the development of credit and debit cards, to the delivery of services through apps.

Today, as the industry continues to digitalise, every firm in the industry is now a fintech firm. This ongoing shift represents a profound opportunity for our industry.

It is an opportunity to provide our customers with new and innovative products and services, that provide an enhanced customer experience. And it's an opportunity to attract new talent to the industry, with the creation of new and exciting jobs that help power the transition to the digital age, and drive Ireland's economic growth.

But it also comes with challenges. Firms will have to adapt their businesses to the new reality, and the customer expectations that go with that. Regulators will need to ensure that they take account of the new risks that will present themselves as a result of digital transformation, without unnecessarily stifling the creativity and innovation that digitalisation requires.

We commissioned this report because we wanted to hear how firms are managing on this journey, whether they are fintech start-ups offering new products, or longer-established financial services businesses who have adapted their operations and are embracing the opportunity for innovation that the digitalisation trend provides.

We thank the respondents who contributed to this report. We will absorb the insights it delivers, and build on them in our engagements with all stakeholders, as we seek to achieve our objectives.



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# Executive Summary

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## ■ The survey categorised respondents in two ways:

- Start-up companies operating in the area of fintech.
- Longer-established financial services firms who are digitalising their businesses.

- The findings of the survey are positive and encouraging for the performance of the sector as a whole, with 70% of all respondents expecting to increase their headcount over the next three years.
- Respondents also expect turnover to grow substantially during the same period. Among start-ups, 86% predicted growth, and the average expected increase was 72.1%. For firms with up to 25 employees the average expected increase was 51.3%. For firms with 26 employees or more, the average expected increase was 27.4%.
- Among longer-established firms, 73% expected turnover would grow over the next three years, and the average expected increase was 16.8%.
- The survey illustrates the scale of investment made by firms, both in their own operations and in the wider Irish economy. Among fintech start-ups, 56% said they had invested more than €1m in their own operations over the previous three years. Almost one in five had invested €5m or more. Among longer-established businesses, more than a quarter had spent over €5m digitalising their firm over the past three years. Almost three quarters said they expected the level of digital investment to increase in future, with the average expected increase being 16.9%.

- Almost four in 10 fintech start-ups said they planned to raise capital over the next 18 months. Among these, venture capital and private equity were the sources of funding that firms said they were most likely to approach.
- The survey also sought out to capture the challenges that firms are facing. Longer-established financial services businesses were asked to identify the main challenges to digitalising their operation over the next three years. The most commonly identified challenge was 'regulations governing the financial sector', which was identified by 73% of these respondents. The next most commonly identified challenge was 'competition for technical talent/staff costs' (55%), followed by 'legacy systems/existing technology'.
- Fintech start-ups were asked to identify the main challenges to the growth of their business in Ireland over the next three years. The most commonly identified challenge was 'shortage of technical talent/skills' (identified by 37%), followed by 'regulations governing the financial sector' (35%) and 'getting funding for expansion/product development' (35%).
- Both categories of firm said there was not enough government support for growth or innovation in fintech. Almost two thirds of all respondents said there was not enough government support for growth, and 72% said there was not enough government support for innovation.

# Background & Methodology

Financial Services Ireland/Ibec commissioned Amárach Research to carry out a survey for this report.

The objective was to gain insights into how firms operating in financial services are faring as the sector continues its digital transformation journey.

Given that different firms in the sector play different roles in digitalisation, firms were grouped into two broad categories so as to capture the variety of experiences within the sector.

- Start-up companies operating in the area of fintech
- Longer-established financial services firms who are digitalising their businesses

A list of relevant firms was generated and a total sample of 54 firms was achieved, with responses provided between 17 April and 26 May 2023. Of the 54 respondents, 43 were start-up companies operating in fintech, and 11 were longer-established financial services firms who are digitalising their businesses.

The qualitative survey findings were supplemented by one-to-one interviews carried out by FSI with a subset of firms in both categories, in order to uncover further insights and inform the development of FSI's recommendations.



# Findings

## Sentiment

### Turnover Projections - Fintech Start-ups

For fintech start-ups, a turnover of €1m-€5m is most prevalent and seems to be a threshold, in that smaller enterprises are more likely to be below and those with 26+ staff more likely to be above this level of turnover.

(Base: 43 fintech start-ups)

Figure 1: 2022 Turnover

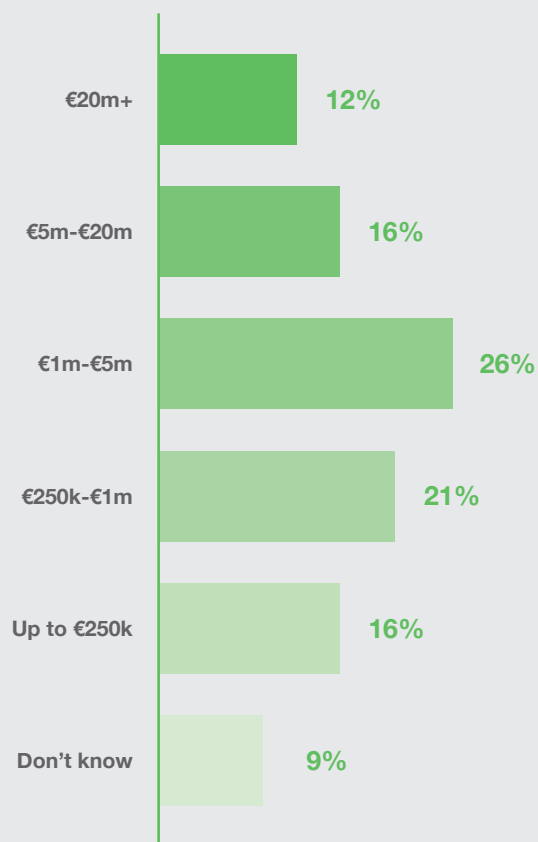
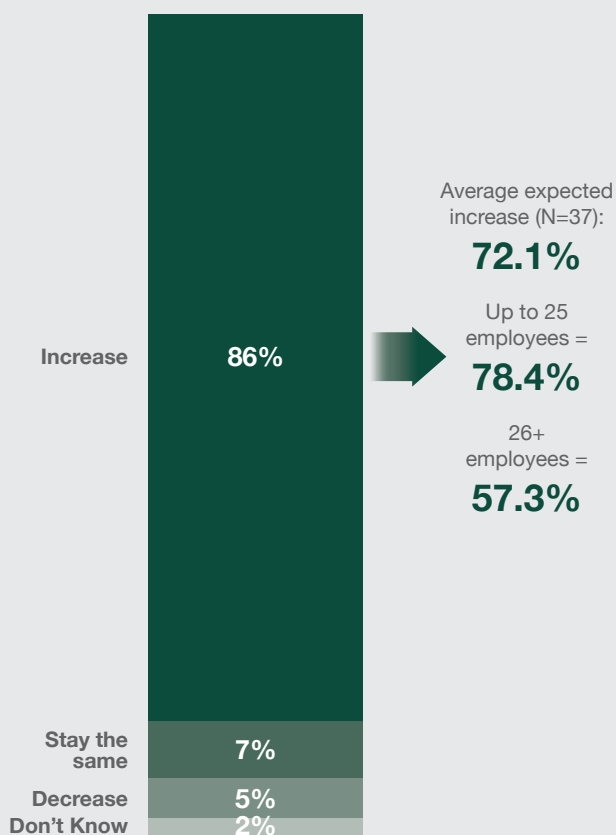


Figure 2: Turnover, next 3 years



We welcome the positive figures shown above. They demonstrate a sense of positive momentum among this cohort. The continuation of the digitalisation trend will provide a tailwind to the sector. Notwithstanding the high level of uncertainty seen over recent years, the economic fundamentals of the Irish economy remain good. There are challenges present, including labour market tightness and a more challenging funding backdrop, but on the whole firms are optimistic about their pathway for growth over the coming three years. The findings mirror those relating to peer firms in other jurisdictions, as illustrated in Boston Consulting Group's 'Reimagining the Future of Finance' report (published May 2023) which also demonstrated positive sentiment for the coming three years.

## Turnover Projections: Longer-established financial services firms

Three quarters expect their business to increase turnover over the next 3 years and predict an average increase of 16.8%.

(Base: 11 longer-established financial services firms)

Figure 3: 2022 Turnover

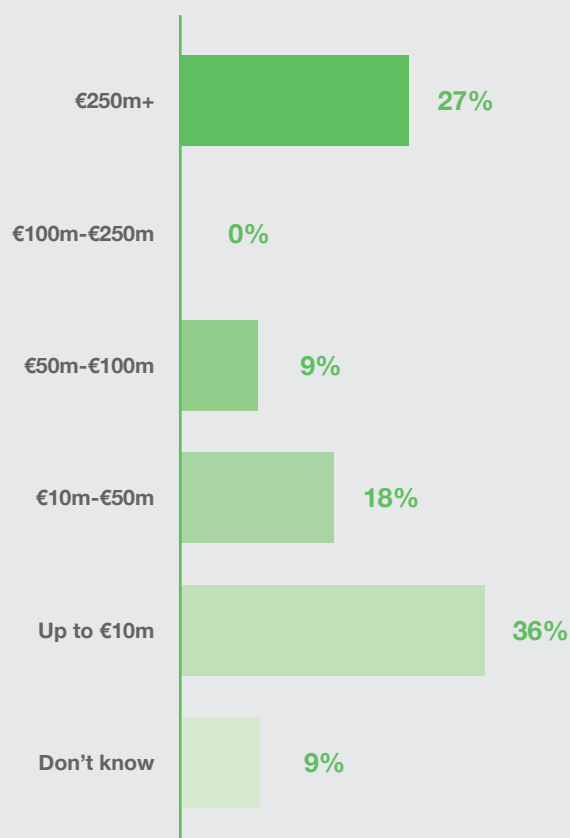
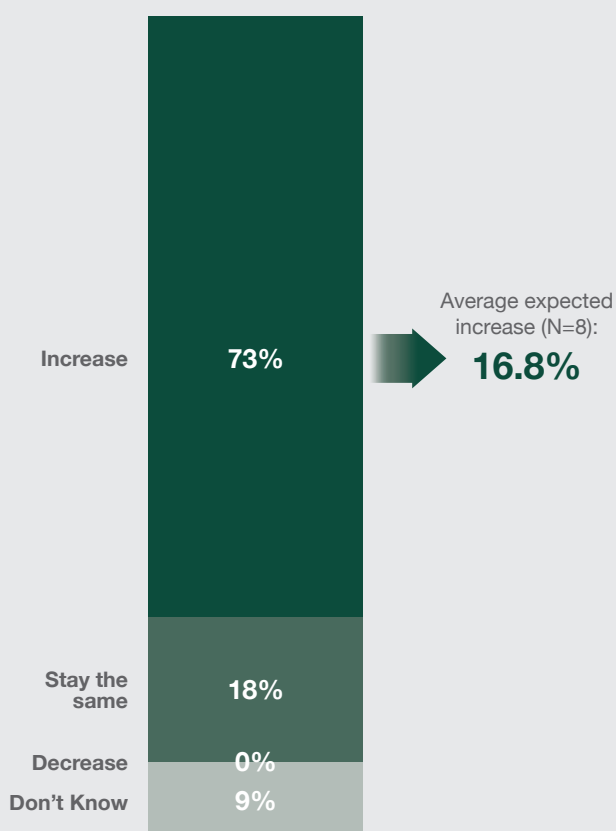


Figure 4: Turnover, next 3 years



Figures 3 and 4 demonstrate very positive sentiment. The projected turnover increase is lower, which is to be expected given the firms in this category are operating off a higher base, but represents a very strong growth expectation. Firms in this cohort have also encountered labour market tightness, which is being strongly felt in a number of areas relating to digitalisation including software engineering and compliance. But to some extent this is a reflection of the positive economic backdrop that persists, and the resilience that the Irish economy has demonstrated over the last four years. The financial services industry already employs more than 105,000 people in Ireland and appears well set to grow this number further over the coming years as demonstrated in Figure 6.



## Headcount Projections - All Firms

7 in 10 plan to increase their headcount, rising to 82% amongst smaller enterprises (up to 25 employees) who register the highest % headcount increase.

(Base: All 54 respondents)

Figure 5: No of Employees

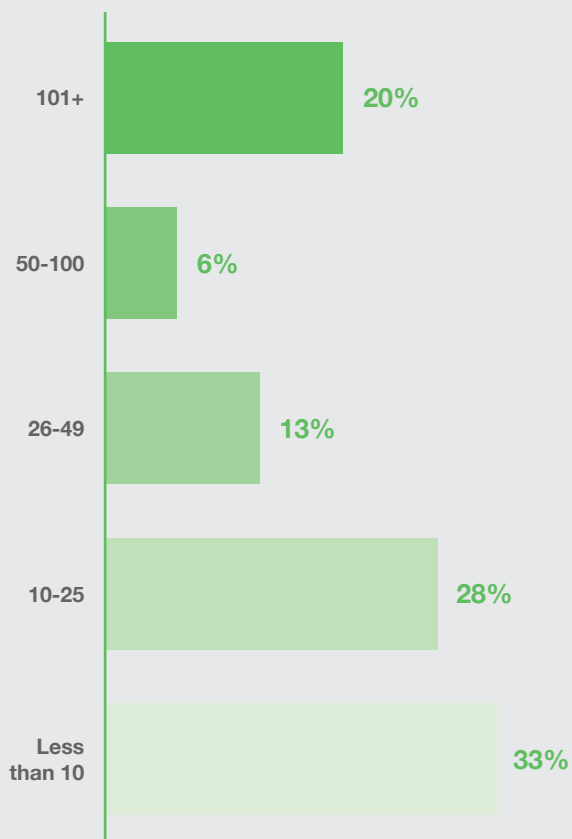
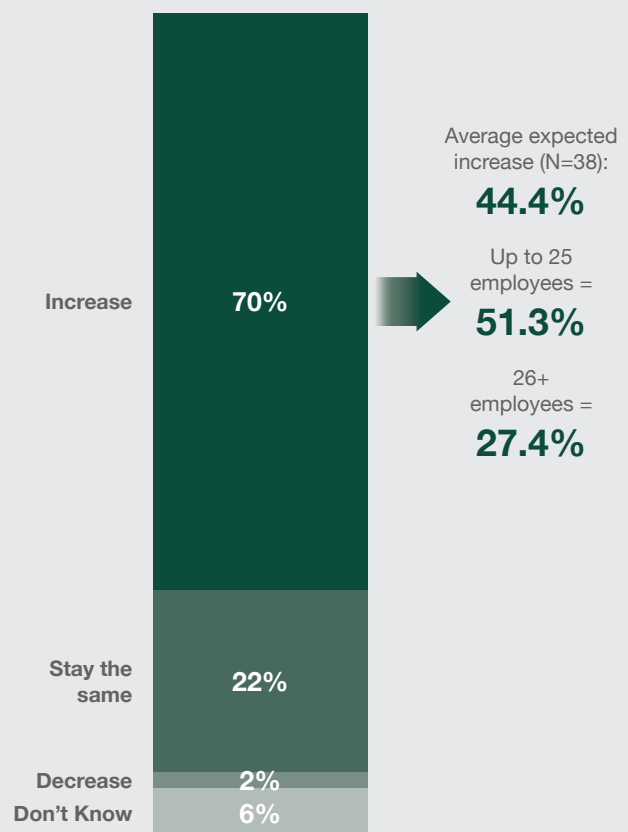


Figure 6: Headcount, next 3 years



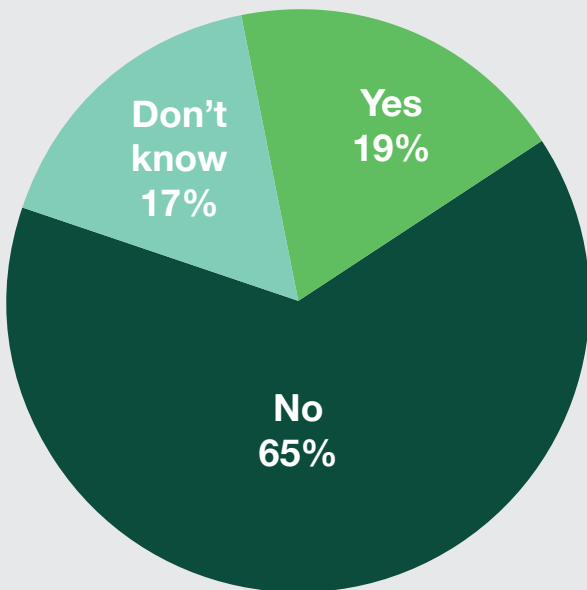
# Findings

## Government Support for Growth/Innovation

The majority feel there is not enough government support for growth or innovation in the area of fintech.

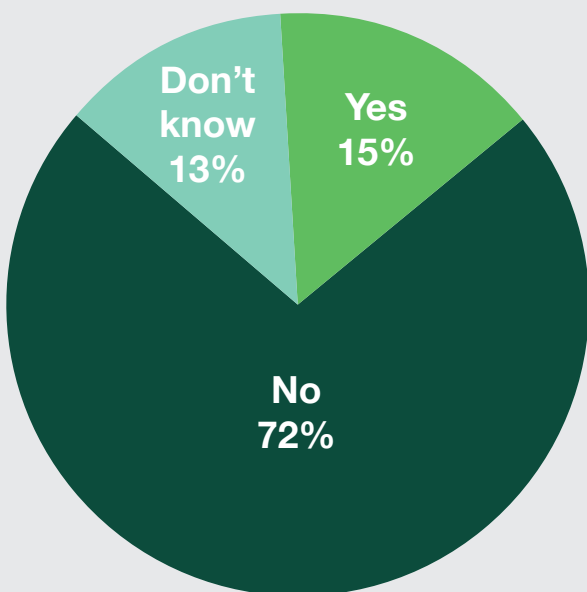
(Base: All 54 respondents)

Figure 7: Is there enough Government support for growth in fintech?



	Start-ups N=43	Longer-established N=11
Yes	16%	27%
No	67%	55%
DK	16%	18%

Figure 8: Is there enough Government support for innovation in fintech?



	Start-ups N=43	Longer-established N=11
Yes	12%	27%
No	77%	55%
DK	12%	18%

There is much positive work being done through Government initiatives like *Ireland for Finance*, and FSI members spoke highly of the work that is being done by IDA Ireland and Enterprise Ireland to attract multinationals, and help develop the next generation of firms.

However, it is clear from Figures 7 and 8 that there are opportunities to enhance the work that is being done and create an environment that is more conducive to growth and innovation in financial services. Analysis by McKinsey in its 'Europe's Fintech Opportunity' report (published in October 2022) ranks Sweden and the United Kingdom as clear European leaders in creating an ecosystem that supports the development of fintech start-ups. Ireland is deemed to rank behind the UK, Sweden, Malta, Luxembourg and Switzerland (as well as the United States which is also included).

Ireland has in the past used corporate tax initiatives to make the country more attractive as a place to do business, and members expressed a view that there are new opportunities in this regard. Specifically, firms pointed to issues relating to the entrepreneurship environment which have been discussed for many years i.e. the potential to make the capital gains tax system more competitive, or to reform the KEEP share option scheme to help smaller companies compete for talent by offering share options on a tax-efficient basis.

Another issue that emerged consistently was in relation to the availability of skills in certain areas relating to digital growth and innovation. Firms identified a need to increase the pipeline of talent that is coming through the education system, and expressed a desire to collaborate further with Government and educational institutions sector in order to achieve this. With demographic increases driving up the demand for further and higher education, we believe the Government should utilise the €1.5bn surplus in the National Training Fund to ensure the system has the funding and capacity to meet these skills needs.

Firms also identified a shortfall in the number of fintech start-ups operating in regulated areas of financial services, as compared to the number operating in non-regulated areas. One initiative which could assist in this regard is the development of a 'regulatory sandbox', for which FSI has previously advocated. Such sandboxes allow firms to test innovative products in the market within a framework that is approved by the local regulator. The model allows for the benefits of innovation to be realised while managing and mitigating risk, and is to be considered by the Central Bank of Ireland as part of a review of its innovation hub.

We believe that establishing a sandbox would make Ireland a significantly more attractive place for innovative firms to locate, but there is an opportunity to increase this attractiveness still further through Government funding for the establishment of a dedicated 'fintech hub'.



# Spotlight: Fintech Hub

FSI believes establishing a 'fintech hub' would greatly benefit the development of a new generation of Irish fintech firms, while also providing an opportunity for all firms in the sector to benefit from collaboration and the sharing of knowledge about financial services technology.

The benefits of the concept have already been recognised in IFS 2020 which envisaged the potential development of a 'designated IFS incubator space'. Examples of hubs of this nature include Tenity Fintech Incubator & Accelerator in Switzerland, Station F in France, Level 39 in the United Kingdom, Stone & Chalk in Australia, and Fintech Hive in Dubai.

Establishing the hub would be a tangible and visible symbol of Ireland's commitment to excellence in digital innovation in financial services. The hub would be a physical location, providing firms with office space, a community of industry peers, learning opportunities, access to events and more. We envisage relevant state agencies like IDA, Enterprise Ireland, Department of Enterprise, Trade and Employment (DETE), and the Central Bank of Ireland would have a presence (on a regular basis, if not permanently), so as to allow for regular dialogue and sharing of insights.

The hub would be a natural landing space for multinational firms in the early stage of entry into Irish markets, as well as a home/place of learning for start-ups/scaleups and research and innovation teams at longer-established firms. We believe Government funding for the development of this hub would help to stimulate job creation, increase foreign direct investment, and continue the growth of the financial services sector to the benefit of the Irish economy.



# Findings

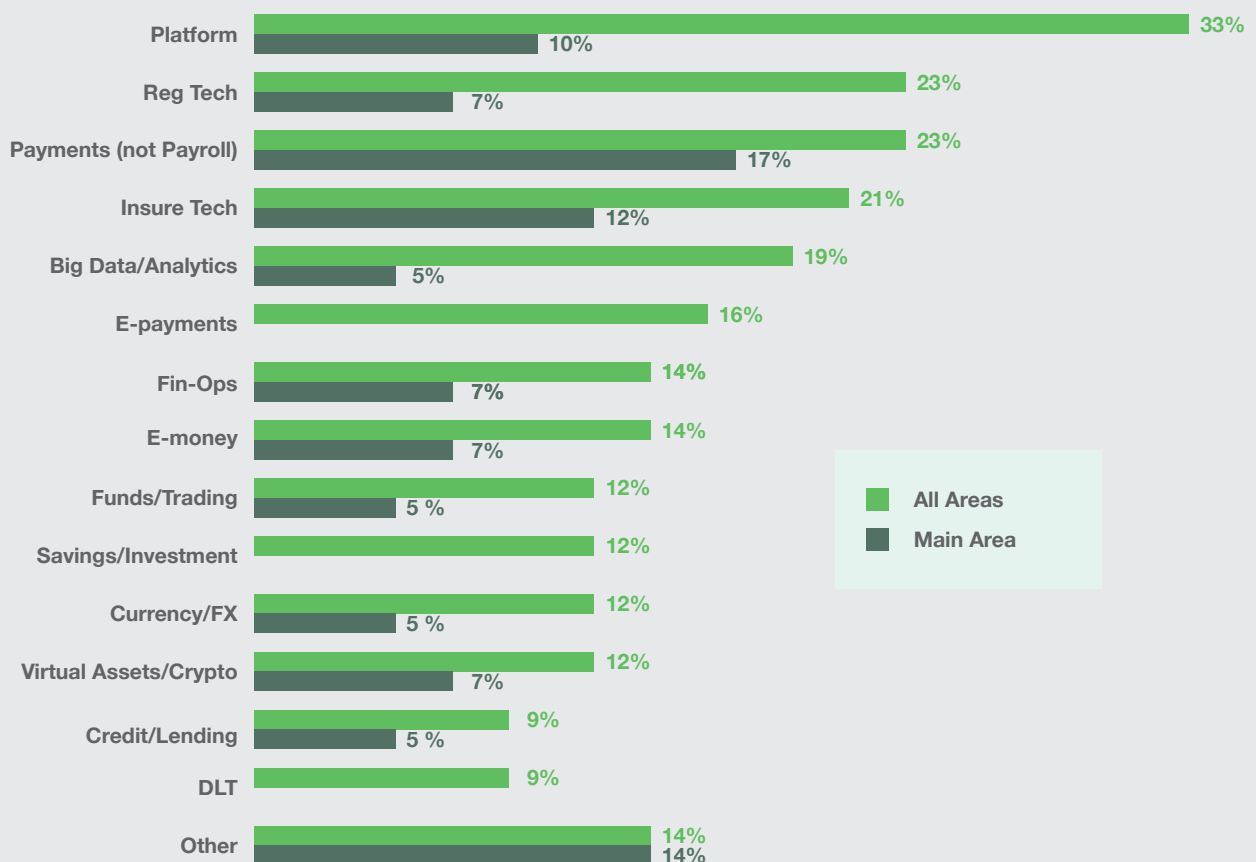
## Fintech Start-Ups

### Areas of Operation

Two thirds of participating fintech start-ups operate across multiple areas (between 2 and 5) with payments (not payroll) the most common area of main operation.

(Base: 43 fintech start-ups)

Figure 9: Areas of Operation



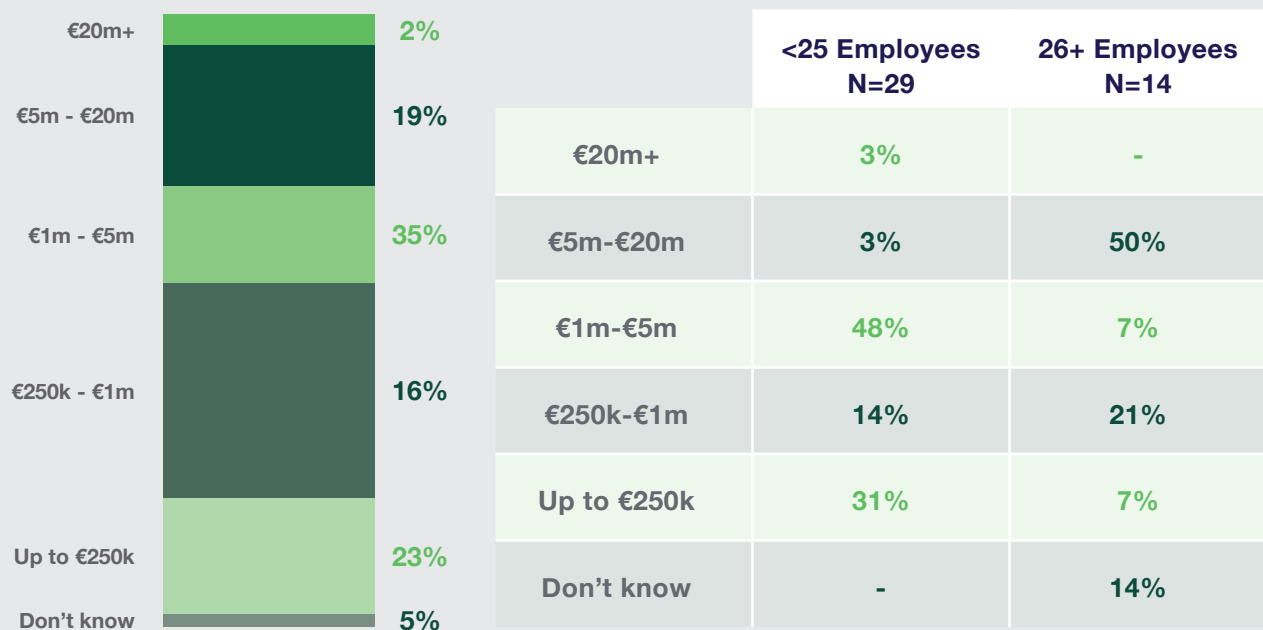
Two thirds of the participating companies operated across multiple areas, with “payments (not payroll)” the most commonly identified single area. The prominence of regtech is noteworthy as an insight into the opportunities that are perceived to exist in helping firms comply with regulation in a more efficient manner. The findings appear to bear out member firms’ perceptions regarding a shortfall in the number of firms operating in regulated areas, compared to those operating in non-regulated areas.

## Investment

Operating fintech start-ups have made considerable investment in their businesses over the last 3 years.

(Base: 43 fintech start-ups)

Figure 10: Level of investment in Irish business over last 3 years



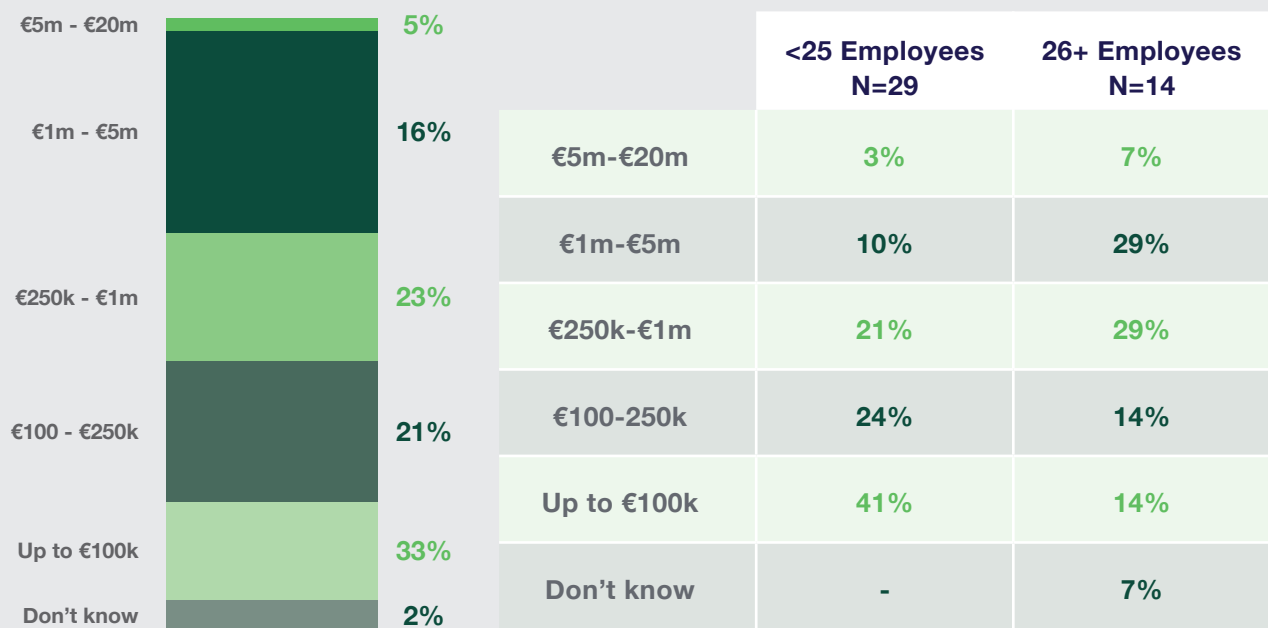
Firms had made significant investment in their businesses over the prior three years, with the level of investment and scale of spending on Irish goods and services unsurprisingly linked to the scale of the organisation in question.

## Scale of spend on Irish goods/services

The scale of spend on Irish goods/services is linked to size of organisation, with 1 in 5 (21%) spending €1m or more annually.

(Base: 43 fintech start-ups)

Figure 11: Scale of annual spend on Irish goods and services



## Challenges

Lack of skilled staff, financial regulations, sourcing funding and the cost of doing business are key challenges affecting at least one third of fintech start-ups.

(Base: 43 fintech start-ups)

Figure 12: Challenges to growth in Ireland, next 3 years





Unsurprisingly, firms in this cohort reported difficulty in competing with larger firms in the race for talent. Notwithstanding this however, they also reported a general difficulty regarding the availability of skills in important areas like software engineering and development, and compliance analysis.

General business issues like the availability of housing and the cost of doing business were prominent among the challenges that were identified, as was the deterioration in the general fundraising environment caused by rising interest rates.

Regulation also came through as a commonly identified challenge. Rather than individual regulations having an impact, our interactions with members tell us that it is the endeavour involved in complying with the body of regulation (such that it applies) which is perceived as a challenge. Firms recognise that having a well-regulated financial services sector is critical, but meeting the required regulatory standards can be costly and time-consuming. Provision by the regulator of clear guidelines, certainty of timeframes, and avoiding the “slow no” can help to make the process more efficient.

At FSI, we believe the Central Bank of Ireland should examine its processes regarding the administration of regulation, with a view to ensuring these processes are as streamlined and efficient as possible.

## Raising Capital

Approaching 4 in 10 fintech start-ups plan to raise capital in the next 18 months.

(Base: 43 fintech start-ups)

Figure 13: Do you plan to raise capital in next 18 months?

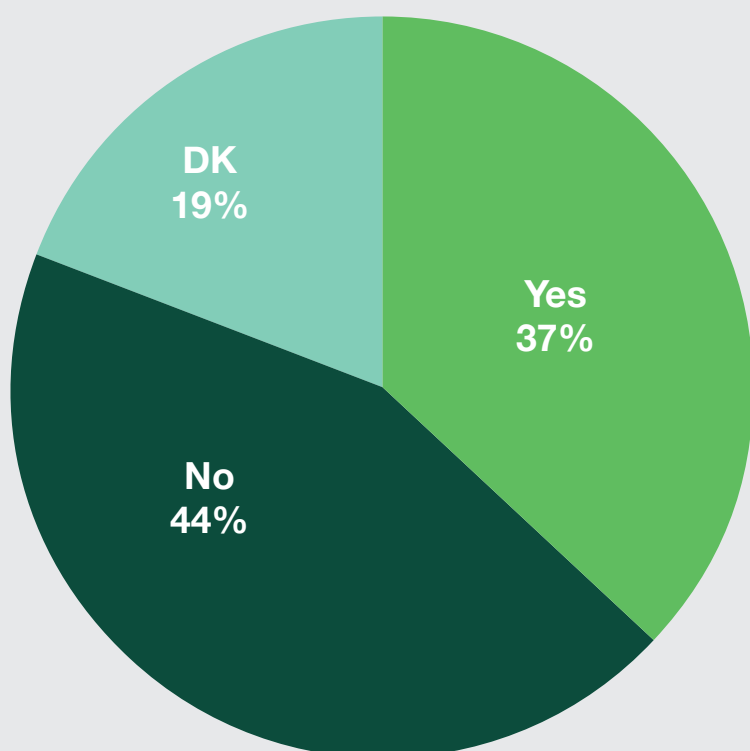


Figure 14: Likely sources of funding



40% of those surveyed in this cohort planned to raise capital in the next 18 months (Figure 13), with venture capital the most commonly identified avenue to be pursued (Figure 14). Firms have reported that the funding environment has become more difficult in the midst as a result of increases in interest rates, something which has been widely experienced, and well documented, across other jurisdictions. Considering the strong position of the Exchequer, FSI believes Government and relevant agencies like Enterprise Ireland and the Ireland Strategic Investment Fund should give strong consideration to making more funding available to support the growth and development of indigenous Irish fintech firms at start-up/scale-up stage. Opportunities to enable pension funding to be deployed towards indigenous start-ups, as the UK is pursuing with the 'Mansion House Compact' should also be explored.

# Findings

## Longer-established firms operating in financial services

### Where fintech needs are met

Three quarters of firms in this cohort meet multiple fintech needs internally and 8 in 10 source services (2.9 on average) from external providers.

(Base: 11 longer-established financial services firms)

Figure 15: Provide Internally

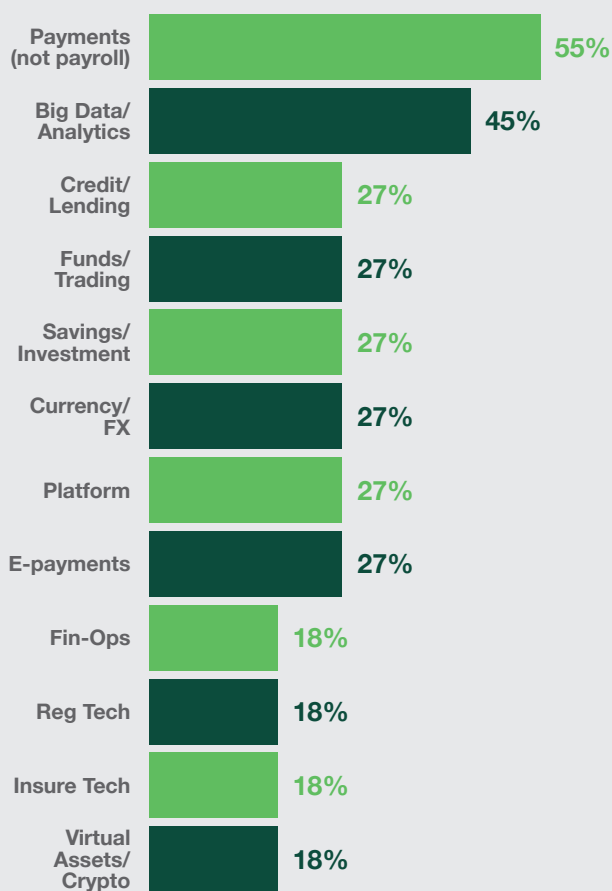
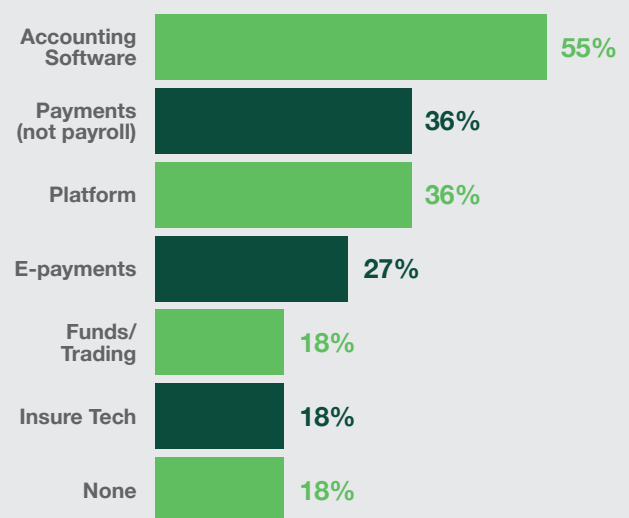


Figure 16: Source Externally



This finding demonstrates the clear opportunities that exist for financial services firms of all sizes to work together in a way that is mutually beneficial. Firms in this cohort are taking a mixed approach, meeting some fintech needs themselves and using external providers to meet others. Three quarters of firms in this cohort were meeting multiple fintech needs internally, while 80% were sourcing services from outside. For those firms using outside providers, the services being provided externally related to 2.9 areas of business on average. The significant investment being provided to the Irish economy is clearly shown by the findings relating to annual spend on goods and services on the next page.

## Annual spend on Irish goods/services

Almost 20% of this cohort estimate their annual spend on Irish goods and services to be in excess of €25m.

(Base: 11 longer-established financial services firms)

Figure 17: Scale of annual spend on Irish goods/services



## Investment in digitalisation

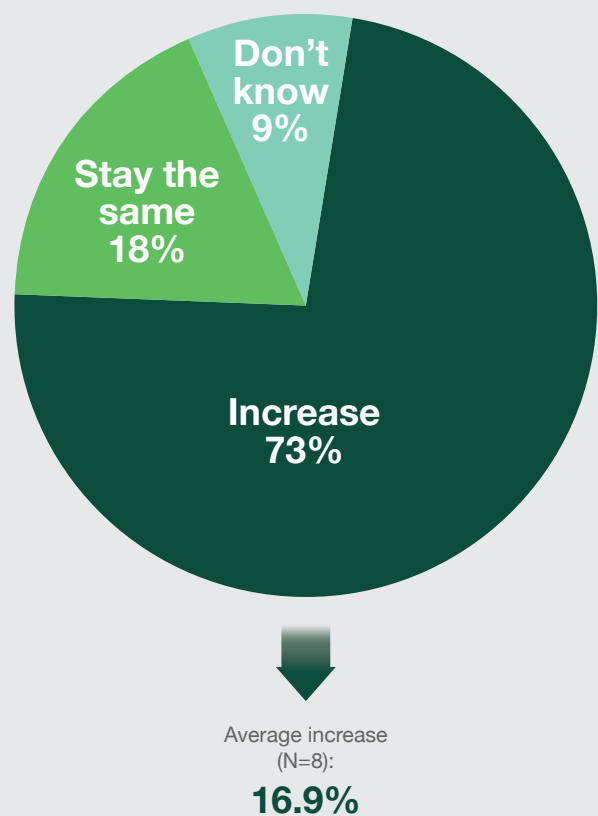
Over one quarter (27%) have spent up over €5m digitalising their financial services business in the past 3 years and investment is likely to be sustained over the next 3 years.

(Base: 11 longer-established financial services firms)

Figure 18: Digital investment, last 3 years



Figure 19: Digital investment, next 3 years

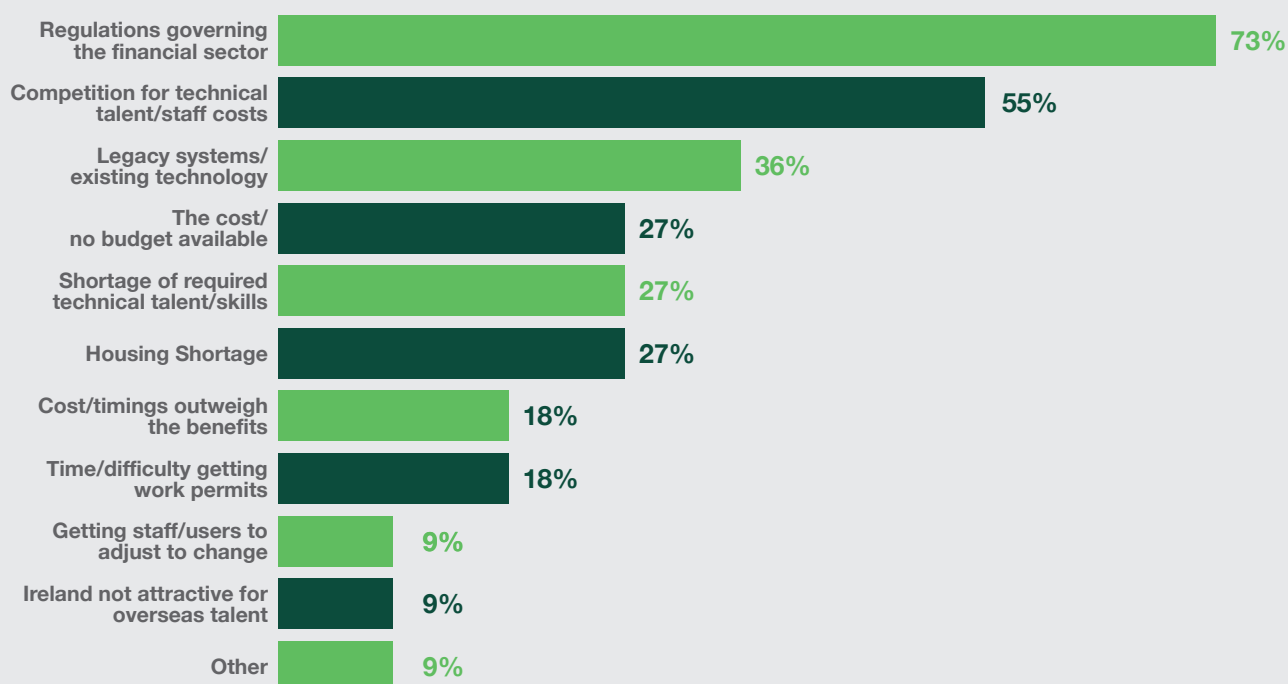


## Challenges

All firms faced multiple challenges (3.1 on average) in digitalising their business.

(Base: 11 longer-established financial services firms)

Figure 20: Challenges to digitalisation over next 3 years



The impact of regulation was identified by firms as the biggest challenge to digitalising their businesses. As with the other cohort of businesses, our interactions with members tell us that it is the cumulative impact of complying with the body of regulation that is perceived as a challenge, rather than individual regulations. Firms said that embarking on a digitalisation process would create an expensive administrative challenge, in that they would need to ensure and demonstrate that the new processes continue to meet the regulatory requirements. This may involve hiring staff, bringing in legal/business consultants etc.

This is the nature of operating in a regulated sector; the key is to ensure that the process of complying with the regulations does not itself introduce any unnecessary delay, difficulty or expense. The goal should be to provide the safeguards and stability that consumers and markets require, while also giving firms the best possible chance to deliver the products and services that will help them to grow and innovate to the benefit of consumers and society.

Firms in this cohort also pointed to issues regarding competition for, and availability of, important skills. The difficulties relating to the integration of legacy technology systems with more up-to-date ones also came through strongly. Legacy systems within firms may have been built up over time, in a specific way that is unique to the firm in question. This means the relevant skills and know-how lie with a very small cohort of individuals (some of whom may be retired), rather than being available on the open market.

# Findings

## Licences

Although a minority have a licence/authorisation from another jurisdiction, half of these feel the application process in Ireland is too complicated (Figure 22).

(Base: All 54 respondents)

Figure 21: Licences/authorisation

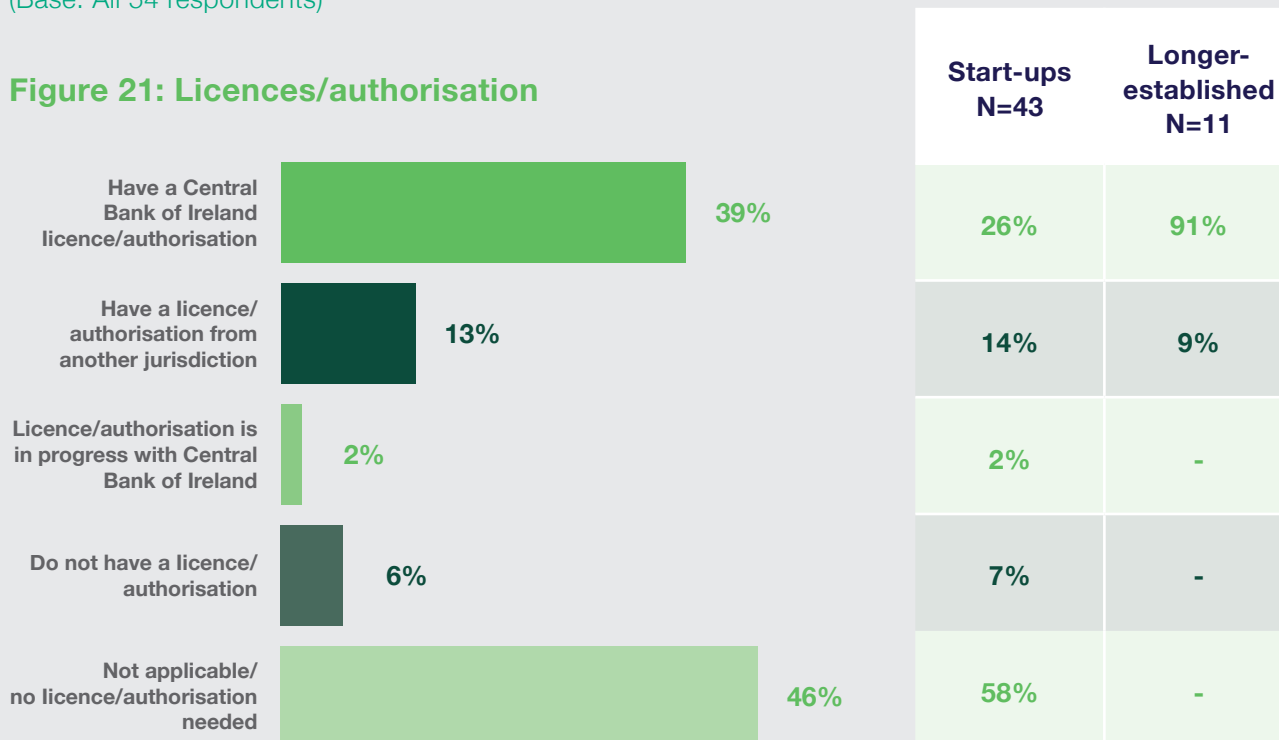


Figure 22: Reasons for having licence from another jurisdiction

(Base: 7 respondents with a licence or authorisation from another jurisdiction)	N=7
Application process in Ireland takes too long	2
Application pre-dates operation in Ireland	2
Application process in Ireland is too complicated	1
Other Reason	3

Firms have consistently reported a view that the process of obtaining a licence from the Central Bank of Ireland is too long and complicated. What they wish to see is a clear and streamlined process, with certainty relating to timeframes, and clarity regarding the reasons why applications are unsuccessful. Long engagements, with ad hoc communication from the regulator and an uncertain timeframe, serve as a disincentive to firms to take out Irish authorisations. Indeed, the survey findings demonstrate that the nature of the licencing process in Ireland has resulted in firms moving to seek authorisations elsewhere. The Central Bank of Ireland should seek to identify opportunities to streamline and improve the licencing process.

# Conclusion/ Key Recommendations

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The findings of this report indicate that the financial services industry in Ireland is performing well. The majority of firms expect headcount and turnover to increase over the next three years, and the contribution the sector makes to the overall economy through spending on Irish goods and services is also highlighted.

We also note the finding that longer-established financial services companies are meeting their digitalisation needs both internally, and externally through partnerships with third-parties like the fintech start-ups surveyed in this report. This demonstrates the opportunities that firms at different stages have to collaborate with each other in a way that is mutually beneficial.

At FSI, this partnership between start-ups/scale-ups on the one hand, and longer-established firms on the other, is one of the key objectives we want to promote. We want Ireland to be a place where financial services companies can access the skills, knowledge, innovation and leadership they need in order to make the transition to the digital era.

But while the sector here is broadly positive about its performance, it does face challenges in its efforts to digitalise, particularly when it comes to access to talent, and the process relating to regulatory compliance.

There can be little doubt that the digitalisation trend will continue at pace in the coming years. Customers want and expect to get high-quality products and services through digital channels.

**At FSI, our goal is to ensure that Ireland is the place that can facilitate digitalisation by:**

- Offering a home where companies of all sizes are facilitated in developing innovative new products and services.
- Supplying the skilled and talented workforce that will be needed to meet firms' requirements.
- Promoting collaboration between early-stage businesses and those that are longer established, in a way that is beneficial to everybody.

**In order to achieve this, and following on from this report, our key recommendations are as follows:**

- Government should work to create an environment that is more conducive to growth and innovation in fintech: implementing initiatives that would make Ireland a more attractive place for firms to locate, and allocating and enabling increased funding options for growth firms. State agencies like IDA Ireland, Enterprise Ireland and ISIF should play a key role. We also believe Government funding for the establishment of a fintech hub would deliver significant benefits to the industry and the economy, and represent a clear statement of intent about Ireland's ambition for excellence.
- Government should look to increase the pipeline of talent with the skills that are currently in short supply. The €1.5bn surplus in the National Training Fund should be utilised to ensure the higher education system is adequately funded and has the capacity to meet Ireland's skills needs. Firms expressed a willingness to collaborate further with educational institutions in order to inform the development of courses.
- The Central Bank of Ireland should examine its processes with regard to administering regulation, with a view to ensuring these processes are as streamlined as possible. From a firm-level perspective, clear guidelines and certainty of timeframes enable compliance to take place in the most efficient way.

We will work with colleagues in Government, the Central Bank of Ireland, the industry and beyond to build on the successes identified in this report, and to try and identify ways in which the challenges can be overcome.











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