



The Irish Funds Industry: Redefining competitiveness

Increased cost competitiveness and enhancements in operating models have created unique opportunities for fund administration companies in Ireland and the funds they serve around the world.

Supernormal growth in the Irish economy over the last decade led to cost and staff retention pressures for fund services companies in Ireland. Due to the significant readjustment in the Irish domestic economy and a lowering of operating costs this trend has now reversed.

The Irish funds industry has seen significant benefits from increased cost competitiveness while at the same time clients are benefiting from a higher and more consistent level of service delivery due to enhancements in the operating models of fund service providers.

The increase in competitiveness for the Irish funds industry has come at a time when demand for fund servicing has reached an all time high. In November 2010, total assets under administration for Irish domiciled funds reached Euro 950bn which is higher than at any other point in the past. Total assets under administration in Ireland (domiciled and non-domiciled) reached Euro 1,770bn in November 2010.

In this paper we consider the key cost drivers that affect fund servicing companies including staff costs, rental costs and other business expenses such as professional fees. We will also consider some of the key drivers of staff productivity.

Irish Operating Environment: A Snapshot

Labour

- Forecast by European Commission of 9 percent cumulative fall in Irish unit labour costs from 2008 to 2011
- Improvement of 13 percentage points over EU average - combination of productivity improvements delivered by innovative workplace change and reductions in labour costs

Turnover Statistics

- Staff turnover rates in the funds industry were at 29 percent in 2007, falling to 24 percent in 2009 and the trend has continued as many service providers continue to add employees.

Rents

- Prime office rents falling sharply
- Falls of 40 percent in Dublin and Galway; 30 percent in Limerick and Cork
- Dublin has fallen from 20th to 33rd in the world for office occupancy costs

Source: IDA Ireland 2010, IFIA Employment Survey Presentation 2009

Why Ireland for Funds?

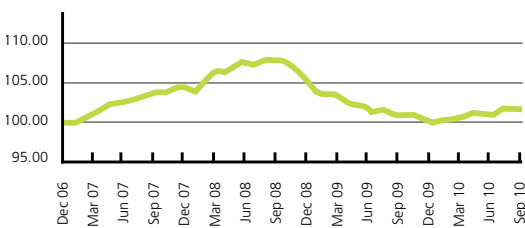
The funds industry which now employs in excess of 10,000 people has long been one of the major success stories in the Irish economy. This success has been driven by a number of key factors which include:

- A wealth of experience in servicing all fund types
- A wider variety of choice in the service providers available
- An attractive tax regime for both the funds and service providers
- An approachable regulator and developed regulatory environment
- Favourable tax treatment/tax treaties
- 12.5 percent corporation tax rate - all major political parties are firmly committed to maintaining this corporation tax rate
- Strong government commitment to the funds industry

In 2007 cost containment and productivity were identified as the key business challenges facing the fund administration business in Ireland according to the Deloitte Fund Administration survey. Strong economic growth year on year created significant pressure on operating costs particularly in relation to property and labour costs.

Since the second half of 2008 we have seen a sharp reversal in this inflationary trend with the cost of living falling by 6 percent between October 2008 and October 2010.

Ireland consumer price index December 2006 to present



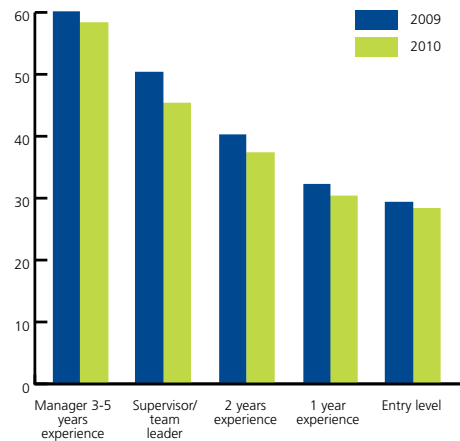
Source: Central Statistics Office Ireland

Salary Costs are Returning to 2006 Levels

While in the short term labour costs can be more 'sticky' as salaries take longer to settle to a natural level than other costs, there is clear evidence that salary levels throughout Ireland have fallen back to 2006 levels.

This has been echoed in the funds industry where we have seen salary reductions in the region of 7-10 percent, as can be seen from the following illustration.

Fund Accounting salaries



Source: Brightwater Salary Survey for 2010 and 2009

Lower Staff Turnover has had a Positive Impact on Cost, Productivity and Client Service

While the reductions in the labor costs have been significant, the potential for increased productivity is likely to be of far greater benefit to the industry as a whole.

Many service providers in Ireland had been grappling with increasing levels of staff turnover. According to the IFIA employment and staffing survey in 2007 attrition levels were running close to 30 percent. This created a real cost drag for the funds' industry as significant resources were being expended on the replacement of leavers.

In 2007, the Deloitte Fund Administration survey estimated that the annual cost of managing these attrition levels was up to 15 percent of total staff costs (employee acquisition costs, training costs etc). High staff turnover also had a significant impact on the ability of service providers to maintain the high service levels for clients.



With a substantial improvement in staff retention levels today there are a number of key benefits which include:

- Senior management now have more time to focus on managing the business and focusing on client service
- Improved staff productivity and responsiveness
- Reduced training costs and lost productivity in respect of new recruits
- Immediate cost savings on recruitment expenses

Recruiting the Best

In the current environment there are greater opportunities for the funds industry to attract the brightest and best candidates at graduate level and beyond.

Over the last decade Ireland has operated at close to full employment. This meant that the funds industry was competing with a number of other buoyant domestic industries for talented staff. In the current climate the funds industry is better placed to attract a greater proportion of the top graduates. This is also contributing to the increased productivity within the sector.

Similar benefits can be seen at more experienced levels where we are seeing a larger number of qualified accountants being attracted into the funds industry and overall the quality and availability of experienced staff has increased over the last number of years.

Attractive Commercial Rental Terms and Costs have created a 'Tenant's Market'

In addition to staff related expenses the cost of occupying commercial property has reduced significantly throughout Ireland and the lease terms being offered are now significantly more attractive.

By way of illustration, commercial rental costs in Dublin reached in the order of €65 per square ft in the latter half of 2008. This represented a premium of approximately 65% in comparison to other equivalent European cities. Since the peak Dublin rents have fallen in the region of 45% to €35 per square ft, primarily driven by an oversupply of commercial property in the Irish market.

During 2010 legislation was introduced in Ireland that provides that all new leases signed after March 2010 must contain a provision that rents can be reviewed both upwards and downwards on review of the lease. This is in contrast to some other European locations where rents tend to be reviewed upwards only.

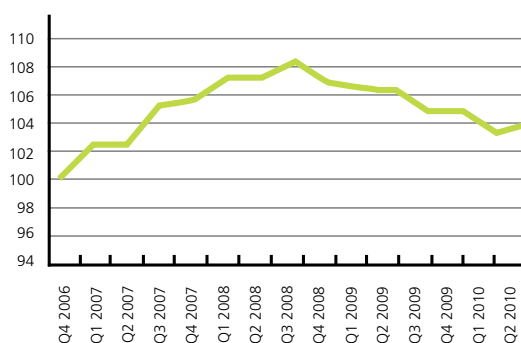
The current market conditions have created a 'Tenant's Market' whereby there are significant opportunities for increased flexibility in negotiating the terms of lease contracts including the term of the lease, rent holidays, break options, and other incentives.

For many organisations who are assigned to an existing lease, the benefits may not accrue immediately. However, for those who may be in the process of expanding or those who are approaching a negotiation point in the lease there are significant opportunities to obtain prime office sites at significantly reduced prices.

Lower Professional Fees have reduced the Operating Cost Base for the Funds Industry

In keeping with other costs, professional fees have also decreased over the past 18 months. Professional services firms are likely to have benefitted from cost savings and increased productivity as discussed above. Much of these savings have been passed on to clients in the form of reduced fees as can be seen from the illustration below.

Services producer price index
December 2006 to present



Source: Legal, Accounting, Public Relations and Business Management Consultancy Price Index as published by the Central Statistics Office in Ireland.

Looking Forward

Recent adjustments to the cost base coupled with significant improvements in productivity have reinforced Ireland's attractiveness as the leading centre for the administration and custody of global assets.

Lower staff turnover and higher productivity is leading to a marked improvement in most key performance indicators in fund administrators.

The benefits are likely to be enjoyed by both the fund administration companies operating here and their clients alike.

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For Eight Years Running

