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Ireland is a leading European domicile for established and start-up Fintech businesses. This is unsurprising given Ireland's traditional strengths in the internationally traded technology and financial services industries.

The Irish Government is strongly supportive of Fintech, recognising the significant benefits it can bring to consumers, economic growth, productivity and the competitiveness of the Irish economy.

The Irish Government, in its commitment to building on the successes already achieved, has designed a strategy – "Ireland For Finance 2025" ("**IFS 2025**") – to ensure that Ireland continues to be regarded as one of the world's leading global financial centres. IFS 2025 is the Government's strategy for the development of international financial services ("**IFS**") in Ireland for the next five years. The IFS sector in Ireland is currently home to 14 of the top 15 global aircraft lessors and 20 of the world's top 25 financial services companies. In addition, 17 of the top 20 global banks and 11 of the world's top 15 insurance companies have a presence in Ireland.

IFS 2025 is based on four pillars – the operating environment pillar, the technology and innovation pillar, the talent pillar and the communications and promotion pillar. The employment target for the Strategy is to reach 50,000 people in direct employment in the sector by 2025. A Fintech Foresight Group, chaired by Banking and Payments Federation Ireland ("**BPFI**"), has been convened as a special cross-sector working group tasked with driving the development of Fintech in Ireland, scoping the annual action plans prepared, and informing policy under IFS 2025. This Group has identified further areas of relevancy for Fintech: open banking; data; and digital assets for 2022 analysis, with working groups generating position papers in relation to each of these categories. A specialised Fintech industry association, the Fintech and Payments Association of Ireland, has also been established.

Key elements of the Irish Fintech ecosystem are:
- State agencies: the Industrial Development Authority ("**IDA**"); Enterprise Ireland; and Ireland Strategic Investment Fund ("**ISIF**").
- Successful international Fintech enterprises who have established presences in Ireland: Block, Gemini, Paysafe; Coinbase; Facebook Payments; among others.
- Successful indigenous Fintech enterprises: Fenergo; Stripe, CurrencyFair; Swrve; and TransferMate, among others.
- Industry organisations: the Fintech and Payments Association of Ireland; the BPFI; Fintech Ireland; and Financial Services Ireland.
- Incubators and accelerators: start-lab/accelerators supported by organisations such as the Bank of Ireland, Citi and Mastercard.
- Sophisticated professional advisors: lawyers; accountants; and technology consultancies.

The COVID-19 pandemic underlined the importance of the technological transformation in financial services as consumers became increasingly dependent on Fintech solutions. This is supported by the Central Bank of Ireland's (the "**Central Bank**") credit and banking statistics, which showed a 44 per cent increase in online spending and a 61 per cent reduction in cash withdrawals from ATMs between November 2019 and March 2022.

The European Commission has adopted the Digital Finance Package ("**DFP**"), which included digital finance and retail payments strategies. Under the DFP, the Department of Finance has established a new Fintech Working Group (the "**Working Group**") in order to gain a shared understanding of market developments in Fintech, technology and innovation. The Working Group will interact with external stakeholders from time to time in order to foster collaboration between policy-makers, Fintech business and technological innovators.

Ireland's stable corporation tax on trading profits is an important element of its competitive offering to international business. Ireland also has tax legislation designed to make it attractive for holding companies and as regional headquarters, as well as other key tax benefits such as R&D credits. In addition to the potential for state funding/investment via the IDA, Enterprise Ireland and ISIF, the private funding sector is vibrant, though Ireland has seen relatively low levels of crowdfunding to date.

Ireland's talent pool is a key attraction for Fintech operations. Dublin is a dynamic and open city that provides a welcoming home to globally mobile professionals. Hosting major European operations for top-tier technology companies such as Google, Facebook and Microsoft, Ireland has a rich and deep tech worker base. It retains close ties to and attracts high levels of FDI from both the UK and the US, the world's two leading Fintech start-up environments. With the fallout from Brexit still ongoing, Ireland continues to be well positioned to attract Fintech investment and financial service providers with many having already chosen Ireland as the base for their European operations.

Fintech offering in Ireland

Accelerator programmes are expanding their activities in Ireland, with Dublin being added as one of two accelerator locations by the NadiFin Fintech accelerator programme, and NDRC expanding its activities outside Dublin to Waterford and Galway. Dublin remains the hub for Fintech activities in Ireland, but other centres are seeing growth. Regional growth is a key element of national policy, and this is reflected in IFS 2025. Regionalisation is to be applied horizontally across all four pillars of the strategy.

Ireland has won an outsized share of investment in corporate innovation labs, including Citi, Mastercard, Aon, Fidelity and First Data. In AI and RegTech, Enterprise Ireland and IDA have supported CeADAR, IC4 and GR3C, Ireland's research centres for AI, cloud computing and commerce and governance risk/compliance.

Many of the world's leading payments and e-money firms that previously provided services across the EU on foot of a UK payments or e-money licence have sought to obtain Central Bank authorisations in Ireland so as to ensure the continuity of operations. There were over 40 such firms formally authorised and operating in Ireland at the end of Q1 2022. Even compared to five years ago, this is a sizeable increase in the number of Irish regulated Fintechs and it is notable that most of these are not focused exclusively on servicing the domestic market but have passported their authorisations across the other 31 Member States that make up the European Economic Area ("**EEA**").

Domestically, the digitialisation of financial services has developed dramatically in Ireland in recent times. One major trend in the payments industry in Ireland over the past year has been the huge jump in contactless payments by the Irish population. In the early days of the

COVID-19 pandemic, the Irish Government increased the limits on the amounts that users could spend through contactless payments to the maximum of EUR 50 permitted by PSDII and this has prompted the rapid growth of these kinds of payments in recent times. Strong customer authentication has also been successfully rolled out for many of the large Irish retail banks and other payment service providers operating in the Irish market.

At the same time, several of the main retail banks in Ireland have announced the permanent closure of dozens of bank branches and two retail banks – KBC Bank and Ulster Bank – have formally signalled that they intend to exit the Irish market altogether in 2022.

With just three major traditional retail banks expected to operate in the Irish market in the next few years, it is quite likely that Irish consumers are increasingly going to use a wider range of firms for niche financial services in future. At the time of writing, one million Irish consumers were actively considering who they would use to provide day-to-day banking services once KBC Bank and Ulster Bank leave the Irish market.

Overall, Irish people have become very adept at using electronic payments during the pandemic and it is actually increasingly difficult to see consumers in Ireland and Europe reverting to cash as much as they did in the past. Overall, this makes Ireland an increasingly attractive place for a Fintech to launch, as the market here is maturing into one that is increasingly comfortable and reliant on financial services delivered through digital channels.

Regulatory and insurance technology

Like other advanced economies, Irish insurers are actively monitoring the "internet of things" and the development of AI and the resulting potential for more sophisticated underwriting approaches. As in other EU jurisdictions, GDPR compliance is the key legal concern here. The Central Bank updated its Consumer Protection Code, enhancing consumer protection measures, but has not addressed concerns that could arise from widespread adoption of InsurTech by insurers and intermediaries. The market potential for increased adoption of InsurTech is clear but the regulatory regime has yet to catch up.

Irish RegTech firms that have achieved international success include Fenergo, AQMetrics and Gecko Governance. The Irish financial services industry is well aware of the potential to better deploy technology to achieve more efficient and cheaper compliance solutions; however, as of yet the Central Bank has not taken explicit measures within the regulatory framework to incentivise the deployment of RegTech by Irish regulated firms.

Regulatory bodies

There is only one financial services regulator in Ireland, the Central Bank, which is responsible for authorising and supervising providers of regulated financial services. The Central Bank is responsible for both prudential supervision and consumer protection of regulated entities which it has authorised. Where a regulated firm has been authorised by a supervisory authority in another jurisdiction, the home state regulator will be responsible for prudential supervision, but the Central Bank will be responsible for the conduct of business supervision. The Single Supervisory Mechanism at the European Central Bank also directly supervises significant credit institutions and has exclusive competence for the authorisation of credit institutions (other than branches of third-country credit institutions).

Key regulations and regulatory approaches

Whether or not a Fintech business needs to hold a financial services authorisation will depend on the nature of the activities that the firm engages in. The majority of relevant regulated activities stem from EU directives, and each of the regimes below provide for a passporting regime which permits a provider authorised in one Member State to provide its services in other Member States, subject to notification requirements to the home and host state competent authorities.

Directive (EU) 2015/2366 ("**PSD II**") was transposed into Irish law by the European Union (Payment Services) Regulations 2018 and regulates the provision of payment services. Fintech businesses engaged in regulated payment services (such as money remittance or operating payment accounts) are required to be authorised under PSD II. PSD II also introduced two new "open banking" types of payment service: account information services; and payment initiation services.

Directive 2009/110/EC ("**EMD**") was transposed into Irish law by the European Communities (Electronic Money) Regulations 2011, which regulates the issue and redemption of "electronic money".

Directive 2014/65/EU ("**MiFID II**") was transposed into Irish law by the European Union (Markets in Financial Instruments) Regulations 2017 (the "**Irish MiFID II Regulations**") and aims to create a single market for investment services and activities and to ensure a high degree of harmonised protection for investors in "financial instruments" in the EU. In the case of digital assets (whether in the form of tokens, coins or otherwise), where the coin, token or other asset qualifies as a "transferable security" or other "financial instrument", the process by which the digital asset is created, distributed or traded is likely to involve some MiFID II investment services such as placing, dealing in or advising on "financial instruments", requiring authorisation from the Central Bank (or the supervisory authority of another Member State of the EU). The operation of a trading platform for "transferable securities" and other "financial instruments" is a regulated investment service that requires authorisation under the Irish MiFID II Regulations. Accordingly, if the digital assets to be traded comprise "transferable securities" or other "financial instruments", a MiFID II authorisation will be required. If the digital assets to be traded are not "transferable securities" or other "financial instruments", as is likely the case with pure utility tokens and payment tokens based on current law and practice, no MiFID II authorisation will be required. Prospectus regulation, deriving from EU law, may also be relevant where the digital asset constitutes a financial instrument and is either offered to the public in a Member State or is listed on a regulated market.

The EU's Fifth AML Directive has also been transposed into Irish law and a new registration obligation for all firms acting as virtual asset service providers in Ireland commenced in April 2021. Notably, because the legal framework is based on the EU's AML directives (and not the PSD II), firms registered under this framework will not be able to passport their licences across the EEA.

However, there are plans ahead at EU level for a Markets in Crypto-Asset Regulation (or "**MiCA**", similar to MiFID II) and this legislative proposal will develop a more suitable regulatory framework for virtual asset service providers across Europe, including passporting rights for those firms. MiCA implementation is anticipated in either late 2023 or early-mid 2024, with a likely agreed text being finalised later this year.

We expect that many of the Irish firms already providing virtual asset services will undergo this new domestic Irish authorisation process so that their operating models and compliance frameworks are robust enough to be able to then obtain authorisation as a virtual asset service provider whenever the MiCA legislation is finalised.

In addition to sector-specific requirements, Fintech businesses may need to comply with consumer protection legislation (depending on the nature of the customers), Central Bank conduct rules, anti-money laundering requirements and data protection legislation.

In light of the lack of a common EU legislative framework in respect of crowdfunding, Regulation (EU) 2020/1503 (the "**Crowdfunding Regulation**") and Directive (EU) 2020/1504 (the "**MiFID II Amending Directive**") were published.

The Crowdfunding Regulation became directly effective in November 2021 and Member States were required to implement the MiFID II Amending Directive into national law by 10 May 2021 and to apply those measures from 10 November 2021. European Crowdfunding Service Providers ("**ECSPs**") are excluded from MiFID II by the MiFID II Amending Directive and ECSPs and are instead covered by the Crowdfunding Regulation.

The Crowdfunding Regulation applies to peer-to-peer crowdfunding platforms facilitating "business funding" (lending to consumers is excluded) and investment-based crowdfunding platforms in relation to transferable securities up to a threshold of USD 5,000,000, whereas MiFID II continues to apply to larger crowdfunding platforms.

Prospective ECSPs must apply for authorisation under the Crowdfunding Regulation and may avail of the ability to passport its licence into each of the EEA Member States once approved. The Crowdfunding Regulation also places tailored operational and conduct of business requirements on ECSPs in their interactions with investors.

Restrictions

The main restriction on Fintech businesses seeking to operate in Ireland is the requirement for authorisation if the proposed activities fall within the scope of one or more of the regulatory regimes listed above.

The Central Bank has had the Innovation Hub since 2018 for Fintechs operating in Ireland. This is a direct and dedicated point of contact for firms developing or implementing innovations in financial services based on new technologies. This intends to accommodate greater interaction by the Central Bank with the growing number of Fintech businesses looking to set up operations in Dublin, or expand their existing operations both in the regulated and unregulated space. A number of initiatives have been undertaken by different financial institutions applying distributed ledger technology, AI and robotics, and the Central Bank is keen to engage with innovators who are operating as regulated and unregulated entities in the financial services space. According to the Innovation Hub: 2020 Update, since its launch, the Innovation Hub has facilitated a total of 253 engagements, including 183 enquiries from firms innovating in financial services. A further 83 enquiries in 2021, a 19 per cent increase year-on-year, demonstrates continued growth.

Cross-border business

Ireland continues to develop as a Fintech hub and invest in attracting Fintech businesses to establish operations here. We have seen a number of cross-border firms enter the Irish market, particularly in the payments and e-money space. The trend is also driven by the fact that Ireland now has achieved a critical mass of Fintech firms operating in the country: it remains proximate to the UK and US markets; it is an English-speaking EU Member State; and because the Central Bank of Ireland is considered a best-in-class regulator for firms that want to export their financial services across multiple European jurisdictions.

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