

# Second generation IFSC companies highlight Dublin's strengths and weaknesses

**Finance Dublin talks to Mark Stockton, president & CEO of reinsurance company White Mountains, and Frank Monks, managing director of financial services company Nexgen, - two companies who make their first appearance in this year's *Finance Dublin Yearbook* - about why they came to Dublin and what they're doing there.**

Although the process of approving IFSC licenses stopped in 2000, international financial services companies continue to be attracted to Dublin, and this year 13 new companies have been added to the *Finance Dublin Yearbook*.

Two of these companies, White Mountains and Nexgen, spoke to *Finance Dublin* about the reasoning behind their decision to set up in Dublin, their experiences to date, and what their future plans are.

White Mountains, a division of Bermuda based White Mountains Insurance Group, was established in December 2001, and began trading on January 1st, 2002, with a staff of eight. It provides reinsurance advisory and risk evaluation services for professional reinsurance companies, and its role is to market, source and develop profitable portfolios of reinsurance business for our principals who are based in Bermuda.

Nexgen Financial Solutions is a new independent structuring group, authorised in 2002, which is positioned at the convergence between the banking and the reinsurance markets. It offers innovative bespoke solutions to address efficient pricing and/or effective risk management issues for mainly European and Asian clients.

Headquartered and regulated from Ireland, Nexgen employs almost 50 high calibre professionals in three locations - Dublin has 24 staff, Paris has 14, and Singapore has 11 and is still growing.

According to Stockton, White Mountains set up in Dublin primarily due to the professional business infrastructure and geographical position close to our major target production markets in the and continental Europe. 'Amongst the added attractions of Dublin,' he says, 'were the ability to establish the operation quickly to fully benefit from global reinsurance market opportunities early in 2002 and the relatively low level of corporation tax.'

Nexgen's decision to establish in Dublin was due to the fact that it has access to the passporting of investment services

throughout the EU, it is English-speaking and the process of gaining authorisation was faster in Ireland, says Monks, adding that Dublin has other advantages - a pro-business environment, regulators who are accessible and responsive, good work ethic, a transparent and competitive fiscal system and an excellent cultural and sporting life, making living in Ireland appealing to many.

## Outlook

When asked about the outlook for international financial services in Dublin, Stockton maintains that this is bright. 'We have benefited from being firmly established in the euro economic zone and this has proved to be an important marketing advantage. Ireland is also perceived to have a dynamic economy and a proven willingness and ability to attract foreign inwards investment,' he says.

However, he does also highlight threats currently facing Dublin as an international financial centre including the costs of operating in Dublin and the fact that there may be difficulties in the future in obtaining work permits for financial services industry professionals from non-EU / EEA countries.

According to Monks, the international financial services sector is dependent on two key resources: capital and skills, and both are mobile.

Up to now, he says, the IFSC has focused on being attractive to inward capital investment, believing that the skill base will follow, and it has enjoyed considerable success. However, he believes that Dublin needs to be alert to the challenges in the future and change this focus to attracting and building a pool of high value skills and promote entrepreneurial activities, like what has been done for FINEX traders.

'The outlook for Dublin can be exciting if a concerted effort is made by the Government, regulators, and industry groups to attract these skills and put the IFSC centre stage again. Otherwise I fear that the fruits of past successes will wither over time,' says Monks, adding that the threat that some operations may move to another centre is ever-present. 'The imminent accession into the EU of 10 new

member states, who have seen the success of Dublin adds to this threat.'

Drawing on his own experience from his time with Hill Samuel Bank, which withdrew from Dublin after 31 years following the previous downturn, Monks says that in a downturn, these threats increase as capital becomes scarcer, causing many operations to be critically reviewed.

Recent withdrawals from Dublin like Deutsche Bank and Dresdner, and the down-sizing of other operations are also clear evidence of the effects of the present downturn he says, but adds that the news is not all bad, with DePfa and HVB moving a large part of their businesses to Dublin and the Italian life and fund management companies continuing to enjoy success.

According to Monks, other challenges facing the IFSC include the fact that it was built initially on low risk/low margin banking and on support services - areas which have matured and are vulnerable to competition from other centres.

'The largest employers in the IFSC are the fund administrators and custodians. They are rightly concerned about their relative competitiveness. The pressure on their fee scales and a fall in equity values creates an inevitable focus on their staff costs. The rise in these costs, fuelled by cost of living increases in Dublin and growing expectations among their staff, create serious challenges for them and others,' he says.

How these threats are addressed will be critical in the medium term says Monks, and he suggests that employers look at a more balanced workforce with mixed abilities, and pay more attention to managing expectations. Also, ambitious executives must show willingness to up-skill and move on, where other opportunities present themselves he adds, pointing to the recent spin-offs from existing houses and start-ups, like Avoca Capital, Dolmen Leverage Finance, Nexgen and Zais, which show what is possible where groups of individuals combine and create their own opportunities.

In the longer term, Monks says that

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## IFSC 15th Anniversary issue

In June, a special issue marking the first 15 years of the IFSC will be published, which will provide a historical review looking back over those fifteen years, and, more importantly, also attempting, with a number of the IFSC's key figures, to look forward, to fifteen years from now.

To be involved in this special issue please contact Valerie Hannigan at [vh@findub.com](mailto:vh@findub.com) or Deirdre Norris on [dn@findub.com](mailto:dn@findub.com) or call (01) 293 0566.



the big challenge for the IFSC is to move up the value chain by offering more sophisticated financial services and to grapple with how these can be delivered from a locally trained and an imported skills pool. In his view, technology transfer and education are the keys, particularly in the newer areas of financial mathematics and financial structuring, which, he says, are at the core of Nexgen activities. Apart from a small mathematical department in DCU, this area of education and research is largely ignored in Ireland.

## Recruitment

On the staffing front, recruiting for staff for accounting, banking, legal, and settlement roles has been good for Nexgen. However, Monks says that they have seen a skills shortage for mathematical-based roles, and barring one exception, all these roles in Nexgen have been recruited from overseas. However, many have been deterred to come to Ireland because of the high personal tax environment there.

## Regulation

With regards to the regulatory environment, Stockton says that it is still sufficiently flexible to encourage new operations to establish in Dublin, inside or outside the IFSC. However, the rapid move he says towards increased EU standardised regulation in the financial services industry may remove Dublin's advantage in the next few years. As a small business he says that they prefer less red tape

Praising the Irish regulators, Monks, who has 23 years experience of being at the other side of the coalface with the Central Bank of Ireland, says that Dublin is a well-regulated environment, which can stand up to international scrutiny. From what he has seen, risk exposures and exits from the market are managed with considerable subtlety and skill, and the Central Bank successfully steers the middle ground between rules-based regulation and risk-based supervision, which makes them enormously effective. 'They are also accessible and responsive, unlike some other EU regulators, with whom I have had some experience,' he adds.

## Future plans

Going forward, Stockton says that White Mountains' plans for the future are to

continue to develop its reputation and expertise and add to its international client base.

'We anticipate that profitable expansion can be achieved from our Dublin operation but we must also be flexible in determining in conjunction with our parent from what geographical base we can most effectively deliver a superior return on capital,' he adds.

According to Monks, 'Nexgen started as a group of individuals who believed in another way and convinced others of our vision along the way. In two years, Nexgen built its pricing, risk management and daily valuation systems, populated this infrastructure with high calibre professionals, received its authorisations, and attracted \$191 million in equity with access to resources from its main AAA-rated shareholders CDC Ixis and Singapore Technologies.'

The current plan, he says, is to build on these achievements and spread the business geographically with the support of its strategic partners. Currently, Nexgen is planning the opening of an office in Milan to build on their relationship with Mediobanca and others, particularly in the area of corporate restructurings. They are also looking at Japan and any opportunities that come their way.