FinSight

Insights for the Financial Services and Real Estate Industries in Ireland

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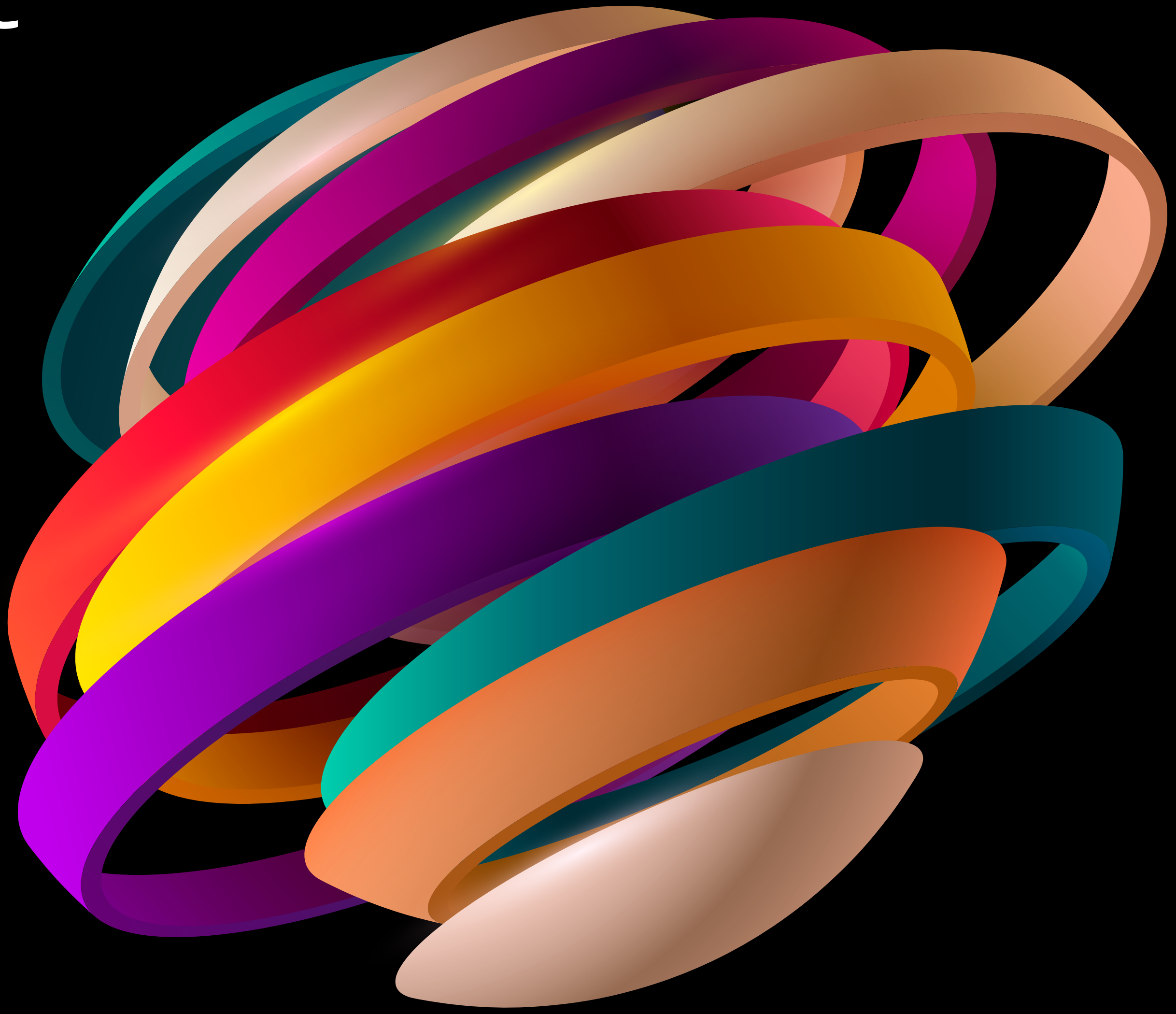

2022 IRISH FINANCIAL SERVICES OUTLOOKS
The road ahead

PATH TO CEO IN FINANCIAL SERVICES
In conversation with Fiona Gallagher, CEO, Wells Fargo International

DESTINATION: NET ZERO
Aviation's flight towards sustainability

STANDING GUARD
In conversation with Derville Rowland, Director General Financial Conduct, Central Bank of Ireland

Deloitte.

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FOREWORD

DAVID DALTON
PARTNER AND HEAD OF FINANCIAL SERVICES
Deloitte Ireland

Welcome to the seventh edition of FinSight, a collection of the latest articles and perspectives from Deloitte professionals, as well as from experts and senior leaders across the financial services industry.

As this edition went to press, the spectre of war on European soil confronted us following Russia's invasion of Ukraine. The geopolitical reverberations continue, and events will have moved on by the time you read this. The war has devastating consequences on a humanitarian level, and our thoughts are with those suffering.

As a publication dedicated to the financial services sector, FinSight will concern its commentary with the war's economic impact. Many of the articles in this edition were prepared before the crisis in Ukraine. The trends affecting those sectors, as outlined in these pages, still hold true. At the same time, this foreword will briefly consider the possible scenarios facing Ireland's financial industry, across banking, insurance, investment management, real estate, and aviation.

Russia's outsized influence in the global economy means its actions will affect our

lives in a variety of ways large and small, from rising fuel and food prices to higher than expected inflation and other economic consequences.

Across the sector as a whole, increased cyber activity poses a significant risk from the crisis. We have seen in the past that cyber-attacks against one nation often spill over and affect others (as happened with some of the widespread ransomware infections in 2017). Financial firms in Ireland will need to be attuned to this potential threat for disruption.

Before the crisis, central banks in the Euro area, the UK, and US had been preparing to tighten monetary policy to stem rising inflation. Now, they may stay their hand as consumer prices rise. Deloitte's analysis of the war's economic effects noted that European inflation was already higher than it has been in decades. Rapidly rising commodity prices brought on by the war, will push inflation further upwards beyond initial forecasts.

Since wages are unlikely to keep pace with inflation, this could trigger a contraction in spending power for many European workers during 2022. This could affect parts of the insurance market if customers are sensitive to price increases. As for real estate, it is unclear what this could mean for the residential housing market if potential buyers face the double blow of interest rate rises and less cash on hand.

In financial markets, a combination of caution and lower growth forecasts could affect investment management. In times of uncertainty such as these, higher-risk financial assets tend to underperform. Money gravitates to lower-risk assets, such as gold, the dollar, government bonds and so-called value equities with higher and more stable dividend streams.

As one of the largest centres for aviation leasing in the world, Ireland is exposed to the fallout from the economic sanctions imposed on Russia. Irish lessors could face losing assets worth multiple

There are many benefits for businesses and consumers from embracing digital, but this must be an inclusive approach, not an exclusive one. As financial services professionals, we have a collective obligation to the communities we are a part of.

millions of Euro if they are unable to reclaim craft from Russian airlines. Although our article focuses on the industry's sustainability agenda, the immediate financial shock cannot be ignored.

The events in Ukraine, and the outpouring of support for its people in the aftermath of the invasion, are a reminder of our connectedness and kinship. As the former US Treasury Secretary Henry Morgenthau said in 1944: "The thread of economic life in every nation is inseparably woven into a fabric of world economy. Let any thread become frayed and the entre fabric is weakened. No nation, however great and strong, can remain immune."

This theme of shared responsibility is one that we at Deloitte have been reflecting upon recently, in terms of how we make an impact that matters for our clients, our people, and our community.

One such area is financial inclusion. The World Bank defines this as individuals and businesses having access to useful and affordable financial products and services that meet their needs. The term has broadened in scope to cover access to a range of financial products: transactions, payments, savings, credit, and insurance – delivered in a responsible and sustainable way.

The phrase might bring to mind unbanked populations in poorer sections of the developing world, but in fact this urgent issue is closer to our doorsteps than many people might realise. A 2021 study of financial inclusion challenges[1] facing social housing residents in Dublin and Cork found that 37% – more than one in three – showed signs of weak inclusion or exclusion. It also found that women are statistically more likely to suffer from lower levels of inclusion than men. One in eight social housing residents said they do not have a bank, credit union or post office account. Problem debt was an issue for at least 20% of residents, while levels of insurance were extremely low.

1. McCarthy, O., Faherty, M., Byrne, N. and Carton, F. (2021) Financial inclusion among social housing tenants, Dublin: Cluid Housing and the Housing Finance Agency

Last year, our colleagues at Deloitte UK published a report on financial inclusion for the banking sector. One finding that struck me was the stark figure that over 12 million UK residents would not be able to pay an unexpected bill of £300.

Over the coming months, countries across Europe and beyond will welcome displaced people from war zones including Ukraine. Financial inclusion may well be one of the challenges they face when settling in their new locations.

Research has shown that quality of life improves when people are able to avail of financial services to access education, healthcare, and other essential services. When they can use savings, credit, insurance, and payments services, they become less economically vulnerable. Exclusion from financial services can become a poverty trap, whereas inclusion offers a path out.

If we think back to the drive towards digital, there are certain dynamics at play: rural vs urban and old vs young. As the latest CSO figures show, Ireland's population is ageing. We cannot simply assume that older people will be as familiar and comfortable with digital financial products as younger people. Moreover, after two years of remote work which in some cases led to people relocating to be closer to their families, is it fair to deprive people of easy access to in-person financial services because of where they choose to live?

There are many benefits for businesses and consumers from embracing digital, but this must be an inclusive approach, not an exclusive one. As financial services professionals, we have a collective obligation to the communities we are a part of. Fortunately, we don't have to look too far for some positive precedents in this respect. The Deloitte UK report noted that when people suffered financial hardship during COVID-19, some banks were compassionate and responded with flexible options to ease the strain. Anecdotally, we are aware of similar understanding shown by Irish banks to vulnerable customers.

To be clear, we don't claim to have all the answers. We are just at the beginning of addressing this problem; but address it we must. This can start with conversations among all participants in the financial services ecosystem. How can we collaborate? We are open to ideas. Initiatives such as the 30% Club have helped to lift the issue of gender diversity to the level of boards and senior management. Could we develop a similar concept to address financial exclusion that everyone can buy into? Is there a role for fintechs in helping to develop products that are easy to use and access; inclusive, not exclusive.

Another recurring theme throughout this edition is the growing prominence of sustainability and ESG goals. As the financial services industry focuses more on this area, we believe financial inclusion must be a part not just of their ESG strategies but of all our collective purpose. An economy cannot exist outside of the society it belongs to. As a sector, we now have a responsibility to tackle challenges such as financial inclusion.

There is a quote in this edition's Path to CEO interview with Fiona Gallagher of Wells Fargo Bank International which is very fitting: "Organisations are looking for leaders, and the reality is, leaders don't just keep their head down and do the job. They look up every so often and see what else they can get involved in." Now is the time for such leadership, from all of us.

Kind regards,
David Dalton

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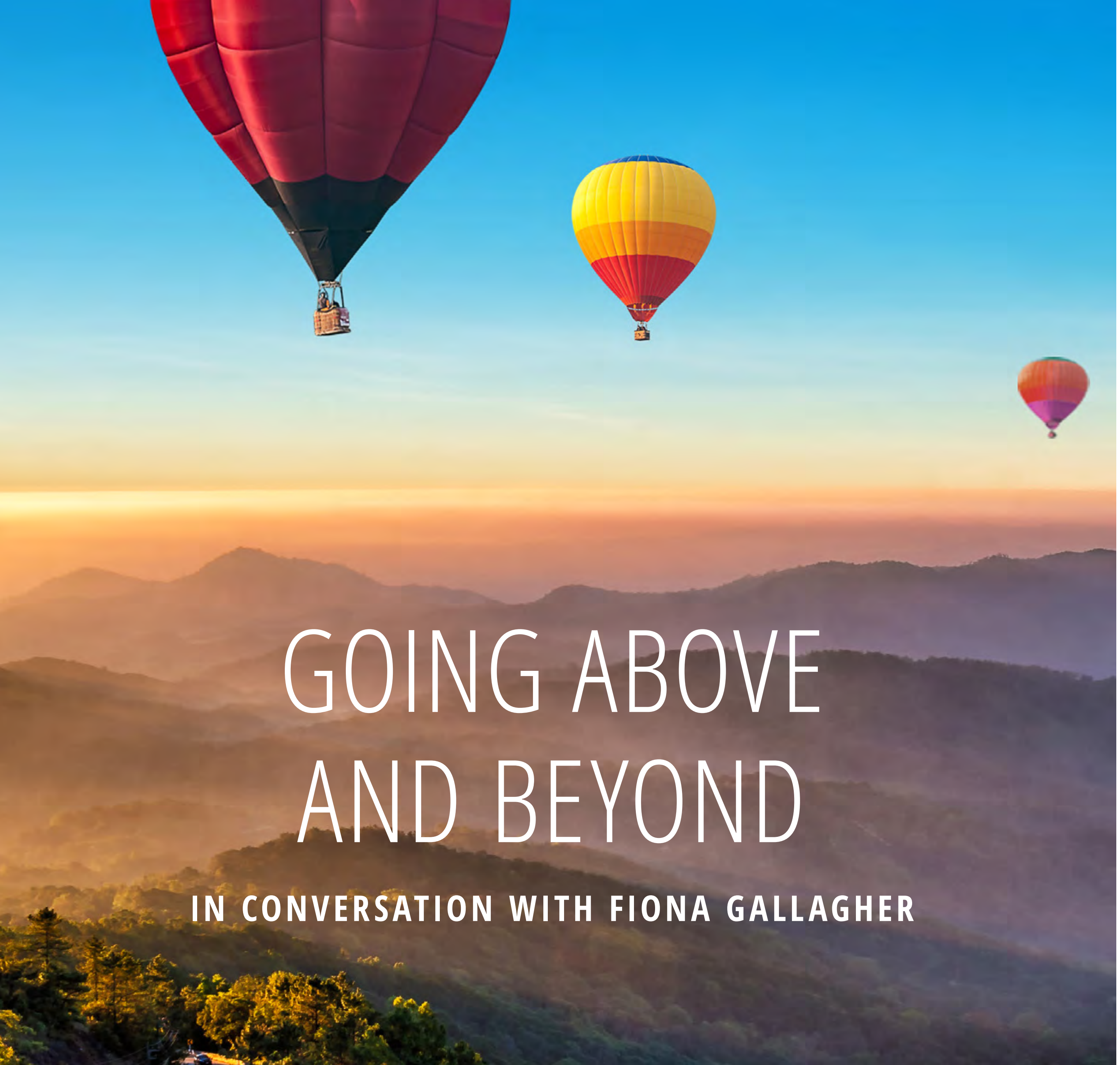


GOING ABOVE AND BEYOND

IN CONVERSATION WITH FIONA GALLAGHER

FIONA GALLAGHER
CHIEF EXECUTIVE OFFICER
Wells Fargo Bank International

In our ‘Path to CEO’ series, Wells Fargo Bank International Chief Executive Officer Fiona Gallagher reflects on her career journey.

CAN YOU SHARE YOUR PROFESSIONAL JOURNEY TO DATE? WHAT HAS ENABLED YOU TO ACHIEVE SUCH AN INCREDIBLE CAREER?

I put my career into stages: I left Ireland in 1998, immediately after university. Although there were lots of job opportunities in Ireland at that time, I was one of the few who decided to leave and explore options elsewhere. I went to New York and started working in the analyst training programme in capital markets at Merrill Lynch. I was in New York for nearly six years. It was almost like a movie, sitting on a huge trading floor and soaking it all in. I was working on issuing bonds for clients, so I got to see how the financial markets worked. I sat beside one of the people who listened to all of the economic data coming out every Friday morning, so it was just electric. For me, it really brought finance to life.

At the time Merrill Lynch was a very Irish-American firm, and one of the ways I got to know everybody was by becoming a pseudo "travel agent" for people who were going home to Ireland. This helped me build up my network and demonstrated the benefits of standing out by being a little different, or just by offering to help.

I worked at Merrill Lynch and at Barclays in New York. While with Barclays, they asked me to move to London to become Head of Private Placements, Europe. I went from being the deal person to making that first step into management, another important stage in my career. I was with Barclays for about a year, then the team moved to Deutsche Bank and I joined as European Head of Private Placements.

Later, I was asked to be Head of Global Relationship Management, looking across all of the clients we had in Capital Markets and Treasury Solutions; client interactions; how we were making money, how we were looking after clients. It was a much bigger management role for me, with around 2,000 people brought together into this new group. At the time, there was an increased focus on employee training and development across the industry, so we took a proactive approach to career development. We looked at how to attract and retain the right talent and were much more thoughtful about career progression. At that same time, Deutsche Bank was losing a lot of women at VP level, so I decided to get involved and joined the Women's Network.

Looking at my career path, I was always prepared to work beyond my role; to always go that little 'extra'. And so, my internal network was very extensive. And equally because of the nature of the products I managed, I wasn't working in a silo. I was able to keep my head up, see what else was going on in the organisation and where I could offer to help. This worked so well that I was asked to move into a different side of Deutsche Bank to roll out a similar organisation to the one I had created. I suppose the financial crisis gave me the push to move out of something I really enjoyed, and into something else where I broadened my skill set quite considerably across the board.

> I think one of the crucial characteristics of a CEO is to be interested. They have to understand the business and the financials, but they also have to understand their people.

While all this was happening, I'd somehow managed to have three girls! It was coming up to 2016 and I was pregnant with my third daughter. It was just before the Brexit vote, and my husband and I decided to move home to Ireland to be closer to our families. I literally asked everyone in my network for help, and slowly but surely, the opportunity to move back to Dublin as Chief Country Officer for Deutsche Bank Ireland came about.

Although I really enjoyed working at Deutsche, one of the main attractions of moving to Wells Fargo two years ago was the opportunity to build something. The other was my continued desire to learn. Having been in an organisation for 15 years, I wanted to make sure I wasn't falling into "group thinking" and I was continuing to create opportunities to further challenge myself. When I interviewed for the CEO role for Wells Fargo Bank International (WFBI), I was really taken by the people I met. For the first time in my career, there was a really diverse panel of interviewers and a significant number of women in senior management roles. It's a subtle thing, but when you meet a balanced panel – and there's a huge amount of discipline at Wells Fargo around that – you can see your peers in all areas of infrastructure and business, and that was very attractive to me.

When I joined WFBI, the focus was very much on regulation, on change, on building a platform. For me, it was moving into quite a different skillset where I became responsible for the entire operation from front to back, rather than just a product.

WHAT ARE SOME OF THE BIGGEST CHALLENGES YOU HAVE FACED ON YOUR JOURNEY TO BECOMING A CEO? HOW DID YOU OVERCOME THESE CHALLENGES?

The first challenge that I had to overcome was my own issue of confidence. I've been in banking for 22 years so there's no doubt that I'm now a banker. My background is in law so in the back of my mind, particularly for the first four to five years of my career, I was thinking, 'You're not a mathematician or financial professional. Do you really belong here?'. I had the feeling that if it came to an Excel spreadsheet competition, there would always be somebody better than me because they had been doing this for the last ten years, whereas I had only been doing it for a few years. But then over the years, I started to notice that there were lots of people I worked with who had all types of degrees, French, Geography, Arts. I realised it was more about the experience you had gained and your willingness to learn than about your background. That really helped me overcome my lack of confidence.

Now, when I'm speaking to people about their career choices, working with people in my teams, or with boards or organisations like the 30% Club, I talk about my own experience in an effort to build confidence. I have a particular focus on women and working with women who may suffer from imposter syndrome and helping them through that. Sometimes it's about saying, 'I am good enough to do this'.

I remember another challenge I encountered when I was pregnant with my first daughter, where there was a real temptation to pull myself away completely. Then I remembered something one of my first bosses had said to me years before. 'There will be tough times in your career, but the only thing you have to remember is to stay in throughout that difficult period'. And suddenly ten years later, that advice came back to me - 'Just stay in'. So, I heeded the advice and it caused me to push myself forward a little more.

A big tip I was given by a coach and that I share with everybody, is never make a decision when you're a seven out of ten or below. When you have a new baby, or you're not well, or you're sleep deprived, you'll be below a seven. Don't make a decision at that point.

I was fortunate enough to be sent on a training course about sports science and mindfulness, which explained that the brain is a muscle and like any muscle, it gets tired. At night after a hectic day and especially in the current environment, we can feel exhausted. I'm fairly good at recognising I'm human and that sometimes the best approach is taking a step back. It's also important to recognise that most people are trying to do their best. For example, if you receive an irritating email at 6pm, but decide to step back and look at it at 9am the following morning, your reaction to it will probably be totally different. Try not to respond in the moment. Take the time to consider your response.

WHAT IS ONE CHARACTERISTIC THAT YOU BELIEVE EVERY LEADER SHOULD HAVE?

A friend of mine who is Head of Communications for a food company calls her CEO the 'Chief Engagement Officer'. Literally, their job is to understand and engage, and so I think one of the crucial characteristics of a CEO is to be interested. They have to understand the business and the financials, but they also have to understand their people. Particularly now, when we've got things like the 'Great Resignation' happening, or where people may like their current job but just want a change. 'Authentic' is a word that makes me shudder

slightly, but if, as CEO, you don't take the time to understand what is driving all of the components in your business – particularly your people – I think it can make your job very, very challenging.

And that does not mean that everybody needs to be an extrovert. It's more about being able to focus in, and say, 'What's going on with that individual, or that team? How can we get the best out of them?' If you take the time to understand the challenge, then you can improve it and drive it forward. Or you can help people solve the problem.

WE HAVE THIS IMPRESSION OF LEADERS AS BEING CHARISMATIC, SO WHAT ADVICE WOULD YOU HAVE FOR SOMEONE WHO MIGHT POTENTIALLY BE A LEADER BUT DOESN'T SEE THEMSELVES AS AN EXTROVERT?

I'll give you an example: I really, genuinely don't like public speaking and presentations. But it's an important part of my role. How you get over it is hard work: you do presentation courses, and you practice. The best leaders are not the ones who come out on stage and perform, but they come out on stage, and they communicate.

How are they doing that? Introvert or extrovert, the ones who are successful are the ones who have actually taken time to say, 'How can I deliver a message?', or, 'How can I engage with someone in a way that will work with them?' And they've probably adapted their styles over the years for different types of meetings. My approach is to look at the audience and decide on the best way to reach them.

One of the things that's really important to me, and something I look for when I'm hiring someone, is not just if they are a good SME [subject matter expert], but are they interested in people.

WHAT'S YOUR ASSESSMENT OF THE GENDER BALANCE IN THE FINANCIAL SERVICES INDUSTRY?

Where we've had some successes as an industry, it's been very targeted. For example, an individual is targeted for promotion to a senior role (maybe a woman or someone who might be considered diverse) and the discussion becomes how do we put coaches, sponsors and mentors around this individual to help them succeed? All of that is valuable, but if we look back at our own experiences, there are lots of times where hugely talented people leave and we come up with lots of excuses as to why they left. The conversation shouldn't be around these excuses, but about finding ways to be inclusive.

The 30% Club has done a brilliant piece of work called, 'A Career Less Ordinary', where they're trying to make banking and finance much more accessible to transition year students, and are asking their members to do a lot more to work with schools to highlight careers in banking and finance to younger age groups.

I think we will continue to see more success from a diversity perspective if we start to create an inclusive environment where people feel they can be themselves in work. The more open people can be, the more chance we have of getting the best out of them. And whether that's gender, race, age, orientation or ability, it is about slowing things down a little bit and making sure that people feel they have the right to be there. It's about trying to broaden the spectrum of what people might think about in terms of the opportunities afforded to them in their organisation.

WHAT ADVICE WOULD YOU GIVE TO SOMEONE WHO ASPIRES TO A LEADERSHIP ROLE IN THE INDUSTRY?

I was talking to a career coach recently who said a lot of people come in and just do the job. That's brilliant, and we want loads of people like that. But organisations are looking for leaders, and the reality is, leaders don't just keep their head down and do the job. They look up every so often and see what else they can get involved in.

You can look at tennis and think it's brilliant, but if nobody tells you to stay within those lines, you won't play it properly. Every so often, almost every 3-6 months, have a chat with someone, or a group, and say, 'How does that work?' or, 'Have you thought about how...?' or 'Let's de-mystify a promotion'.

Particularly at the moment when so many are working remotely you might think 'Well, I'd better just do my job, because that's all people can see'. Whereas, if you spend half an hour calling a colleague, you're going to learn something, or you might be a bit more visible. So it's about helping people.

SINCE COVID-19 STRUCK, THERE'S MORE AWARENESS OF HOW MUCH OUR PERSONAL AND PROFESSIONAL LIVES ARE INTERTWINED. HOW DO YOU BALANCE YOUR PERSONAL AND PROFESSIONAL LIFE?

I am realistic about these challenges. And I have a lot of help. One of the reasons we moved back to Ireland is that both my and my husband Kevin's families are here. My mum lives around the corner. I'm very fortunate to have a lot of family help. And I think that's one of the things people do need to consider. The reality is, if you can ask for help, then do.

I have a great support network here, like friends who are also working; there's unapologetic swapping kids for play dates and all of those sorts of things! Something I didn't do well for a long time was finding time for me, to make sure that I could operate above a seven out of ten. So, I get up early in the mornings and run with a flashlight. My advice is to try to make sure that you carve out a little bit of 'me' time and ask for help when you can.

Balance is important and I think one of the things we've all learned throughout the pandemic is that no one's life is always perfect. How many of us have looked at others and thought, 'They're perfect – their lives are great'. Then when COVID-19 hit, suddenly you realise that everybody has challenges they're dealing with. And everybody has something they want to do outside of work. For some people, it might be kids, for others its dogs, or triathlons. We are all trying to juggle work and personal lives, and finding the right balance is really important to your overall well-being.

But I think – hopefully – we are now a bit wiser and a bit kinder.

WHAT ARE SOME OF THE THINGS THAT YOU'RE DOING TO ENSURE YOU GROW AND DEVELOP AS A LEADER?

You'll have heard it everywhere, but ESG (Environmental, Social & Governance), sustainable finance, climate change has gone from a line item to being incredibly important. If you think about everything from an ESG perspective, it's not just climate change but social, governance, and how you run your business. It touches everything that every organisation does.

If you type 'sustainable finance' into a web search, there are 79 acronyms. And so it's very easy to just go, 'Oh well, somebody else is going to pick that up'. Whereas to me, it's going to touch everything in my organisation so I'm spending a lot of time involved in the development and execution of the ESG plan.

This year, you'll hear a lot of bankers saying, 'Banks are technology companies' – and they are. So for me, cyber risk is a big focus. Because the more you understand something, the more you can anticipate or deal with it, if this challenge occurs.

Keeping informed of current topics is also important. When I was growing up, my dad said, 'Read the first two pages of the Economist every week and read the editorial of the Irish Times.

Between those two things, you'll have a real sense of what's going on'. And I still try to do that. When you do that, you get a sense of where you should be putting your efforts. I try to finish the day having learned something new.

I think we all know we have to manage ourselves more; we're not children. If you think about the gazillion self-help books like, 'What Got You Here Won't Get You There'; you can be really good at executing and know the most about a subject, but what companies are looking for are leaders. And part of that leadership journey is to evolve. So my advice is to keep learning and evolving. Don't be afraid to ask for help and advice from others. Find a good coach or mentor to help you understand your strengths and focus on where you can improve. But overall, keep on pushing your boundaries.

This interview took place on 19 January 2022.

IRISH 2022 OUTLOOK FOR

BANKING AND CAPITAL MARKETS

- An evolving ecosystem -

SEAN SMITH
PARTNER, RISK ADVISORY
BANKING & CAPITAL MARKETS LEADER
Deloitte Ireland

2022 promises to be another busy year in the Irish banking sector, shaped in the main by macro events, regulatory focus, evolving business models and customer demands. These trends are not new but their impacts on the ecosystem are likely to become more pronounced and embedded over the course of the year.

The most obvious changes are occurring in the retail sector with the perfect storm caused by the exit of two key players, COVID-19, Brexit, new fintech and non-bank entrants, and pressures on business models creating a strong impetus for change. The net result is likely to be leaner and more cost-conscious banks, fewer branches and a greater focus on digital channels, more diversification of business models with banks acting as a one-stop shop for all your banking, investment, and insurance needs, and a greater appreciation for purpose and the environment.

Less obvious but equally significant are the changes in the international banking sphere post-Brexit. Growth in the balance sheets of these banks means that our international banks are now some of the largest banks in Ireland and many of them act as the EU headquarters for their organisations. This change in status is also reflected in their business models, with many moving from pure corporate lenders and treasury providers to include markets business and payment offerings. A very different set of challenges face the international banks compared to the retail banks, including a greater focus on governance, simplification of the business model, outsourcing, regulatory divergence, and digitisation.

Last but not least are the scaling fintechs and neo-banks with a clear focus on disrupting incumbents and embedding themselves in areas that had traditionally been very profitable, such as payments, for example. Many of these firms have struggled to overcome the barriers to entry including obtaining necessary licences – and those that have obtained licences have struggled to scale appropriately given risk management, resourcing, operational resilience, and other requirements. The future face of the Irish banking ecosystem will depend on their ability to overcome these challenges, with the recent launch of Revolut Bank showing that it can be done.

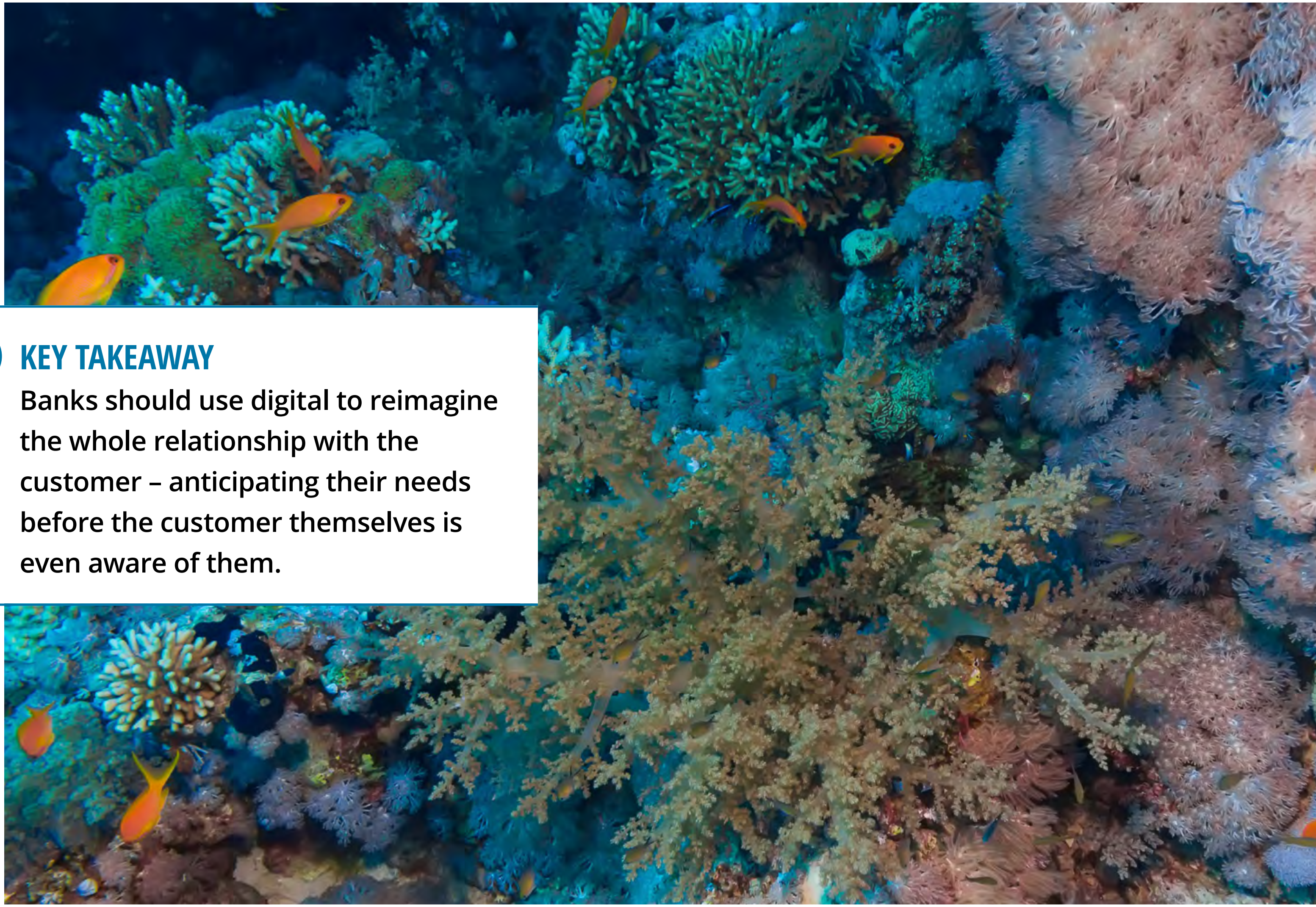
This report was drafted before the invasion of Ukraine. However, the trends outlined in the following pages still hold true. To understand the potential impact of the invasion on Financial Services specifically, please refer to the foreword at the beginning of our magazine.

Digital strategy

Each of the banking sub-sectors have identified digitisation as being core to their overall strategy. Some see it as table stakes whereas others see it as an opportunity to create competitive advantage. While traditionally digital has been focused on the mass market consumer segment and in particular self-service, we are seeing more and more focus on the SME and corporate sectors and how it can be used in more relationship-intensive scenarios.

In digital terms, what was acceptable even a year ago has since progressed significantly. Customer patience with processes that are convoluted or non-user-friendly has reduced because the apps they use every day for ordering online or streaming content have set the benchmark for ease of use. The challenge for banks is how to maintain their regulatory requirements and protect client information while providing the slick digital experience that consumers have come to expect. This has led to significant innovation and the use of new technologies such as AI, blockchain, digital identity and algorithms for everything from identifying the customer for AML purposes, analysing and credit scoring customers, to predicting future services and product needs to name a few.

The successful digital adopters have shown other banks that they need to put the customer foremost in their thinking. Digital has the potential to change the interaction, so banks need to think strategically. Customer experience needs to be at the heart of their digital efforts – not just because it's more cost-effective for the bank. Don't just take the old process and make it digital; now is the time to reimagine the whole relationship with the customer. Instead of interacting during a product sale, or to solve a customer issue, banks should look to develop a much more holistic relationship that uses technology to anticipate needs before the customer themselves is even aware of them.



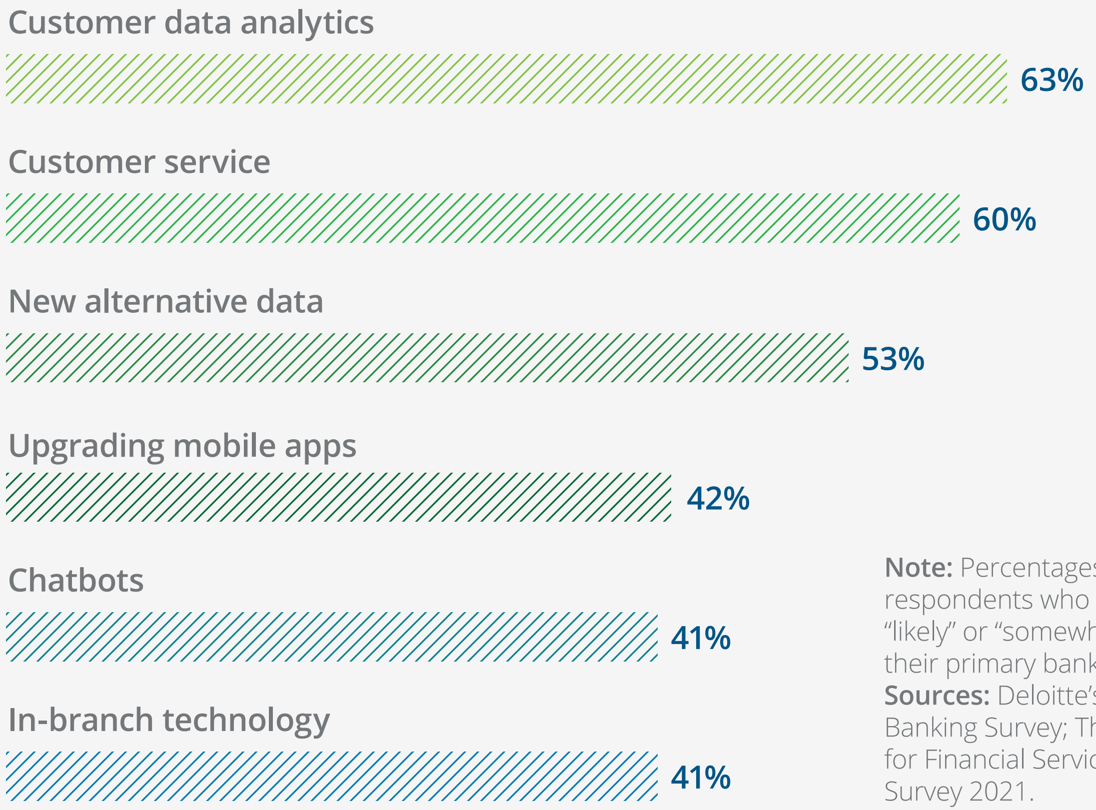
KEY TAKEAWAY

Banks should use digital to reimagine the whole relationship with the customer – anticipating their needs before the customer themselves is even aware of them.

The data from Deloitte's global banking outlook shows the correlation between customers who are likely to switch their primary banks, and the technologies most likely to deliver new business. Irish banks should use this to guide their thinking on upcoming technology investments, focusing on areas such as customer data analytics, customer service, new alternative data or upgrading their mobile apps. A word of caution, however: the outlook also uncovers where banks have met challenges in implementing technologies such as artificial intelligence, cloud, or analytics. Banks' strategies should take account of these risks and put in place a strategy to mitigate them.

The technology is important, but firms may also need to consider other areas like culture, accountability and conduct for these programmes to be truly successful. The good news for banks is, no-one has won out in this space yet; it's still all to play for.

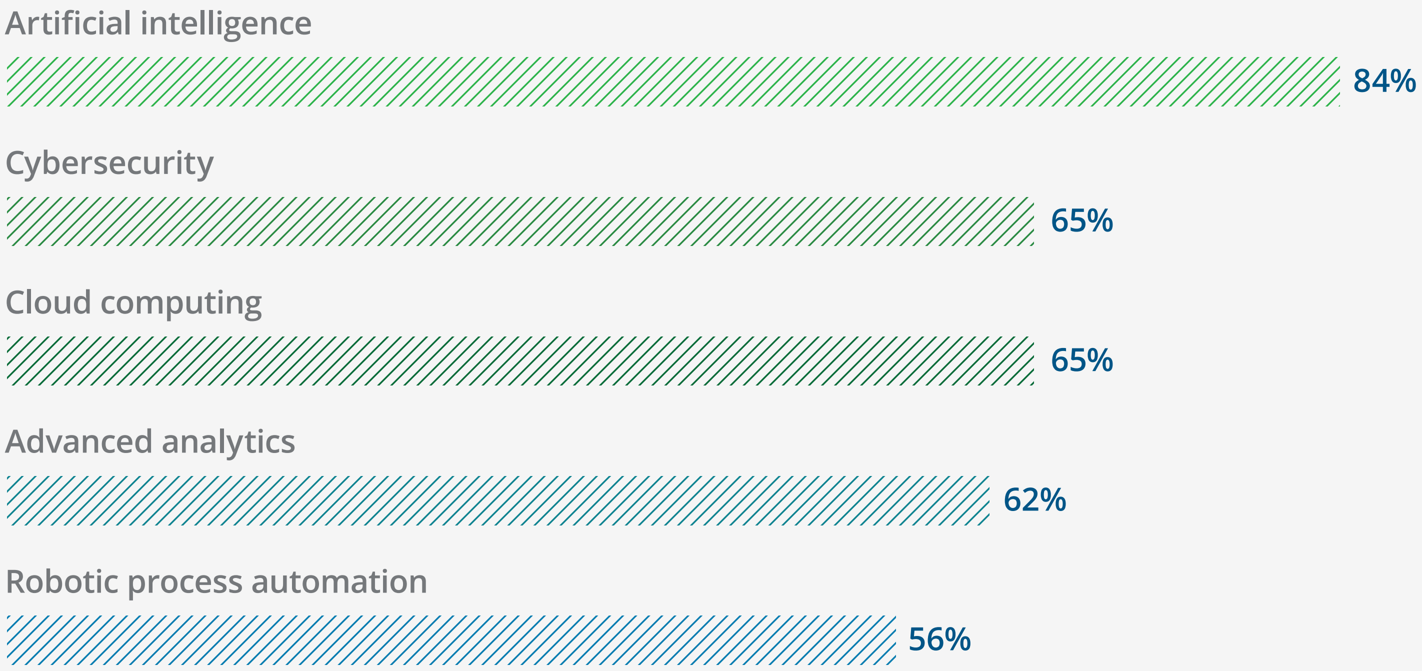
Enhancements banks plan to make to improve retail and instituational customers' banking experience



Note: Percentages represent respondents who are "very likely", "likely" or "somewhat likely" to switch their primary banks.
Sources: Deloitte's 2021 Digital Banking Survey; The Deloitte Center for Financial Services Global Outlook Survey 2021.

Banks need new approaches to realise the full potential of their technology investments

Percentage of respondents whose firms faced challenges adopting these technologies



Source: The Deloitte Center for Financial Services Outlook Survey 2021.

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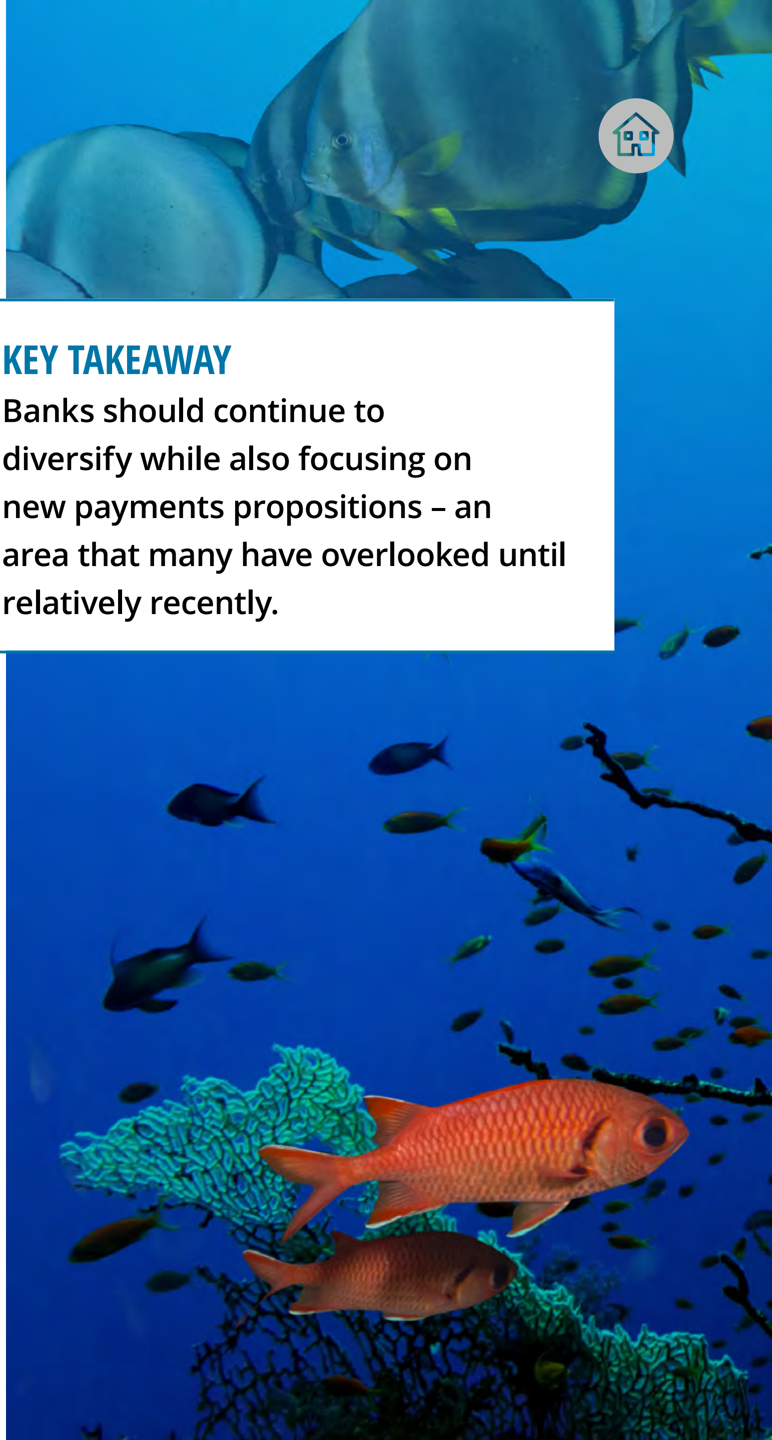
Altered retail landscape

It is hard to gauge the exact impact of the changed retail banking landscape but ultimately, we expect to see a concentration of mortgage customers in the remaining three banks giving them a healthier Net Interest Margin and Cost to Income Ratio. Fintech players, neo-banks and non-bank lenders will look to compete in the payments, personal loans, credit card and current account space.

Depending on the success of these offerings, we could see greater disaggregation of the market which could make some of the cross-selling strategies of the larger banks more difficult to execute. A lot will also depend on what API and account aggregation services are offered. At this point, it is hard to see a fourth traditional player entering the market in the near future and without doubt there will continue to be competitiveness discussions on this point.

The retail banks have made great strides to diversify in terms of buying wealth management firms and entering into partnerships with insurers to make their business models more viable. Banks should continue this diversification approach, while also focusing on new payments propositions – an area that many have overlooked until relatively recently. The Irish banks are working on a way to make it possible to transfer money between accounts using mobiles but there continues to be untapped opportunities in payment capability that can have impacts on analyst confidence and share price. Banks continue to battle with the cost-cutting and growth agendas.



KEY TAKEAWAY

Banks should continue to diversify while also focusing on new payments propositions – an area that many have overlooked until relatively recently.

International banks in Ireland

A recent BPFI and FIBI paper provided some significant statistics and data on the important role that the international banks play in the Irish banking ecosystem. Ireland is home to a large number of international banks and their respective EU headquarters. Many of these banks have focused on establishing themselves in the EU over the last number of years, and this has now moved to development and execution of their EU strategies. In 2022, we expect to see further growth of their EU branch strategies with greater levels of markets business moving into these entities.

Payments capability will be a large focus, with some entities also looking to grow their private banking offerings. As these banks grow in scale and complexity, we are likely to see greater levels of focus from regulators on governance, booking model, outsourcing, capability, and resourcing.

The business model may need further explanation or demystifying in certain circumstances or may require significant alteration to allow continued growth. Innovation will continue to be key, and we expect more will happen to bring the international banks and fintechs together.

KEY TAKEAWAY

Banks should consider how their business model is impacting growth – and identify changes where necessary.

The talent question

We expect that the international banks will be required to have more staff in Ireland as they grow. This will be across new and existing products and services with new products such as markets and payments presenting the largest talent gap. While some of this gap will be filled from Group, it opens up a new opportunity for people who want to work in these areas. Banks should intensify their work with universities and executive education organisations to deliver courses in these new areas and provide the pipeline of people to enable further growth in these fields.

While we are on the subject of talent, the retail banks are likely to see significant change over 2022. Some of this will be caused by the exit of the two banks and some of it will be caused by branch closures. More fundamentally, we expect that as banks come to rely on technology even more, their recruitment needs have and will adjust accordingly.

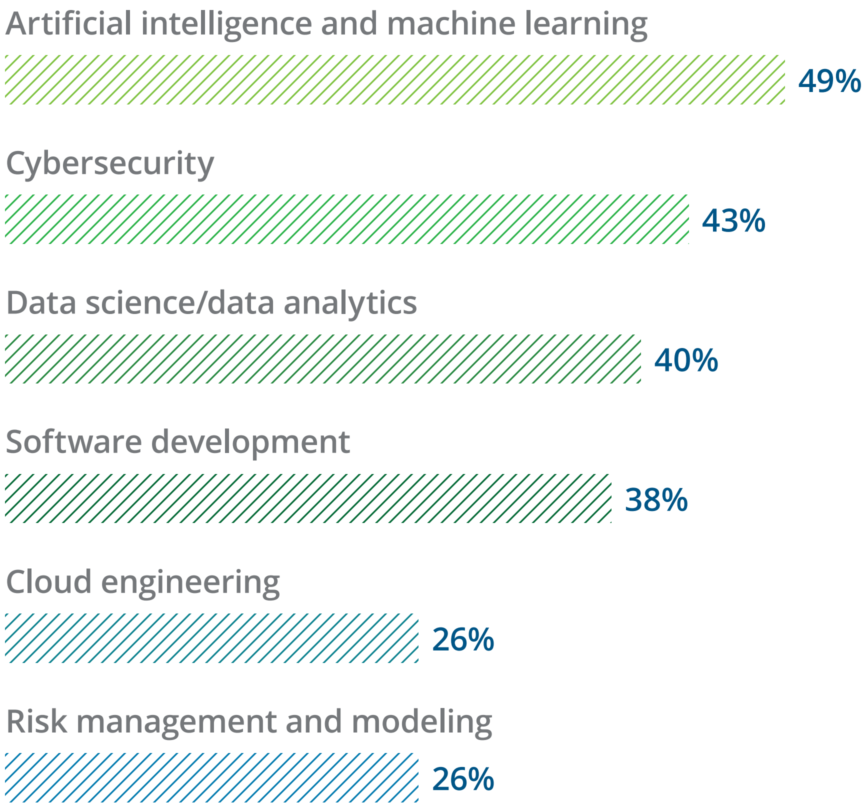
They will potentially need to hire more engineers than business graduates going forward. That's going to be a challenge on two fronts. As our global data shows (see graph), banks are challenged with identifying skilled candidates for niche technical areas. The second part of the challenge is that the mix of backgrounds potentially presents a clash of cultures and perspectives between software engineers with the technology mindset of 'move fast and break things', and those from a financial environment who are accustomed to working in a regulated industry. This, coupled with the return to the office, will mean banks' HR teams will need to focus on their recruitment to get the right balance.

KEY TAKEAWAY

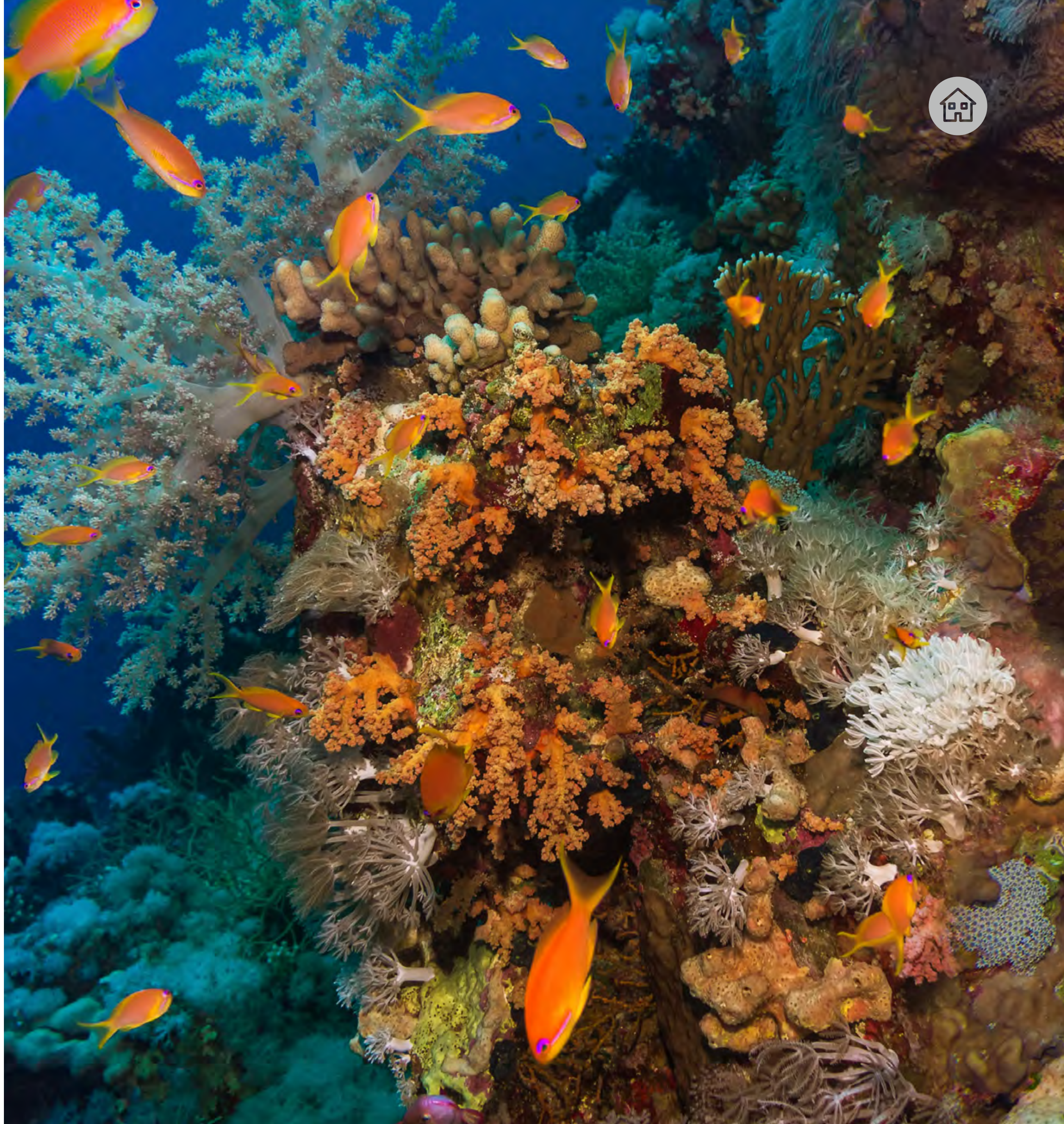
Banks should focus on securing the right balance of talent – from technological to regulatory – through strategic recruitment and partnerships with the education sector.

Finding skilled candidates in niche technical areas is a challenge for many banks

Most difficult capabilites to aquire



Source: The Deloitte Center for Financial Services Outlook Survey 2021.



2022 promises to be a significant year for the Irish banking system with fundamental changes happening across the retail and international banking sectors. Cost, innovation, regulation, talent, and the customer will all have material impacts on how the year develops and the final outcome. The table to the right sets out five challenges facing the banking sector; and for each one, there is a corresponding opportunity, giving banks the chance to refine or target their strategies further in the year ahead.

For our Global perspective, read our [2022 Global Banking and Capital Markets Outlook].

Key challenges and opportunities for the Irish banking sector in 2022

	Challenge	Opportunity
Retail banking	Balancing cost-cutting pressures with growth agendas	Diversify to provide a one-stop shop for customers
International banking	Handling greater levels of scrutiny from regulators on governance, booking model, outsourcing, and capability	Evolve from pure corporate lenders to providing payments capability
Neo-banking	Overcoming the barriers to entry and scaling appropriately in new areas of profitability	Disrupt incumbents in lucrative markets like payments
Digitisation	Maintaining regulatory requirements and protecting customer information	Reimagine the relationship with the customer to create competitive advantage
Talent acquisition	Managing the potential clash of cultures and perspectives resulting from the need to hire more engineers than financiers	Develop the right technological capability in-house to drive innovation and growth

IRISH 2022 OUTLOOK FOR

INSURANCE

- Assuring growth -

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THIS REPORT STRUCTURE IS AS FOLLOWS:

This report was drafted before the invasion of Ukraine. However, the trends outlined in the following pages still hold true. To understand the potential impact of the invasion on Financial Services specifically, please refer to the foreword at the beginning of our magazine.

The insurance industry across the globe, has in the main, navigated the upheaval of COVID-19 reasonably well. Insurers are looking forward with a sense of opportunity in relation to potential growth across many of their business lines. This cautious optimism is reflected in our recent global survey of insurers and supporting Global 2022 Insurance Industry Outlook report.

From working across the insurance industry locally, we believe the sector in Ireland has real post-pandemic growth opportunities to focus on. We can see insurers are adapting their plans to ensure that they are prioritising, organising, and adapting (in some cases developing) their internal capabilities to respond to both the size of the prize in front of them and the headwinds facing them in 2022 and beyond. This twin dynamic of growth and challenges – both within the industry and macro/global dynamics – make it a really interesting time for the industry.

The macro perspective

At a global level, there are multiple forces at play. The January 2022 IMF World Economic Outlook forecast indicates "multiple challenges"[1] standing in the path of a global economic recovery. It expects that although there will be growth in 2022 and 2023, forecasts are being lowered. Key factors include global supply chains still being problematic, higher inflation rates, geopolitical tensions in Eastern Europe, and nervousness that the pandemic across the globe may not be fully behind us.

From an Irish perspective, there is room for optimism. The EU recently upgraded Ireland's GDP growth forecast, citing a rapidly recovering labour market, release of some of the pent-up savings through consumption, and stability in the corporate sector. However, inflation levels will and are already increasing, although market implied inflation curves suggest that the spike in inflation is very much a short-term issue. These dynamics will ultimately impact on insurers, their customers and the overall value chain. In addition, global and European interest rates are trending upwards which will feed through into investment returns and performance of the industry, but will still remain very low in relative terms.

As economic activity accelerates, this will positively feed through to insurer business lines. So will government policies and spending over the next decade which have an indirect impact on the industry – from the government's 'Housing for All' policy to the recently announced National Retrofitting Scheme. In addition, the impact of government policies such as the Action Plan for Insurance Reform and policy areas including pension auto-enrolment will continue to play out in the coming years.

Regulatory policy, oversight, and expectations (CBI and European) will continue to be a key driver for change in the industry. Insurers will need to

1. International Monetary Fund, World Economic Outlook Briefing Transcript, January 25, 2022

not only learn lessons from other industries such as banking but also ensure that the appropriate cultural mindset is established from the top. Culture, customer centricity and protection, and regulatory considerations must be fully integrated into their overall strategic transformational change agenda – they can no longer be an afterthought.

In the short term, population trends in Ireland will have limited impact. There are, however, several key trends that will impact the industry in the medium to long term. Under a moderate CSO 2016-2051 projection, the population is expected to reach close to six million by 2051[2] (up from just over five million today) . At the same time, the population is ageing. Indications are that there will be a significantly higher percentage of over 65's in the population by 2051.

In addition to a growing and aging population although there have been anecdotal signs of an increased appetite for citizens to move back to their 'home' or region and take advantage of 'future of work' flexibility, it is unclear whether this will continue in the medium to long term. Indications are that the major city/urban areas will continue to grow proportionally higher than the rest of the country. These population trends will clearly have significant implications on society and the insurance industry including pensions, savings, healthcare insurance, and mobility. We will return to this theme later in our article.

What about customers? The danger is that we can focus on the forces of economic activity, inflation and interest rates, the regulatory agenda, government policy and macro population trends. Fundamentally however, customer needs and preferences – and how insurers respond to them – have and will remain the key determining factor of how individual insurers will perform in the long run. Customers' expectations and preferences are changing – and not just within younger segments. This will affect who, why, when, what, and how they

Culture, customer centricity and protection, and regulatory considerations must be fully integrated into their overall strategic transformational change agenda – they can no longer be an afterthought.

2. Central Statistics Office, Population and Labour Force Projections 2017 – 2051, 20 June 2018

> Customer needs and preferences – and how insurers respond to them – have and will remain the key determining factor of how individual insurers will perform in the long run.

want to interact with insurers. As we discuss in the 'Customer and transformation' section below, this also affects the nature of investment in digital technology that insurers will need to make.

Insurers and the value chain (e.g., intermediaries) will need to transform to respond to these changes and legacy capabilities will just not cut it. In our experience, insurers have realised this and are either on or starting the journey of digital transformation. The key challenge for many is, with so many areas they need to invest in, how to prioritise and sequence investments to maximise long-term value. Later, in our segment on 'Lean digital operations', we look closer at what's involved in becoming an 'insurer of the future'.

In addition, ESG has now become an extremely important topic not just at board and executive level but with customers, regulators, and shareholders. As the penultimate section in this article covers, ESG has now moved centre stage. The fundamental question insurers need to consider and be able to respond to is how they can ensure their engagement with ESG is meaningful as opposed to it being optics or 'greenwashing'.

Finally, the overall brand of the industry remains important. The industry's contribution to the economy, society, retail and business customers remains extremely important and that has not always cut through. There have been challenges in recent years on topics such as cost of insurance, business interruption, and availability of insurance coverage. These are being addressed by a combination of the industry responding to the issues, government policy and the regulatory agenda. However, the pandemic has reminded many customers of the benefits of having appropriate insurance coverage - across life and pensions, general and health - and may indeed have reinforced those benefits with them.

Ireland faces the same challenges as other developed countries with Organisation for Economic Co-operation and Development (OECD) tax reform, shifting demographics, and increasing inflation. However, with expectations for double-digit economic growth, a strong pool of talent and the nervousness of Brexit on the wane, Ireland Inc. remains a strong and attractive location for international insurers to maintain and establish their businesses.

Below, we examine some of these topics in more detail – categorising them into market segment perspectives and cross-industry perspectives – recognising that this is not an exhaustive list of opportunities and/or challenges.

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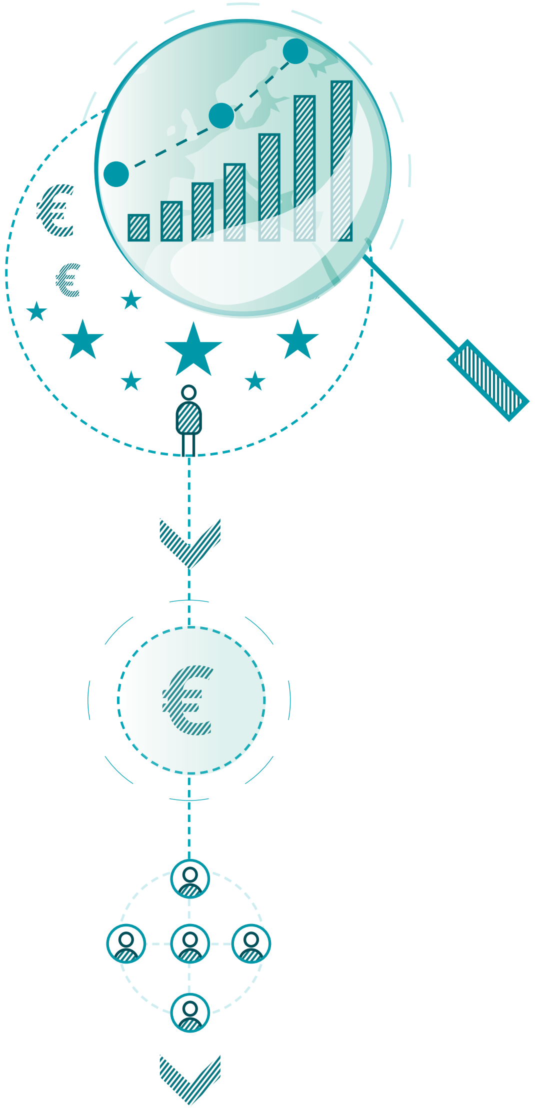


Market segment perspectives

Domestic life and pensions

From a retail life and pensions perspective, the Irish market experienced strong sales volumes during 2021, underpinned by investment market gains which drove sales of investment, savings, and pension products. The high level of cash savings accumulated during the pandemic may also have driven this sales growth. The impact of COVID-19 on experience continued to be limited similar to 2020, with lapse rates remaining stable and protection claims relatively in line with historic levels. However, the longer-term impact on the morbidity and mortality from the pandemic still remains unclear.

Going forward, increased investment volatility and widely reported increases in the cost of living may dampen sales. Ongoing low interest rates continue to present both growth and profitability challenges in some market segments (e.g., annuities) whilst presenting great opportunities to others such as the savings and investment segments.

The implementation of the IORP II Directive during 2021 saw the first in a series of pension reforms expected over the coming years. However, providers are still grappling with uncertain timelines on this. There will be additional governance requirements including mandating risk management and internal audit functions. In addition, the introduction of auto-enrolment is now expected at the end of 2023 at the earliest and debates continue over pension retirement age – all of which reflect significant opportunities for the industry down the line.

Insurers are also entering the final stretch in preparing for the introduction of the IFRS 17 reporting standard which comes into effect in January 2023 and is taking a significant level of management attention, time, and budget. The wider regulatory agenda also continues to take up significant resources including the finalisation of recovery plans, the introduction of the Senior Executive Accountability Regime (SEAR), addressing feedback on measuring customer outcomes, CBI guidance on operational resilience and outsourcing, and assessing the challenges arising from new ESG regulations – more to follow on this in our 'Compliance' section.

Cross-border life and pensions

Ireland continues to have a strong cross-border life industry, in particular servicing the Italian market. Similar to the domestic market, the positive performance of investment markets and continued relatively low deposit interest rates, despite upward pressures, has supported strong sales volumes for cross-border providers based in Ireland. This is a trend we would expect to see continuing through 2022. Cross-border firms also face similar regulatory challenges to domestic firms and their smaller footprint means that outsourcing risk continues to be a key area of focus.

Personal lines general insurance

There are many reasons to be positive for the domestic general insurance market in 2022 with expectations of top-line growth as the

economy emerges from a prolonged COVID-19 disruption. Of course, many challenges remain, key amongst them being the impact of rising inflation on claims costs.

Positive impacts from the adoption of Personal Injury Guidelines during 2021 will offset inflation to some degree and we expect private motor premium rates to remain soft during 2022. Household, on the other hand, is likely to see significant rate increases to combat higher building materials' prices and labour costs.

We expect insurers to continue reinforcing their brand and product differentiation but Central Bank proposals to strengthen the consumer protection framework, including a ban on price walking, may result in increases to the already high level of switching rates.

As we referred to in the introduction, future of work considerations have also multiplied. Insurers are seeking to create flexible return-to-office policies while at the same time struggling to retain and recruit top talent in a very competitive job market – particularly for advanced technology and data analytics skills.

Six months after the implementation of the Consumer Insurance Contracts Legislation which aimed to increase levels of transparency and rebalance contractual obligations in favour of the consumer, there is no current evidence pointing at resulting increased claims volumes. The cost to GI insurers of implementing the legislation, however, has been significant and has contributed to increased operating costs.

Commercial lines general insurance

Deloitte has conducted one of the largest surveys of Irish small and medium-sized enterprises to understand their future attitudes and behaviours towards insurance. Despite the negativity surrounding business interruption cover throughout the pandemic, trust levels have increased – largely driven by the provision of services and forbearance measures by GI insurers to support SMEs through pandemic challenges.

Demand and interest in insurance has increased post pandemic, with business owners saying that they are now more "risk aware and concerned" and are seeking to better understand their level of cover with a shift to "protection over price" being the dominant emerging trend.

SMEs have also voiced a need for increased value offerings such as risk management, cash flow management and cybersecurity services and are seeking an optimised product and partnership approach from GI providers. A more flexible approach from underwriters and a strengthening of customer relationships and engagement levels via digital content is expected to be high on the agenda in terms of satisfying customer needs across the SME segment.

Due to the complex nature of risk assessment, the broker channel remains the dominant channel of choice for over 90% of business owners in Ireland (based on a recent Deloitte Ireland SME Post Pandemic Insurance Survey). To strengthen engagement and loyalty levels, commercial insurers will benefit from re-evaluating their retention and growth strategies for core customers. We will return to the subject of customer focus in our section on cross-industry perspectives.

Health insurance

In the health insurance sector, COVID-19 surges impacted elective procedures and consultations throughout 2021. The HSE put a surge capacity agreement in place with the private hospitals to alleviate strain on the public health system although this was not fully utilised. This meant that, although overall claims volumes remained down, claims volumes in the private hospitals began to trend upwards towards more normalised levels. With the rollout of the vaccination programme and the lifting of restrictions, claims volumes are expected to increase in 2022 as the pandemic starts to lift.

> Insurers' data was already an area of increasing regulatory focus and [the HSE cyber-attack] has heightened the importance of operational resilience and cybersecurity across not only health insurance but the wider insurance market.

Recent reports for 2022 have shown record-breaking numbers presenting at emergency departments. It remains to be seen if this is indicative of unaddressed procedures from the pandemic coming through or a delayed winter surge.

Health insurance premium rates are expected to increase during 2022 as the favourable claims experience during 2020-2021, policyholder premium rebates and discounts are unlikely to be repeated during 2022. Increased pressure on healthcare costs in the coming year will also flow through to insurance premiums and this will drive increased uncertainty around customer behaviour and selected cover levels. This year also sees changes to the Risk Equalisation Scheme with the introduction of a high-cost claims credit. This is viewed as positive by the health insurance market.

The HSE's cyber-attack during 2021 caused massive disruption to insurers' data and this will have ongoing implications for health insurer management during 2022. This was already an area of increasing regulatory focus and this incident has heightened the importance of operational resilience and cybersecurity across not only health insurance but the wider insurance market. As our section on data and cloud below draws a connection between those firms using the technology appropriately and benefiting from higher levels of protection against cyber risks.

International reinsurance

International reinsurers continue to have a strong presence in Dublin writing both life and property and casualty (P&C) business.

The impact of the pandemic on life reinsurers has been greater than their domestic counterparts although the extent depends on the geographic concentration of their risks. Overall, however, the reinsured population has suffered lower mortality than the general population. Looking forward, many reinsurers are aiming to capitalise on the potential for changing market dynamics post the pandemic with greater customer awareness of risk and willingness to share data with (re)insurers through the use of wearable technology.

The global P&C market has continued to harden with global premiums up 18.5% in the first half of 2021[3]. Cyber risk continues to be a growth area globally; however, the market has hardened considerably with more claims being seen.

Across both life and P&C, we have seen reinsurers looking to partner with insurtech firms to a greater extent than direct writers and an ongoing focus on ESG issues.

3. 2022 Insurance Industry Outlook, Deloitte, November 2021

Cross-industry perspectives

In addition to market segment perspectives, there are several cross-industry themes at play both locally and internationally. These include: market consolidation, the regulatory agenda, talent/workforce shifts, customer behaviours and preferences, data and cloud, lean operation opportunities, the wider ESG focus, and tax considerations.

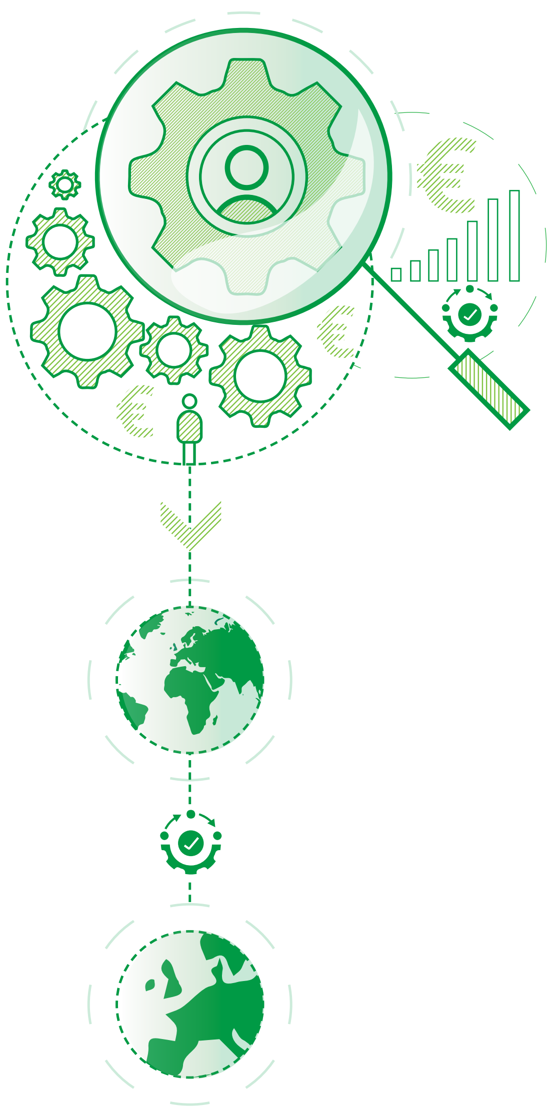
Consolidation in the insurance sector

Over the past 24 months, we have seen the pace of consolidation in the insurance space accelerate, encompassing global insurers and reinsurers as well as smaller, local brokers. Driven by low bond yields, increasing regulation costs and an aim to boost income from premiums, insurers have been trying to grab scale in markets where they may have a chance to boost pricing.

The £7.2bn takeover of RSA by Intact and Tryg, the $4bn acquisition of National General by Allstate Corp, Farmers' acquisition of MetLife's property and casualty unit for just under $4bn and the Allianz acquisition of Westpac's general insurance unit in Australia are just a few examples of mega-mergers which have taken place, demonstrating the trend of insurance companies focusing on the areas where they are strongest and where they will have scale and competitive advantage.

The Irish market has not missed out on the M&A trend with consolidators such as Monument, Athora and Utmost acquiring various insurance books of business. Of note we saw the Phoenix Group seeking to sell both Standard Life International and Ark Life over the first half of 2021, with Great-West Lifeco's Irish Life ultimately agreeing to purchase the Ark Life book and Standard Life International remaining within the Phoenix Group following a subsequent decision not to sell.

In addition, Great-West Lifeco's Canada Life Irish Holding company agreed to form a 50/50 joint venture with AIB to create a life insurance



undertaking which will focus on bancassurance distribution through AIB's bank network from the start of 2023. There were also a number of M&A deals brokered across the international reinsurance market, with SCOR and Covea agreeing to a large life retrocession deal and Covea entering into an agreement to acquire the PartnerRe Group from EXOR at the end of 2021.

We have also seen consolidation at the broker level where we have seen various acquirers attempt to consolidate a fragmented marketplace. Private equity-backed vehicles such as Howden, Arachas/Ardonagh, GRP, Innovu and PIB have been busy adding to their platforms with numerous acquisitions. International players such as Brown & Brown have taken a foothold and we have also seen privately owned brokers acquire competitors to gain scale before then being acquired themselves. While the number of larger independent brokers has reduced as a consequence of this consolidation, we would see their recurring revenues, strong cash flows, and the chance to create scale and thereby negotiate improved positions with insurers as factors which will continue to drive acquisitions during 2022. From the other side, we would see a strong valuation environment encouraging would-be-sellers to entertain their approaches.

Regulatory compliance agenda

Following on from 2021, the regulatory landscape and regulatory change continue to be top of insurance boards' agendas for 2022. We expect that customer outcomes and value for money will continue to be a strong focus for regulators in the insurance sector in Ireland during 2022 on the back of scrutiny paid to differential pricing strategies and the payment of business interruption claims in 2020 and 2021. Another area high on the regulatory agenda for insurers will be building and executing on operational resilience plans in line with regulatory expectations, new regulatory requirements and taking account of lessons learned over the last two years.

> Diversity and inclusion initiatives in 2022 are likely to see a drive towards building more diverse representation on boards, in senior executive positions and within succession plans to achieve committed targets and enhance decision making.

Diversity and inclusion initiatives in 2022 are likely to see a drive towards building more diverse representation on boards, in senior executive positions and within succession plans to achieve committed targets and enhance decision making within firms' governance structures. Any diversity and inclusion initiatives in train will also need to align to SEAR, and Individual Accountability Framework (IAF) implementation is expected to pick up pace in 2022.

Talent and people

Talent is the key to win in a digital insurance industry. As insurers anticipate accelerated growth in 2022, they are boldly investing in technology to further their digital agenda. Although technology has proven to be a game changer during the pandemic, it will never replace the human touch required in a customer-facing industry. This makes sourcing and retaining the right talent one of the biggest challenges insurers will face this year. (It also plays into the lean digital operations agenda which we cover below.)

The increased focus on technology skills will amplify the pressure as insurers will compete for talent against all industries that are undergoing digital transformation. In this competitive market, insurers need to diversify their talent pools and cast a wider net. By adopting hybrid/remote working models, organisations can expand their reach beyond the office location and even look for talent on a global scale. Insurers can up their game further through the open talent market or alternative delivery models by using gig workers, crowdsourcing, contractors, and partnerships to source critical skills.

Expanding the talent scope is only the first step. The real challenge is creating an organisation that the best talent wants to work for. To attract and retain the right talent, organisations need to put their people first and use data-driven insights to design solutions that will meet their unique needs. The good news is that insurers already have the tools to do this. By repurposing their existing skillset of understanding and creating best-in-class customer experiences, organisations can turn the focus to their own people to create workforce experiences that compel people to join, stay and thrive.

Customer and transformation

COVID-19 has emerged as the catalyst for digital transformation. The insurance industry up to now has gotten away, to an extent, with maintaining the status quo. However, customers' expectations have evolved dramatically in recent years. There has been an enforced shift in demand for digital and self-service experiences which has in turn focused the mind of the insurance industry to shore up its digital capabilities.

However, while digitisation is clearly a priority that must be invested in, it can't be at the expense of building and fostering the customer relationship. The reality is that the way customers purchase their insurance is changing. Embedded insurance, for example, combines the convenience and ideal timing of selling insurance at the point of sale. Although it presents a new path of distribution for the incumbent insurer, it also risks the incumbent becoming more and more irrelevant in the customer's eyes. Insurers will have to work hard to use every opportunity to engage with customers in meaningful and personalised ways to maintain the relationship and have the opportunity to fulfil all of the customer's insurance needs. As such, investing in a strategy and architecture that will unlock the power of your data while considering how you bring your marketing, sales, and distributions arms closer together as one integrated journey will be critical in delivering impactful engagements and interactions with your customers.

While the industry is clearly investing in its direct-to-consumer capabilities to regain some balance, the broker relationship remains a critical component to prospecting, sales and service of a large population of the market. Digital broker engagement experiences through CRM platforms and portals should be optimised to improve the efficiency and experience of the engagement for the broker.

The industry is also starting to grapple with employing innovative treatments to drive differentiation in the value proposition beyond just price and coverage. As propositions become more real time and nuanced, and more demands start to heap onto the traditional delivery models and creaking legacy architectures, it will become increasingly more difficult for insurers to deliver such complex and customised experiences on their own and in their current state. Incumbents will be forced to look at new ways to get product to market quickly by establishing alliances and partnerships with strategic targets who can complement the capability set while also reimagining the current technology architecture to be more modular and agile.

Data and cloud

In the Irish insurance market, the pace and scale of digitisation in the industry has yielded larger more complex data sets than ever before. Consequently, efforts to capture, analyse, and extract insight from the data have become correspondingly sophisticated. This, combined with increasing customer demands, means insurance companies will lag behind if they don't act faster to streamline their processes in order to extract valuable insights into customer churn and purchasing behaviours.

Historically, we were seeing an underinvestment in this capability but now with technologies such as cloud offering leaner ways to integrate existing systems in new and innovative ways, we are seeing a major change. It is no longer when, but how fast can we transform; how can we unlock data so we can drive digital engagement and transform the policyholder experience. Those behind their peers are now left with no choice but to make urgent decisions on prioritising value areas such as campaign management, quotes renewal or call centre analytics to use cloud to ingest, store, process and visualise in order to support the scale of customer demands.

We are seeing those that have invested in an appropriate cloud strategy (i.e., they understand security by design and the value of the data platform) are no longer only benefiting from the customer's digital experience. They are also more protected against cyber risk as well as having a more agile response to tougher regulation and policy.

Lean digital operations

For the last five years or more, the focus was on putting digital into the channel. This outside-in perspective worked on one level insofar as it started with, and prioritised, the customer needs and experience. However, where firms struggled is that without the necessary end-to-end simplification and digitisation of the full-service delivery, the roadblocks just move downstream. The end result is inefficiencies, waste, and – ironically – poor customer experience. The take-away for insurers is: for your ambition, re-engineering analogue business processes is not enough.

The ‘insurer of the future’ is cloud- and platform-based, data-rich, multi-channel, and nimble in terms of their workforce and ways of working. They see cloud and automation tools for what they are: enablers of simplification and hence enablers of business growth, rather than simplistic ways of moving workloads to reduce cost. They are flexible and adaptable so as to manage a changing environment and exploit opportunities for growth. They see operational and business agility as a means to provide crisis resilience and competitive edge. To get there requires a complete rethink about process intelligence as a capability, embedded into service operations that drives continuous innovation from customer through front to back office.

Simplification, digitalisation, and automation allow organisations to improve and grow sustainably instead of simply moving workloads around to reach simplistic cost reduction targets. They are both founded on and act as enablers of the intelligence in operations. Simplification, for example, can mean using a purpose-led approach to sustainably disentangle siloed operations to allow true customer centricity. Digitalisation enables the creation and use of the required data across operational and customer processes – in addition to providing an improved customer journey. Finally, intelligent automation (e.g., RPA, process and communication mining, voice and sentiment analysis and ‘conversational’ AI) will bridge the gap between intelligence in the channel and legacy systems. Automation can be seen as an additional layer of intelligence across operations; when used strategically, it can be leveraged in tasks of ever-growing complexity, simultaneously pushing the human workforce up the value chain.

Where does this leave operational staff? Employees liberated from the commute will expect greater flexibility in terms of contracts, and continuous learning will become an expectation on both sides as rapid upskilling is needed. Therefore, in theory, insurers should be able to access increasingly diverse workforces through virtual working (location is de facto no longer a constraint). However, to tap into the extended workforce (STEM, remote or niche talent networks, crowd) will need both investment in digital tools to aid remote working, collaboration, and connectivity but more challenging will be to reboot the culture within insurance to be digital.

As the traditional full-service business model comes under scrutiny, the sector needs to make fundamental choices about ‘where to play’ and ‘how to win’. Then, it must make conscious decisions about which capabilities are core and should be invested in; and where would the enterprise be better serviced in seeking collaboration to leverage strengths and capabilities it does not possess. These partnerships may come from outside the Financial Services sector (e.g., big tech, auto, home and health) especially if firms tilt their business models to capture complimentary or alternative revenue streams. These opportunities may also exist by investing in and collaborating across industry utilities in non-competitive or differentiated services.

Insurers will likely expand their offerings from helping customers simply transfer risk to mitigating, preventing, or recovering more quickly from climate-related catastrophes.

A re-evaluation of offshoring/delivery partnership models in light of delivery disruptions in the crisis is warranted. Insurance has been a flagship sector for the digital entrepreneurs. The much-vaunted insurtech movement has had mixed results to date, mainly in the distribution space. COVID-19 is likely to accelerate innovation and open the doors to new partnerships up and across value chains.

ESG

Insurers, with their often longer-term time horizons, hold a unique position in the climate change debate because, unlike any other sector, climate change risk affects both the asset and liability sides of the insurance balance sheet.

The prospect of extreme climate events will require insurers to develop more dynamic modelling approaches that rely on past loss experience and uncover non-linear effects, including correlations between climate hazards, social impacts and economic activity. Climate-centred insurers will likely offer products that cover climate risk more directly, expanding into other ESG effects.

In addition, insurers will likely expand their offerings from helping customers simply transfer risk to mitigating, preventing, or recovering more quickly from climate-related catastrophes. For example, insurers could offer lower premiums to encourage the use of more resilient construction methods. Following COP26, finance ministers and regulators have clarified and extended their expectations and requirements, signalling a marked shift in the intensity of the work insurance companies must do. Most notably, there is a new regulatory focus on net zero commitments and the scrutiny of transition plans.

In 2022, insurers are expected to incorporate climate risk and the results of climate stress tests into their ORSA, building on work already done in 2021. Supervisors will also begin to examine whether climate risk considerations should also be incorporated into Pillar 1 capital requirements. More generally, industry collaboration will be crucial to navigate the years ahead. The industry needs to think outwards through collaborative initiatives such as ClimateWise, which represents a growing global network of leading insurance industry organisations.

A global tax reset

A global tax reset is taking place as a result of the convergence of OECD tax initiatives, reactive country legislation, increased media attention on tax matters and the increased sharing of information between tax authorities. Insurers across all sectors will continue to face challenges arising from this global tax reset in the near term. Recent years have seen the focus on increased tax transparency via the introduction of country-by-country reporting, enhanced transfer pricing requirements, and a new EU mandatory disclosure regime for certain cross-border arrangements. This has been coupled with significant domestic legislative change in Ireland to comply with EU anti-tax avoidance measures. These changes have seen the introduction of, for instance, controlled foreign company rules, anti-hybrid rules and most recently interest limitation rules in Ireland which

Industry collaboration will be crucial to navigate the years ahead. The industry needs to think outwards through collaborative initiatives such as ClimateWise, which represents a growing global network of leading insurance industry organisations.

also places a significantly increased compliance and administrative burden on insurers.

In addition, the OECD released its pillar two 15% minimum effective tax rate model rules at the end of December 2021, just days before the release of a draft EU Directive seeking to implement these rules in a streamlined fashion across the EU. There remains an ambitious planned effective date of 2023. The same month also saw the publication of a draft directive on EU public country-by-country reporting which may come into force by mid-2024. This would require relevant companies to publicly disclose certain information including the entity's activities, revenue, number of employees and the tax the entity pays.

The level of change in tax matters is unprecedented and continues unabated. There is no doubt that the tax reform agenda will remain a key challenge for insurers in the coming years. Insurers will need to consider the impact these changes will have. Do their internal systems and processes have the capability to manage the enhanced compliance and administrative burden? Can they contend with the commercial and potential reputational implications arising from increased transparency? What is clear is that success for insurers in dealing with increasing tax change in an evolving international environment will depend on developing an ability to respond to new compliance requirements and evolving a business and tax strategy and associated procedures to mitigate risk.

Success for insurers in dealing with increasing tax change in an evolving international environment will depend on developing an ability to respond to new compliance requirements and evolving a business and tax strategy and associated procedures to mitigate risk.

Conclusion

With so many competing forces at play, insurers must decide what opportunities to focus on, in what priority, and adapt their resources accordingly. Despite a temptation to look inwards, they also need to stay mindful of the customer and how best to serve them in an increasingly digital-first world. At the same time, they also need to engage with ESG issues in a meaningful way.

Across the various market segments, customer demand remains strong, which is positive for the industry as a whole. However, some trends that insurers will need to watch closely include rising inflation, pension reforms, and the IFRS 17 reporting standards that will come into effect from next year. Zooming the lens out for a wider view, the industry also needs to stay on top of macro trends. Consolidation looks set to continue, while regulatory change will remain high on the agenda for boards. Talent and technology must also remain top of mind for insurers. Their talent strategies need to ensure both the right mix of skills within their operations and also make them attractive to new recruits. The industry must also transform how it uses technology to serve customers, optimise business processes. Harnessed correctly – and possibly through partnerships – digital technology can give insurers a platform for sustainable business growth. It may also help them to manage and mitigate the effects of the global tax reset, which look set to dominate the industry in the years ahead.

IRISH 2022 OUTLOOK FOR

INVESTMENT MANAGEMENT

- A move forward -

BRIAN FORRESTER
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INVESTMENT MANAGEMENT LEADER
Deloitte Ireland

While I don't want to tempt fate and say that the COVID-19 pandemic is "over", it certainly seems as though we are moving to a new phase of living with the virus. However, as the Investment Management sector looks forward, the impact of the pandemic will be felt for some time, and in no area more so than talent. It is clear that meeting the talent challenge is the number one issue facing most investment management firms today. This is true both at a global level – as we know from our Global Outlook – and local – from our evaluation of the sector in Ireland. Addressing the talent question cannot be looked at in isolation as it feeds into a second key challenge; how to bring efficiencies to business operations and firms' operating models. These issues, along with additional challenges around sustainability and compliance, are set to shape the remainder of 2022.

The talent challenge

We are all familiar with the "great resignation" effect being spoken about after COVID-19. Young people in the market have a level of agency of which their predecessors could never have dreamed , with a choice of places to work. In today's competitive marketplace, finding and retaining talent is a challenge on multiple fronts. Firms need to find interesting ways to recruit staff without adversely affecting their cost base. They also need to provide opportunities that compare with the perks and salaries on offer in fast-moving sectors like technology. Promoting the industry and demonstrating its value to talent is going to be very important.

This report was drafted before the invasion of Ukraine. However, the trends outlined in the following pages still hold true. To understand the potential impact of the invasion on Financial Services specifically, please refer to the foreword at the beginning of our magazine.

Within Ireland, asset management firms aren't just clustered in Dublin. They're also established in other parts of the country such as in Cork, which can appeal to people who want to move back to where they grew up. So, one option for firms to attract new staff or keep the existing workforce is to offer either hybrid or fully remote working options. Interestingly, our Global Outlook found that almost three-quarters of respondents indicated their firm is likely to adopt either a 'majority back as soon as possible' or a 'highly flexible' strategy. Irish firms need to decide how they want their workforce to look in up to five years' time and communicate their policies when recruiting.

Another aspect of the talent challenge that firms must address is keeping asset management exciting enough that the best people want to work in it. This speaks to a firm's culture: today's workforce doesn't just want a job; they want their employer's values to align with their own. This is an excellent opportunity for asset management firms to highlight the good they do for the broader community and sell the concept of custodianship. The work of investment managers underpins people's pension savings; individuals have trusted these firms to protect, nurture and grow their clients' assets and wealth to allow them to achieve their lifestyles into their retirement years. If firms can draw a connection to the value they provide, this could be an important lever in their talent strategy. As our Global Outlook shows, however, only 62% of talent believes the workforce is aligned with the organisation's sense of purpose.

KEY TAKEAWAY

One option to attract new staff or to retain the existing workforce is to offer either hybrid or fully remote working options and communicate these policies when recruiting.

If firms can draw a connection to the value they provide, this could be an important lever in their talent strategy.

The operational challenge

If the first challenge facing firms is talent, the follow-on is for them to operate as efficiently and cost-effectively as possible. Both challenges are directly connected, because firms need to ask what kind of experience they're delivering for their talent. This means asking fundamental questions such as: what work do we want our people to do? Is our key talent spending most of its time on interesting, value-added work? Are administrative tasks assigned to people who want to do them, or are they outsourced to third parties? If firms choose the latter option, this frees their key talent to focus on the more interesting value-added work. As our Global Outlook shows, 95% of firms are planning structural changes across their front-office, middle-office or back-office functions over the next 12-18 months. The global picture also points to transforming operations, with some firms partnering with external providers in order to advance their own digital transformation efforts.

Overall, net spending on emerging technology is expected to increase over the same period.

The four primary areas identified in our Global Outlook survey are: cloud computing and storage; cybersecurity; artificial intelligence; and robotic process automation. As the Outlook notes, cloud and security investment both address the issue of new working models such as flexible and remote working. At a global level, digital adoption is an increasingly important source of competitive advantage. Our previous research identified tangible differences between leaders on data and technology and laggards, including increased organic growth, longer client retention, and improved investment performance.

Our work in Ireland has identified that digital technology adoption serves three primary goals: enhancing the investment decision-making process, increasing operational efficiency, and improving client experience.

First, firms need to address three barriers to adoption: strategy, people, and resourcing. A lack of clarity on how digital technologies enable the business strategy as well as inconsistent execution of strategy are both creating uncertainty for digital initiatives. The second barrier, people, refers to cultural issues such as resistance to change, an underestimation of the shift in mind-set and ways of working required and skills gaps. Thirdly, resourcing is the perennial issue of finite resources for digital initiatives given competing priorities.

Yet managers have powerful tools to overcome these three barriers. For strategy, managers firstly need a clear vison, objectives, and commitment to actioning them. Secondly, they should articulate to internal audiences how digital technologies will drive competitive advantage. Thirdly, they need to empower digital leadership to drive the development and execution of business strategy.

For the people challenge, managers require a holistic approach that encompasses the human, physical, digital and organisational environments. They can do this by building an enterprise-wide culture of innovation. This hinges on reskilling, attracting new talent and optimising the talent model. To mitigate resourcing barriers, managers need a consistent approach to allocating capital between competing digital and non-digital initiatives, one which prioritises value. They should rethink prioritisation, using a starting point of a framework to allocate capital to digital and non-digital initiatives, with a focus on value as well as cost and risk.

Overall, we would advise clients to understand what they want to achieve, and not just buy the latest technology for its own sake. This should involve asking questions such as: is your technology investment aimed at driving down cost or creating a better environment for your talent? Is the goal to create richer data for your clients? Is your intention to increase returns through better decision making? Clearly, there are tangible benefits to each of these three areas, but it's essential to have an overarching strategy that takes account of the interdependencies between each one. For example, if the focus is on delivering an enhanced client experience, you will need to consider what that means for staff.

> Digital adoption is an increasingly important source of competitive advantage, [but] first firms need to address three barriers: strategy, people, and resourcing.

KEY TAKEAWAY

With spending on emerging technology such as AI and Cloud expected to increase, firms should firstly consider and understand what they want to achieve with this new technology before investing in it.

> Investment management firms can be ultimately advocates of change. They have a presence in boardrooms and they can help to drive the sustainability agenda […] because the capital they invest is a powerful factor in influencing change.

The sustainability challenge
Sustainability is now an issue that concerns us all and for many businesses, this principally involves setting goals to increase their own energy efficiency and reduce their carbon emissions. The investment management sector is quite unique in that it needs to pursue these environmental, social, and governance (ESG) goals too, but it's also incumbent on firms to invest responsibly in sustainable funds. To do this, they must give confidence to investors and regulators around their chosen ESG funds.

The SFDR (Sustainable Finance Disclosure Regulation) came into effect in March 2021, and it's intended to compel asset managers to disclose how they meet various sustainability objectives. This is designed to avoid 'greenwashing', where funds would attract investors based on sustainability claims, but without a framework for assessing how valid those claims were.

This is an important issue for asset management firms, because if they want to attract investors, particularly younger investors, they have to comply with the new taxonomy, and be transparent about their chosen funds, with regulators reviewing compliance. If a manager is found to sell a fund that claims to be green but that doesn't meet the criteria, it will face consequences. The corollary of this is that investment management firms can be ultimately advocates of change. They have a presence in boardrooms and with C-suite executives at companies and they can help to drive the sustainability agenda. This combines compliance and advocacy, because the capital they invest is a powerful factor in influencing change. Firms that take a proactive stance and invest in companies that do the right thing for the environment is a statement of values that firms can communicate to make them more attractive to clients and, as we have referred to above, to talent as well.

For firms looking to pursue an ESG strategy, we advise a four-stage process:

1 Governance

- Develop new risk structures - or build on existing ones - to equip the organisation with ESG oversight

2 Frameworks

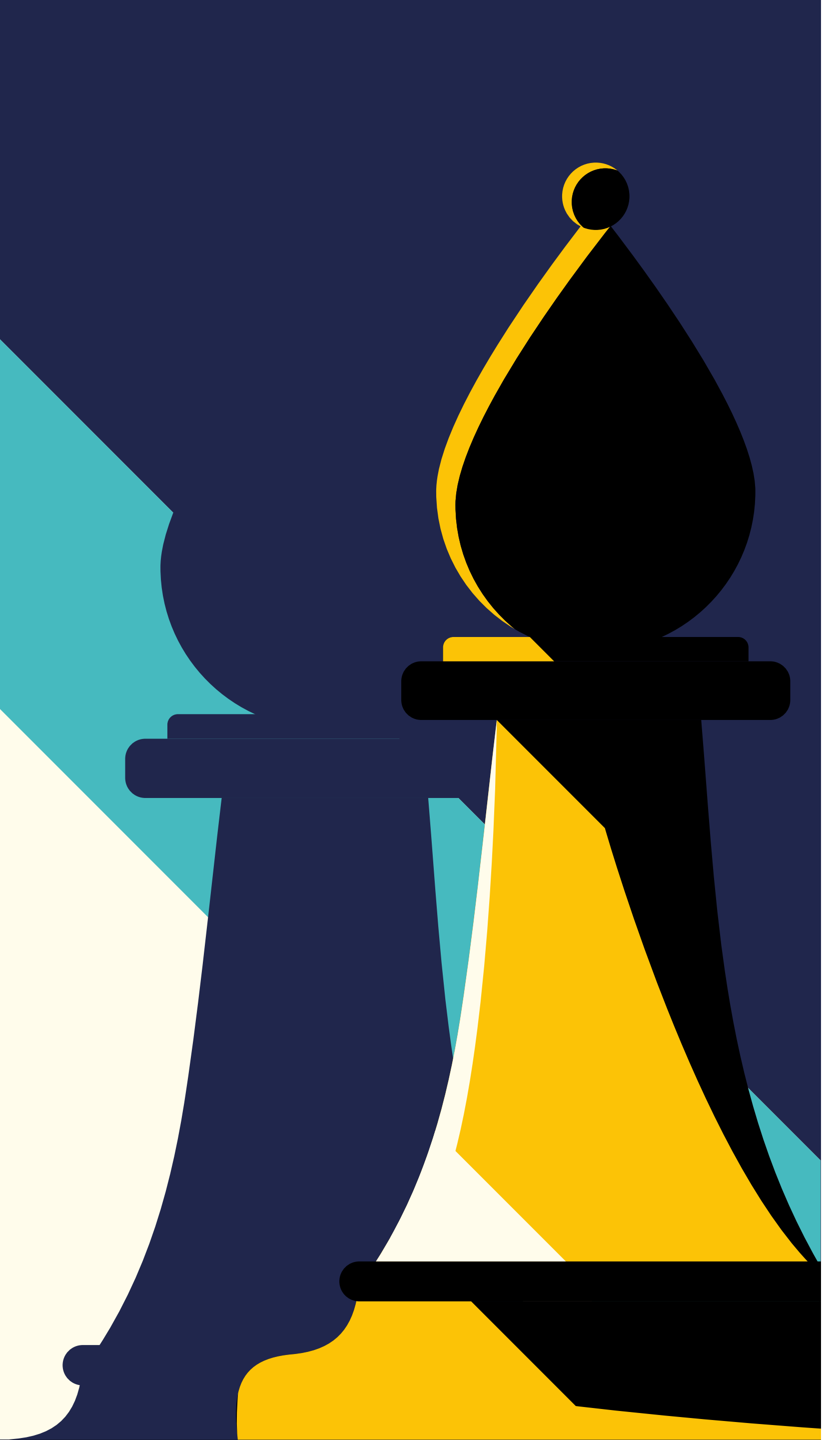
- Identify which frameworks are best suited for the business
- This can help determine KPIs, metrics and objectives

3 Strategy

- Define and bring the sustainability strategy to life
- Integrate ESG issues and consider steering portfolios
- Climate scenarios analysis can actively support risk mitigation planning

4 ESG Integration

- Innovation can be catalysed by adjusting or expanding the product offering
- Counterparty engagement can help reframe business models
- Embedding ESG into operations can enable a more resilient business
- Capital can be reallocated to drive greater impact



The regulatory challenge

In the Irish market, we expect to see more developments from CP86, the fund management effectiveness framework. One of the outcomes of Brexit has been the number of asset management firms locating in Ireland because they need to maintain a presence in the EU. The Central Bank of Ireland has looked closely at those new and existing organisations' operating frameworks and governance structures and CP86 is its tool to make sure that the substance and governance of those firms is where it should be. This links to the operational efficiency drive we covered above. We expect 2022 will be very interesting because the Central Bank will undertake a review of how local firms have implemented the regime and that is likely to drive additional change. It will be interesting to see whether firms have indeed implemented it. The Central Bank has already indicated its plans to review firms' approaches to CP86 during the year and we wait to see how they have risen to the challenge and implemented the regulation in a way that satisfies the Central Bank.

Conclusion

In closing, we see a massive opportunity for the asset management sector globally and locally. The amount of Irish assets under management is higher than it's ever been. This is an exciting, dynamic and global business, and still a young business. If the past two years were tempered with managing the effects of COVID-19 and Brexit, this year it's about coming out of that period with record assets, having dealt with the short-term challenges of running the business.

Now, firms need to clarify their messaging to staff and to the public about doing things differently, whether that is in the products they provide, how they operate, or their ESG efforts. Their strategy must set out a plan for how to help others put their capital to use and do so in a way that shows the value to staff, clients and society as a whole.

For our Global perspective, read our [2022 Global Investment Management Outlook]

IRISH 2022 OUTLOOK FOR

REAL ESTATE

- Gaining ground -

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The overall outlook for the real estate market in 2022 is favourable, on the back of a particularly active fourth quarter in 2021. Several factors are driving this optimistic outlook, despite the turbulence wrought by COVID-19:

1. **The economy is performing strongly**, with the latest Central Bank bulletin forecasting 8.7% growth for this year.

2. **The level of foreign direct investment in Ireland continued to rise in 2021**, with the highest number of jobs created in a single year. This strong level of FDI is expected to continue into 2022.

3. **The infrastructure deficit in residential housing remains a key social, political and economic issue.** Under the widely publicised Housing for All plan, Ireland needs an average of 33,000 homes constructed per annum until 2030 to meet targets set out for additional households, as outlined in the National Planning Framework. Supply must therefore continue to increase off current rates of completion, with just over 20,000 units delivered in 2021.

4. **There is an unprecedented level of capital to be deployed** as a direct result of the Central Bank's COVID-19 response stimulus packages. **Ireland is seen as an attractive economy in which to invest**, and it is important that policy makers ensure that this remains the case.

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However, there are challenges:

1 **Cost inflation in the construction sector increased by 7% nationally during the first half of last year.** Viability of projects will be a key feature of 2022 as we anticipate this trend to continue through the year.

2 **Policy changes**, including the changes to stamp duty, **have yet to be fully experienced**, with institutional investors likely to be most impacted (in the event of a purchase of 10 or more units) by increased stamp duty rates of 10%. How this will be received, how it will be incorporated into acquisition pricing, and what the impact will be on end pricing all remain to be seen.

6 **Continued uncertainty in respect of planning risk on high density development projects.** This uncertainty is driven by both government intervention and wider reform within the planning systems.

3 **The Draft Dublin City Development Plan 2022 - 2028** sets out policies and objectives to guide how and where development will take place in the city over the lifetime of the plan. **This has not been finalised and may present a challenge with a degree of uncertainty around some land use zoning.**

5 The **Land Value Sharing and Urban Development Zones Bill 2021** is a key part of the government's Housing for All plan, allowing local authorities to secure a proportion of the increase in land values arising from public decisions and **permitting them to designate Urban Development Zones which have potential for significant development for housing and other purposes, adding a layer of additional risk from a development perspective.** The Residential Zoned Land Tax introduced a 3% annual tax on the market value of certain specified lands, which is likely to impact up to 9,000 ha of land in Ireland.

4

Monetary policy changes in 2022 such as rising interest rates and the Central Bank's tapering off of COVID-19 liquidity measures **will impact on the availability and pricing of capital.**

7

The delivery of planning permissions through the Strategic Housing Developments (SHD) process has been severely curtailed in recent times with a significant number of SHD planning approvals being **quashed or stalled through judicial reviews**. On top of the delay caused by this action, the vast majority of judicial reviews are successful, resulting in the permission being quashed and applicants forced to start the SHD process again. The Large-scale Residential Development (LRD) Bill 2021 has now replaced the SHD process, which will shift the control of planning decisions back to the local authorities, hopefully providing more clarity and certainty on delivery. However, many of the existing SHD applications will continue to operate well into 2022 for those applicants who were in the system prior to the commencement of the LRD arrangements, and so this challenge remains prevalent.

Commercial property

The office sector had a very strong finish to 2021, with 40% of all office transactions taking place in Q4, partly due to the completion of sites that had been delayed due to COVID-19 closures. The level of demand was very strong with 300,000m² of requirements in the last quarter of the year, and an overall vacancy rate of just 8.5%. We expect this strong demand to continue into 2022.

The strong take up of office space indicates that most employers still see offices as an essential part of the work experience and environment.

From discussions with our developer clients, it's interesting to observe that the overall office space that companies are seeking has remained much the same as pre-COVID-19, with only some small decreases. What has changed is the office configuration, with much more of a trend towards open plan, with meeting and collaboration spaces.

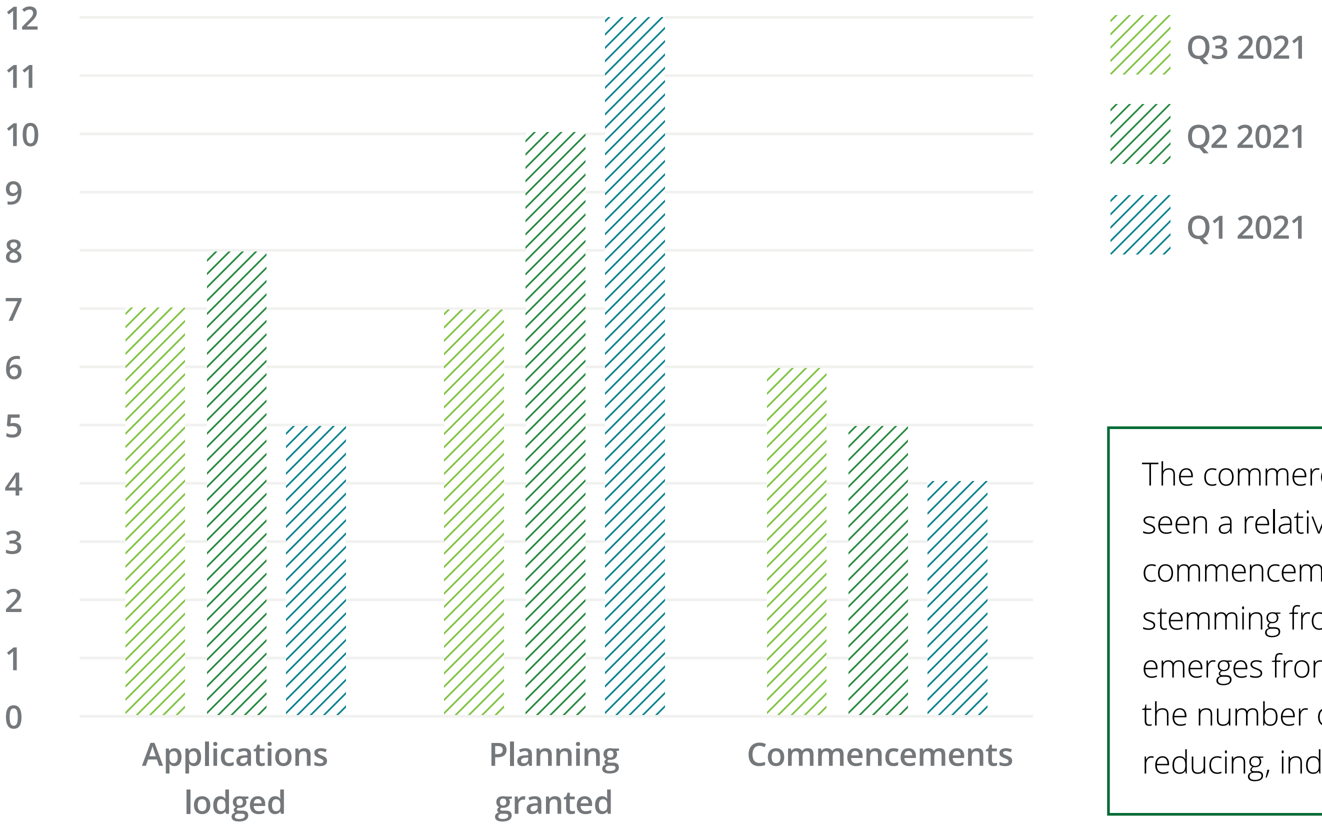
Hybrid working is here to stay, but offices are still required, and are key to enabling firms to engage with colleagues and clients.

It is anticipated that rents and yields will therefore remain stable into 2022. From a development funding perspective, there is not a lot of appetite for speculative office projects. Developments tend to be pre-let, which de-risks the project and allows for appropriate capital to be deployed.

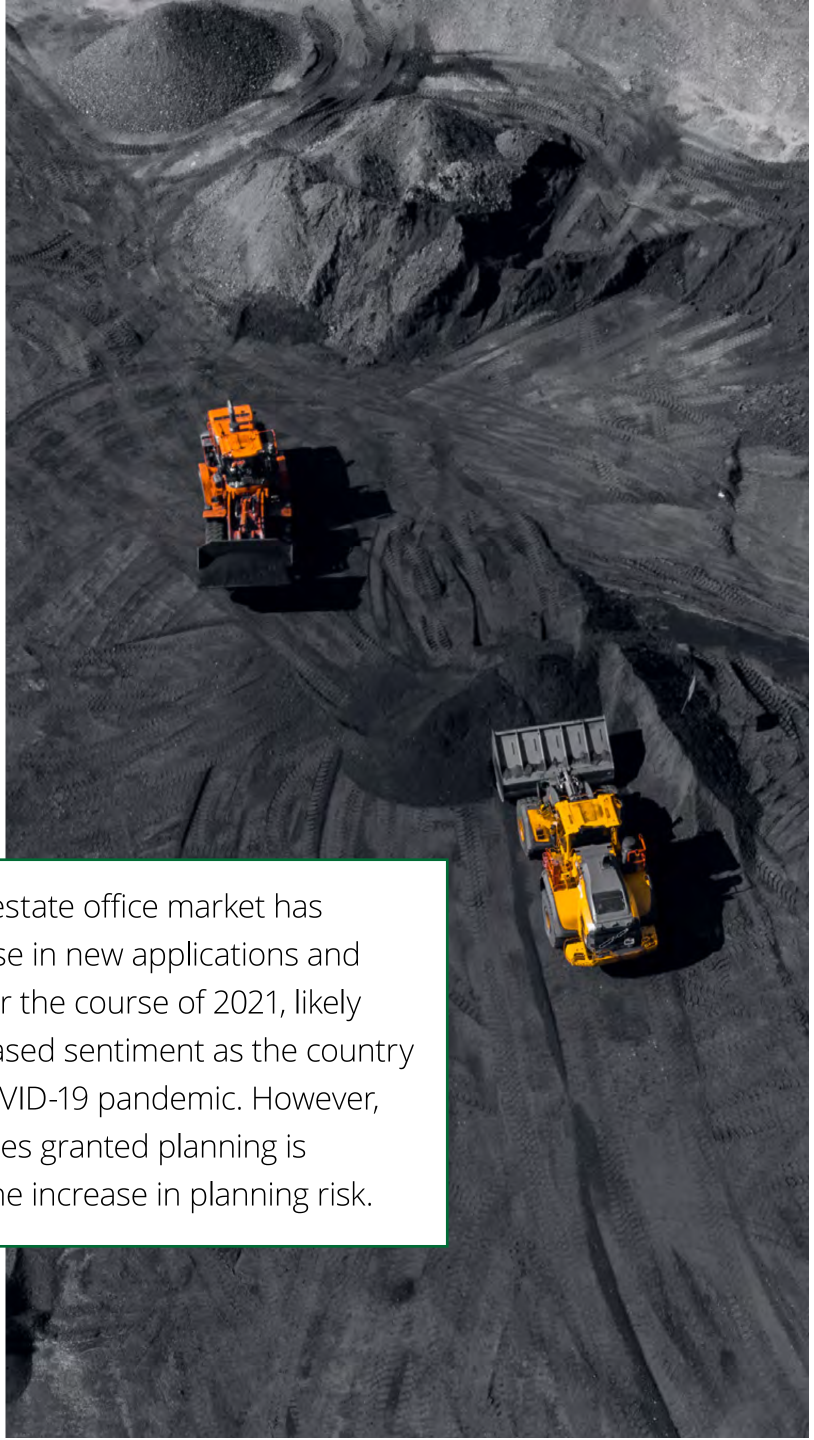
KEY TAKEAWAY

With an overall vacancy rate of just 8.5%, the demand for offices remains strong, making them a reliable investment – provided that they include plenty of meeting and collaboration space.

Office scheme development (10,000 sq ft +)
Quarterly comparison (number of units)



Source: Deloitte Planning and Development Statistics Q4, 2021.



The commercial real estate office market has seen a relative increase in new applications and commencements over the course of 2021, likely stemming from increased sentiment as the country emerges from the COVID-19 pandemic. However, the number of schemes granted planning is reducing, indicating the increase in planning risk.

Retail

The greatest levels of stress in the real estate market are to be found in high street retail. By now, it's well understood that COVID-19 accelerated the existing trend towards online shopping, and the past few years have seen the demise of some high-profile names, such as Debenhams. Community shopping centres and retail parks have performed stronger than high street stores, and we expect this to continue into 2022.

The key challenge for the high street is that the strength of the covenants and lease terms have changed significantly. We have seen a change in the types of leases available in high street retail, with tenant-friendly terms such as short-term deals, increased rent-free incentives and more regular break options. This sector is becoming increasingly more challenged as the successful performance of retail assets requires more pro-active asset management and strategic direction to attract and retain tenants. This has had a significant impact, reducing the value of bricks-and-mortar retail as an asset class, making it difficult to leverage and consequently hard to make equity returns from.

> The key challenge for the high street is that the strength of the covenants and lease terms have changed significantly [...] making it difficult to leverage and consequently hard to make equity returns from.

KEY TAKEAWAY

Highly pro-active asset management and strategic direction to attract and retain tenants are needed for the high street to successfully perform going forward.

Logistics has become a strong asset class due to an undersupply in the Irish market.

Industrial and logistics

The industrial and logistics sector is almost a counterbalance to the reduction in physical retail due to the move to online. Logistics has become a strong asset class, with good levels of yield compression and substantial capital (in excess of €1 billion) looking to invest in these industrial and logistics assets in 2022. There is an undersupply in the Irish market, so existing logistics developments are attracting strong valuations. There is strong demand and low vacancy levels for new buildings in or near large population areas such as Cork, Dublin, Limerick and Galway. By the end of Q3 last year, there was a 20% reduction in available space.

Data centres

The major data centre operators in Ireland, such as Microsoft, Google, and Meta (Facebook's parent company) continue to expand and see Ireland as a significant player in the sector. Looking beyond this year, the previous rate of expansion is likely to be hindered by several restricting factors. Recent reports have laid the blame for increased pressure on the electricity grid at the door of data centres. With the Irish government's plans for upgrading the power grid as part of the Planning and Development (Climate Emergency Measures) (Amendment) Bill 2021, there looks set to be a pause on data centre development around the Dublin metropolitan area. This could deflate the market if data centre operators simply look to other markets for new projects rather than locating them in other parts of Ireland.

Hospitality

Government supports have helped to shelter the hospitality sector, particularly hotels, from the worst impact of COVID-19. Resort hotels have done particularly well due to a very high level of domestic demand. However, for city hotels to return to pre-pandemic levels, corporate travel and events need to return. However, despite the challenges for hospitality over the last two years, we are seeing hotel values holding up well as investors predict high levels of post COVID-19 spending.

While we expect the hospitality sector to recover reasonably quickly, we are seeing across Europe that when government supports come away, there have been business failures and stressed sales.

Again, cost inflation is probably the biggest risk for this sector post COVID-19. To secure labour, wage inflation will definitely have a big impact, as will utility costs. So, although we will see a recovery in demand and hopefully international travel will pick up, will profitability recover to the same extent? Even if we get back to 2019 levels of occupancy, rates will need to increase to compensate for higher costs.

KEY TAKEAWAY

While the hospitality sector is expected to recover relatively quickly, profitability will depend on rate increases to counteract cost inflation.

Residential

Supply remains the key issue in this sector. Increasing supply into the residential market quickly is challenging, particularly in an environment of high-cost inflation creating viability issues for high-density housing schemes. However, there are a number of areas such as planning and connection to services that, if addressed, could significantly help to increase supply and reduce funding costs, thereby improving viability.

Our planning system, as currently configured, is seen by investors as unnecessarily complicated and risky. This forces the cost of capital to go up. The recent judicial reviews of high-density planning permissions has amplified this risk profile. Given this high level of uncertainty in relation to high-density schemes, we are seeing developers holding off on submitting planning applications until they have better visibility on the planning process. The planning application process is expensive and is predominantly funded by equity, so an unsuccessful application is a drain on the developer's resources. This will result in further delays to the delivery of supply.

In a bid to address this, the government's Planning and Development (Amendment) (Large-scale Residential Development) Bill 2021 replaces Strategic Housing Developments (SHD) with a new planning process for Large Scale Residential Developments (LRDs) and restores decision-making power for planning to local authorities. The government says this will expedite the delivery of housing supply while also providing certainty and stability to the construction sector by retaining some of the positive elements of the SHD arrangements. Coupled with changes to the Part V regulations and the government's Land Value Sharing and Urban Development Zones Bill initiative, it will be interesting to see what effect this has on the market in the year ahead.

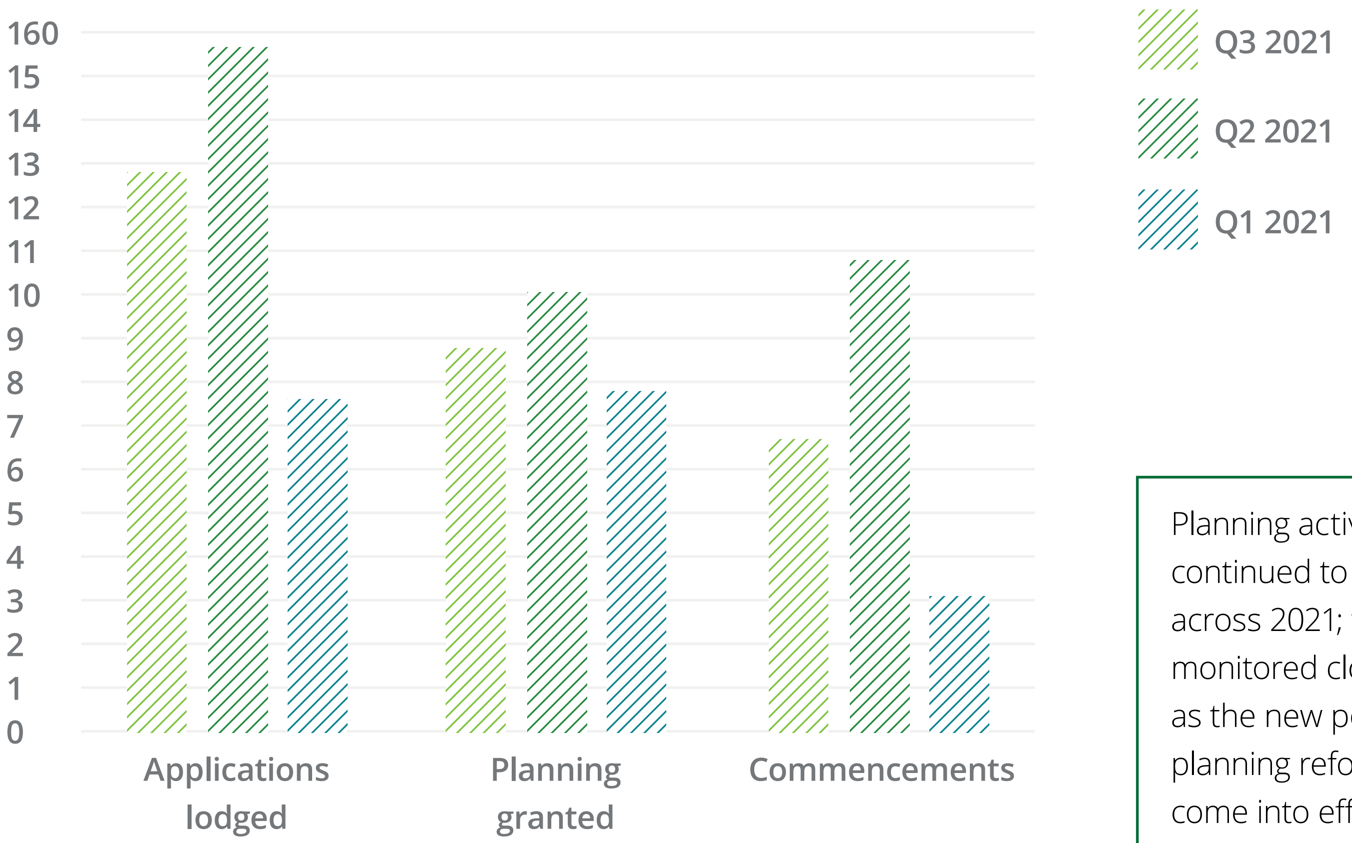
Last year, the government changed stamp duty rules so that institutions buying 10 or more residential units in a 12-month period would be subject to a 10% levy. Clearly it is important that housing stock is delivered to the home buyer market. However, it is essential that measures taken do not push institutional buyers out of segments of the market that are not viable on a build-to-sell basis. If this is to happen it will result in a further reduction in supply.

KEY TAKEAWAY

The supply of residential housing remains a pivotal issue – but measures to increase it must be carefully managed to ensure viability of stock and to avoid further reductions.

Residential development (20 units +)

Quarterly comparison (number of units)



Planning activity has continued to fluctuate across 2021; this will be monitored closely in 2022 as the new policies and planning reformations come into effect.

Source: Deloitte Planning and Development Statistics Q4, 2021.

Residential development (20 units +)
Quarterly comparison (number of units)

	2021 Q3	2021 Q2	2021 Q1
Applications submitted	**130** schemes **16,222** units	**159** schemes **13,967** units	**77** schemes **9,612** units
Granted planning	**89** schemes **18,993** units	**102** schemes **11,438** units	**70** schemes **8,078** units
Commencement notices lodged	**67** schemes **6,883** units	**109** schemes **10,999** units	**32** schemes **1,764** units

Conclusion

As we look out at the year ahead, with the economy opening again after COVID-19, there is a significant amount of capital out there seeking viable projects. We anticipate a continuation of the high levels of activity we saw towards the end of 2021.

Further out, we will have to wait to see what impacts the withdrawal of government supports, rising interest rates, and the Central Bank's tapering of liquidity measures will have on the availability of capital, but the impact of that is likely to be beyond 2022.

For our Global perspective, read our **2022 Commercial Real Estate Outlook**.

STANDING GUARD

IN CONVERSATION WITH DERVILLE ROWLAND

DERVILLE ROWLAND
DIRECTOR GENERAL
Central Bank of Ireland

Ireland's financial services regulator's wide remit must constantly adapt to new developments. This interview touches on consumers, change, culture, competition and crypto, along with the imperative to balance innovation and risk.

WE UNDERSTAND THAT A NUMBER OF MATERIAL CHANGES ARE PLANNED FOR THE CPC OVER 2022. COULD YOU SHARE ANY OF THE KEY CHANGES THAT ARE PROPOSED?

One of the legacies of the pandemic is likely to be the acceleration of changes that were already underway in financial services. Our recently published strategy was developed against this background of change and our Consumer Protection Code review proposals will also be framed with this in mind. We are conscious that change at an accelerated pace can lead to new trends and risks emerging, which means it is right that we review and update the existing code now to ensure that it continues to deliver strong protections for consumers and investors into the future. Our objective is to create the regulatory context in which the potential benefits of innovation for consumers, businesses and society can be realised, while the risks are effectively managed.

The review will consider the evolution of the code since it was introduced in 2006. We will reflect on the significant impact of developments in EU consumer protection legislation in this period. Our proposals will take account of the changes we are seeing through the impact of technology and digitalisation on financial services. It will also have a strong focus on other areas where we continue to see issues arising, or where more could potentially be done to better protect consumers. This includes how information is provided to consumers, and considerations about making it as clear and useful as possible, both in terms of content and delivery. We will also set further requirements on how firms can better address vulnerability among consumers and investors.

We are planning extensive engagement around our proposals, which will likely begin with a discussion paper to start a broad discussion on the issues affecting consumers towards mid-year. This will also be a central topic at our first Financial Services Conference which we will hold in the second half of the year.

STICKING TO THE THEME OF CONSUMER CENTRICITY AND FOCUSING ON THE INSURANCE SECTOR, THE IMPACT OF THE FINDINGS FROM THE FINAL REPORT ON THE DIFFERENTIAL PRICING REVIEW ARE SURE TO BE TOP OF MIND FOR MANY INSURANCE COMPANY EXECUTIVES. IN ADDITION TO THE CHANGES PROPOSED IN THE CONSULTATION PAPER, HOW IS THE SUPERVISION OF CUSTOMER OUTCOMES, VALUE FOR MONEY, CULTURE AND PRICING STRATEGIES GOING TO CHANGE IN INSURANCE GOING FORWARD?

The insurance sector has been a key focus of our conduct work in recent years, particularly around the issues of business interruption insurance and differential pricing. Our differential pricing review detailed the widespread practices which took advantage of consumer loyalty and resulted in some consumers being charged more for their policies on renewal. We consulted on a series of new measures to ban this practice, as we believe that these practices are unfair to consumers.

> It is clear from our work that cultural weaknesses [in the insurance sector] continue to persist and more work is needed by firms to address the challenges and reputational issues identified.

We will be introducing new requirements for insurance providers from July this year, which will end these practices. We expect firms to take the necessary measures to adjust their pricing models by the July deadline. The measures will apply to personal consumers of home and private motor insurance because the harm that we have identified is most evident in these areas. It will include insurance cover for personal vehicles such as motorbikes, and campervans; motor products sold to a sole trader, such as a plumber or florist, where they use a van or 'light commercial vehicle'; and home insurance that relates to a holiday home, a buy to let property or a mobile home – as distinct from commercial property.

Given many of the issues we identified through our work on business interruption insurance and differential pricing were grounded in culture and customer outcomes, our work this year will have a particular focus on culture in the insurance sector. It is clear from our work that cultural weaknesses persits and more work is needed to address the challenges and reputational issues identified.

COMPETITION IS A HEALTHY FEATURE OF A CUSTOMER-FRIENDLY FINANCIAL SERVICES ECONOMY – HOW WILL THE CBI MONITOR THE CONSUMER ISSUES POTENTIALLY EMANATING FROM THE LOSS OF TWO LARGE RETAIL BANKS FROM THE IRISH ECOSYSTEM?

The changes and consolidation underway in the banking environment are challenging for consumers. We are particularly conscious that an increasingly concentrated traditional banking sector reduces choice for consumers. However we are also seeing an evolution in how banking and financial services are being delivered and we expect to see new services and providers emerge over the coming years.

Through this period of change, we have set clear expectations of the retail banks, in how they are preparing, engaging and ensuring that their customers are being treated fairly, in compliance with both the letter and spirit of regulatory requirements.

In June 2021, the Central Bank wrote to the main retail banks in Ireland to set out our expectations and the importance of considering consumers' interests in decision-making during this period. We will be closely monitoring banks' compliance with our expectations through ongoing supervisory engagement and review, as demonstrated in our recent review of the [retail banks' customer support phone lines].

ARE THERE LONG-TERM CONDUCT RISK ISSUES LIKELY TO EMERGE OVER THE COMING YEAR FROM FINANCIAL SERVICES FIRMS' TREATMENT OF THE CUSTOMER DURING THE COVID-19 PANDEMIC? DO YOU BELIEVE NEW CATEGORIES OF VULNERABLE CUSTOMERS WILL REMAIN, IN THE POST-PANDEMIC WORLD?

In recent years we have acted on a number of emerging risks notably in the banking and insurance sectors, to address specific vulnerabilities which arose for consumers. The rapidly changing financial environment means that new threats are emerging. We have seen evidence of this in the increased risk of exposure to scams and fraud, with evidence that certain crimes are specifically targeting vulnerable people. In our work on differential pricing, we saw the potential for advances in data analysis, digital technology and modelling techniques to take advantage of behavioural vulnerability, increasing the risk of unfair outcomes for some consumers.

Our annual assessments of the key cross-sectoral risks for consumers consistently highlight issues around unfair practices and behavioural vulnerability. It will be a central issue for consideration in our review of the Consumer Protection Code, which will consider further requirements on how firms can better address vulnerability among consumers. We expect firms to take action to prevent unfair practices that knowingly take advantage of consumers' behaviours and habits. They must avoid behaviour and practices that unfairly take advantage of consumers' behavioural biases, and operate in a fair and transparent manner. This includes having an effective and consumer-focused culture in relation to pricing decisions and practices; supporting consumers and investors in making good financial decisions and providing choice; and having strong internal governance arrangements focused on ensuring transparency, accuracy, and robustness.

HOW IS THE CBI PREPARING ITSELF FOR THE UPCOMING REGULATION OF CRYPTO-ASSET PROVIDERS IN 2024?

The Markets in Crypto Assets (MiCA) proposal from the European Commission is intended to address the risks to consumer protection and market integrity from crypto assets along with specific risks to financial stability and monetary policy. We are continuing to build our engagement and knowledge of this sector, in particular through the authorisation process for Virtual Asset Service Providers (VASPs). We have seen significant interest from VASPs in seeking authorisation from the Central Bank, in line with AML requirements, which suggests that interest from Crypto Asset Service Providers (CASPs) under MiCA will be high.

MiCA will introduce a range of additional regulatory and supervisory roles and responsibilities for the Central Bank including authorising and supervising CASPs, issuers of Asset Referenced Tokens (ARTs, previously known as multi-currency stablecoins) and E-Money Tokens (EMTs, previously known as single currency stablecoins).

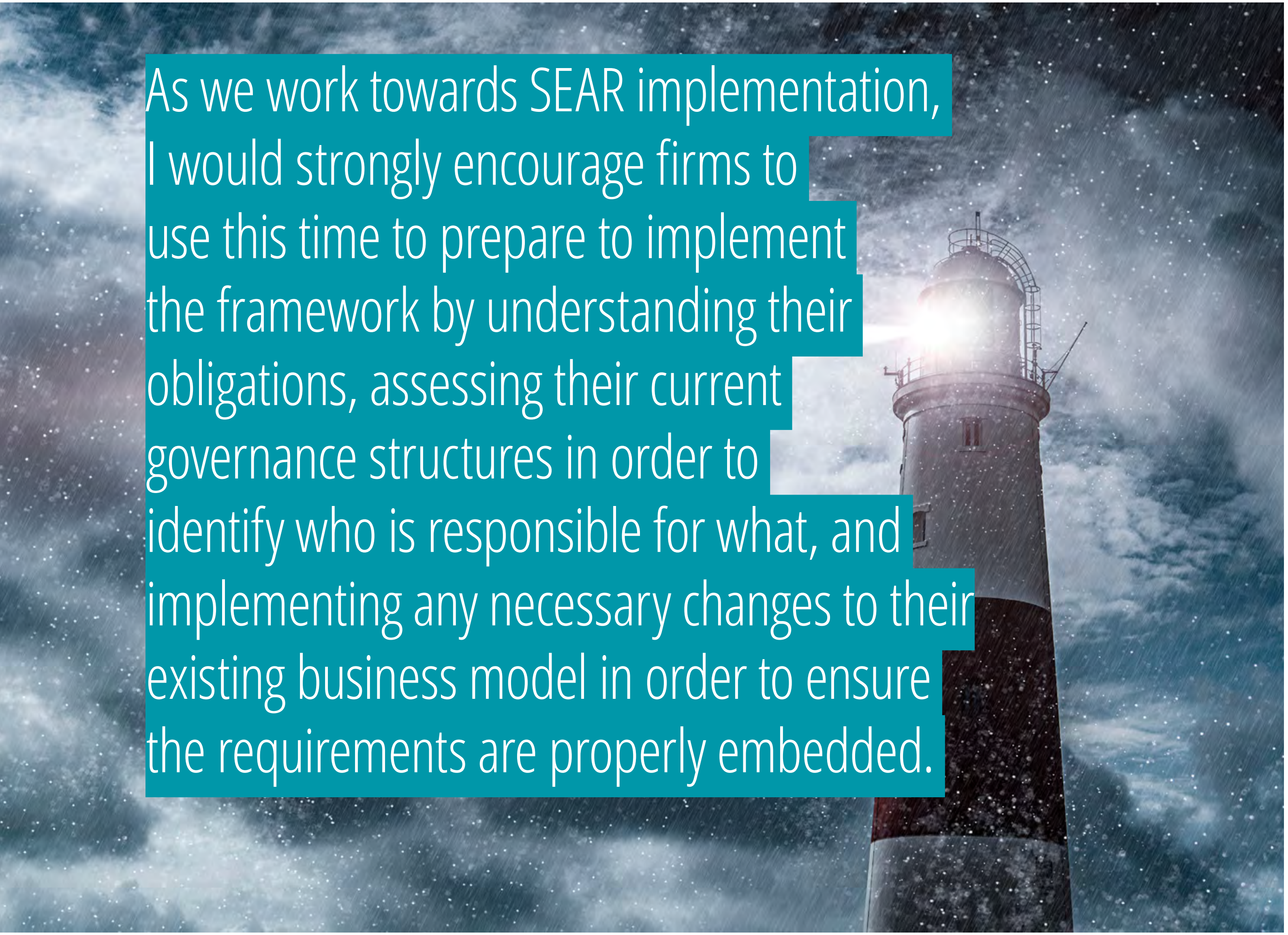
To support this transition, we are currently focused on supporting the conclusion of the MiCA negotiations. We are also undertaking active market monitoring and intelligence building and we have begun to plan for the operationalisation of MiCA within the Bank.

IT IS FAIR TO SAY THE WHOLESALE BANKING AND INVESTMENT FIRMS HAVE COME UNDER MUCH SCRUTINY BY REGULATORS OF LATE THROUGH CHANGES AND REVIEWS RELATING TO WHOLESALE CONDUCT RISK, LIBOR AND MARKET ABUSE. IS THIS LEVEL OF ENGAGEMENT WITH THE WHOLESALE SECTOR LIKELY TO CONTINUE INTO THE FUTURE AND IS THE CBI GENERALLY SATISFIED WITH THE LEVELS OF RESPONSIVENESS TO DEAR CEO LETTERS ISSUED ON THESE TOPICS?

At this point, it is too soon to assess the industry wide impact of the specific messages in the 'Dear CEO' letters. One reason for that is many firms are in the process of mitigating risks identified as part of the Market Abuse thematic reviews. However, we remain concerned that some investment firms have a low 'or almost non-existent' level of reporting of suspected market abuse that is inconsistent with the size of their activity and footprint in European securities markets.

Specifically, much more can be done at trading venues, asset managers and proprietary trading firms to identify and report activity that is suspicious and possibly indicative of market abuse.

It is likely that the recent trend to a more intrusive level of supervision of conduct, market abuse and activity-based risks at investment firms and wholesale banks will persist, at the very least to a point where we are satisfied that the governance,



As we work towards SEAR implementation, I would strongly encourage firms to use this time to prepare to implement the framework by understanding their obligations, assessing their current governance structures in order to identify who is responsible for what, and implementing any necessary changes to their existing business model in order to ensure the requirements are properly embedded.

systems and controls of those firms who interact with securities markets and end-clients pose much lower levels of risk to those markets. In our recently published Securities Markets Risk Outlook Report, we have set out the key conduct risks to securities markets that we see in the year ahead and a programme of intrusive supervisory activity will be undertaken to mitigate these risks.

HOW IS THE CBI PREPARING ITSELF FOR SEAR GO-LIVE AND WHAT IS ITS ANTICIPATED TIMELINE FOR FULL IMPLEMENTATION?

We continue to engage with the Department of Finance as the Bill moves through the legislative process, and are liaising with industry representative bodies. Subject to the legislative process, we expect that the Bill will be enacted into law in the months ahead. We have been working in parallel on the regulations and guidance which will complete the new framework. It is our intention to publish the proposed Central Bank regulations for consultation shortly after the finalisation of the legislation.

We will consult on the operationalisation of the IAF Framework, particularly in the context of the SEAR providing a regulation-making power, which allows us to impose obligations on regulated financial service providers (RFSPs), or designated classes of RFSPs, with respect to the establishment, management, monitoring and reporting of governance and management arrangements of RFSPs. This will include provisions allowing the Central Bank to provide for inherent, prescribed and other responsibilities for persons in senior executive functions (SEFs), statements of responsibilities for SEFs, and management responsibility maps for in-scope RFSPs.

The framework is fundamentally about underpinning good conduct and high-quality governance and culture within firms. It is about being clear who is responsible for what and ensuring that reasonable steps are taken to fulfil those responsibilities. It is aligned with what will already be sound practices at well-governed and organised firms. The framework is, and our approach to implementation of it will be, firmly founded in proportionality and what is reasonable.

As we work towards implementation, I would strongly encourage firms to use this time to prepare to implement the framework by understanding their obligations, assessing their current governance structures in order to identify who is responsible for what, and implementing any necessary changes to their existing business model in order to ensure the requirements are properly embedded.

Firms should review their current fitness and probity processes to assess any enhancements required to meet the annual certification requirements and consider what training and monitoring will be required to embed the conduct standards as expected standards of behaviour. These steps, inclusive of observing the lessons learned in implementing similar frameworks in other jurisdictions, will help firms to assess gaps and identify the key changes needed.

WHAT ARE THE CBI'S REGULATORY PRIORITIES FOR 2022?

Our financial regulation priorities for this year support our new strategy and the need to respond to the dynamic and growing financial services system in Ireland. As we have outlined in our recently published Consumer Protection Outlook Report and Securities Markets Outlook Report, these changes in the financial system present both economic and consumer benefits, but also increases complexity in the financial system and creates risks.

I've already touched on a number of our key priorities for this year, including the review of the Consumer Protection Code, progressing the Individual Accountability Framework, and implementing the new Differential Pricing regulations.

Alongside this work, other regulatory priorities for the year ahead include:

- Continuing to drive for fair outcomes and for consumer and investor interests to be at the centre of financial services. Our priorities include business interruption insurance, long-term mortgage arrears and oversight of the withdrawal of Ulster Bank and KBC from the Irish market. We will also continue to enhance the reports from the National Claims Information Database to support the wider policy agenda towards a better functioning non-life insurance sector.
- Contributing to the European review of capital buffers for banks, including ensuring their usability in times of crisis, and concluding our own macroprudential capital framework review.
- Continuing to prioritise our authorisation work across multiple sectors, recognising the benefits of innovation, disruption and competition, but also the importance of protecting consumers of financial services and the importance of applying clear and consistent standards.
- In the area of payments, we will act across a number of initiatives to enhance the payments environment, including participating in the work on a digital euro, promoting low-cost instant payments domestically and across Europe and contributing to the review of the Payment Services Directive (PSD2) and the functioning of open banking.
- We will maintain our focus on the financial and operational resilience of the financial sector. Key priorities here will include our work on stress testing and other financial resilience related work across multiple sectors. The supervision of business model and technology-related change will also be a priority as firms implement new technologies and respond to changing customer preferences. We will maintain a continued focus on operational resilience, covering cyber resilience, critical infrastructure and outsourcing.
- We will also continue to step up our work on climate change to both ensure the financial system can support the transition to a carbon-neutral economy and is suitably resilient to the risks. This will include continuing to ensure that financial firms are adapting business models and building resilience in the face of growing climate and transition risks. We will also focus on the development and marketing of 'green' financial services products and services such that they are meeting high standards of quality and disclosure.

This interview took place on 03 March 2022.

DESTINATION: NET ZERO

PLOTTING AVIATION'S COURSE TO SUSTAINABILITY

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The industry must progressively reduce its emissions while accommodating the growing demand of a world that is eager to fly in a post-COVID-19 era.

This report was drafted before the invasion of Ukraine. However, the trends outlined in the following pages still hold true. To understand the potential impact of the invasion on Financial Services specifically, please refer to the foreword at the beginning of our magazine.

Aviation connectivity is a strong driver of economic growth, jobs, trade, and mobility. At the same time, the growth in air travel demand needs to maintain high standards of safety as well as reducing the industry's environmental footprint. Aviation is one of many industries that has a heavy impact on global human-made emissions. Today, it accounts for 3% of global carbon emissions, but if the sector makes no changes, this will increase to as much as 27% by 2050. Based on planned reductions and more efficient fossil fuel technology, the industry is still projected to consume over 12% of the annual CO2 budget.[1]

Direction of travel

On 4 October 2021, the International Air Transport Association (IATA) 77th Annual General Meeting approved a resolution for the global air transport industry to achieve net zero carbon emissions by 2050. This commitment aligns with the Paris Agreement goal for global warming not to exceed 1.5°C.

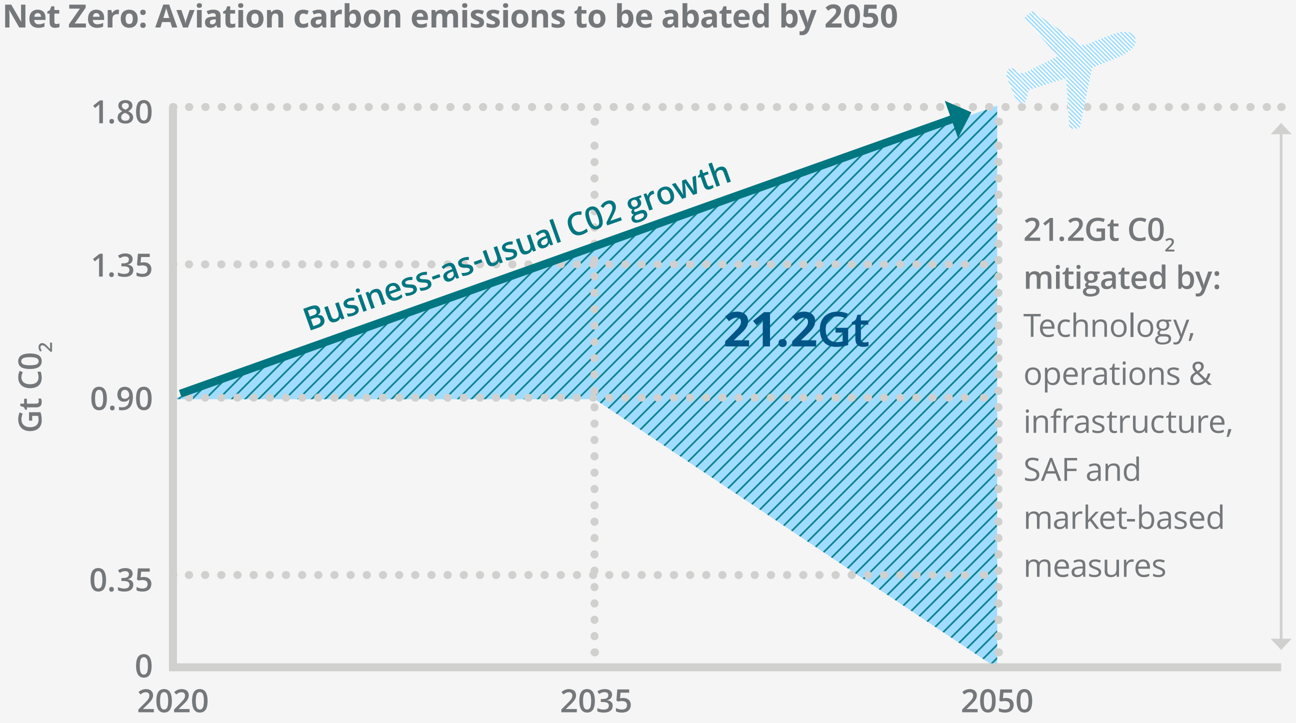
Willie Walsh, IATA's Director General, recently said: "The world's airlines have taken a momentous decision to ensure that flying is sustainable. The post-COVID-19 re-connect will be on a clear path towards net zero. That will ensure the freedom of future generations to sustainably explore, learn, trade, build markets, appreciate cultures and connect with people the world over. With the collective efforts of the entire value chain and supportive government policies, aviation will achieve net zero emissions by 2050."

1. IATA Net Carbon Emissions by 2050, October 2021

However, it is widely recognised within the aviation industry that achieving net zero emissions will be a huge challenge. Declan Kelly, Chairperson of Aircraft Leasing Ireland also emphasised this challenge as part of the Deloitte Aviation Leadership Interview Series that the aviation industry must progressively reduce its emissions while accommodating the growing demand of a world that is eager to fly in a post-COVID-19 era. IATA believes that to be able to serve the needs of the ten billion people expected to fly in 2050, at least 1.8 gigatons of carbon must be abated in that year. Moreover, the net zero commitment implies that a cumulative total of 21.2 gigatons of carbon will be abated globally between now and 2050.

The aviation industry's net zero carbon emissions target is focused on delivering maximum reduction in emissions at source through the use of sustainable aviation fuels, innovative new propulsion technologies, other efficiency improvements such as improvements to air traffic navigation, and green aviation finance driven by investor demand.

Net Zero: Aviation carbon emissions to be abated by 2050



Source: IATA air passenger 2050 traffic-emissions to be abated by 2050

Sustainable aviation fuels

There is the potential for sustainable aviation fuels (SAF) to provide the bulk of the emissions reductions the industry will need to make by 2050. SAF is a liquid fuel currently used in commercial aviation which reduces CO2 emissions by up to 80%. It can be produced from a number of sources, or feedstock, including waste oil and fats, green and municipal waste, and non-food crops. It can also be produced synthetically via a process that captures carbon directly from the air. It is sustainable because the raw feedstock does not compete with food crops or water supplies nor is it responsible for forest degradation.

Whereas fossil fuels add to overall CO2 levels by emitting carbon that had been previously locked away, SAF recycles the CO2 which has been absorbed by the biomass used in the feedstock during the course of its life. IATA estimates that SAF could contribute around 65% of the reduction in emissions that aviation needs in order to reach net zero in 2050. However, this will require a massive increase in production to meet demand. IATA has forecast that the largest acceleration is expected in the 2030's as policy support becomes global, SAF becomes competitive with fossil kerosene, and credible offsets become scarcer.

However, SAF is currently up to two to eight times more expensive than traditional jet fuel and there are a number of other obstacles blocking wider adoption of SAF.

SAF milestones so far[2]:

Over **370,000** flights have taken to the skies using SAF since 2016

7 technical pathways exist

100 million litres of SAF will be produced in 2021

SAF can reduce emissions by up to **80%** during its full lifecycle

Around **14 billion** litres of SAF are in forward purchase agreements

More than **45** airlines now have experience with SAF.

2. IATA, Developing Sustainable Aviation Fuel, February 2022

Decarbonising aviation: clear for take off

In 2021, Deloitte and Shell interviewed more than 100 aviation executives and experts, representing more than 60 organisations across the global aviation ecosystem, to identify the key barriers to decarbonising aviation and practical solutions to accelerate the industry's transition towards net zero.

Highlights from this research include

- Aviation has often been considered a sector that will decarbonise later than others, because of the complexity involved and the view that aviation accounts for "just 3% of global emissions". But there is a need to act now.
- The sector is facing several barriers to decarbonisation – reluctance of passengers to accept the cost of low-emission solutions, lack of regulatory support, prohibitively high cost of SAF, and concerns about quality, transparency, and communications.
- Long-term customer demand, enabled by recognition mechanisms and differentiated propositions, will play a fundamental role in providing the funding and incentives for airlines to invest in lowering their emissions.
- Country- and region-based policy incentives relating to supply and demand will accelerate the adoption of SAF, together with regulation at regional and global level.
- Offsets can play an essential role in funding the early stages of decarbonisation. But for this to happen, they must be made more transparent and verifiable. They need to be more emotionally appealing to passengers, and their impact should be clearer.
- Choosing SAF as the primary means of decarbonisation will have a disproportionate impact on lowering emissions, because there is no need to redesign aircraft. As a result, investments and R&D efforts can focus mainly on scaling production and lowering cost.

Collaboration with other sectors is essential to the successful deployment of SAF. It can drive down the cost of required technologies, such as hydrogen production, direct air capture and biomass conversion, and ensure effective use of scarce resources.

The pathway to decarbonisation needs to be more ambitious and investments need to start sooner to address societal expectations, reach sufficient SAF volumes and bring down cost to the levels required for large-scale adoption within 15 years.

Individual initiatives should be integrated into comprehensive plans representing all points along the value chain – from energy producers to end-customers. These plans should be systematically deployed in areas with favourable policies, market conditions, and access to SAF.

New aircraft technology

The aviation sector's commitment to significantly reduce its emissions and reach carbon-neutrality by 2050 calls for new systems and radical alternatives to kerosene. Sustainable aviation fuels will not be enough, but promising technologies have emerged with the potential to decarbonise the aviation industry in the longer term. Battery-powered planes (zero-emissions aircraft) and hydrogen-powered planes (zero-carbon aircraft) are currently in the pilot phase but could operate commercially on short-haul routes by 2040.

A recent Deloitte Report, "**Europe's Aviation Landscape - The potential of zero-carbon and zero-emissions aircraft on intra-European routes by 2040**", outlines that while the current arguments in favour of electric vehicles and rail rely on their low climate footprint, the advent of zero-carbon and zero-emissions aircraft could significantly impact the discourse and drive government support towards the aviation sector.

Even with decreased flight range compared to conventional kerosene aircraft, these future aircraft have the potential to cover up to 89% of the intra-EU air travel market in 2040, representing a potential climate impact reduction of up to 59%.

Air route distance segment	Climate impact	Travel costs	Travel time
Up to 500km 298m passengers/year	−100%	+10%	+7%
500km to 1,000km 380m passengers/year	−89%	+8%	+11%
1,000km to 2,000km 379m passengers/year	−68%	+23%	+5%

Source: Europe's Aviation Landscape in 2040, April 2021

The competitiveness of zero-emissions and zero-carbon aircraft in terms of emission reductions, and also in terms of the cost and time taken for travel, is dependent on the existing rail, road, and air infrastructure on a given route.

The competitiveness of zero-emissions and zero-carbon aircraft in terms of emission reductions, and also in terms of the cost and time taken for travel, is dependent on the existing rail, road, and air infrastructure on a given route. In combination with rail and EVs, battery-powered and hydrogen-powered aeroplanes are promising solutions for the decarbonisation of short-range mobility. Outside Europe, Avolon and AirAsia have partnered to a create a ride sharing platform in South East Asia with the airline signing a non-binding memorandum to lease a minimum of 100 VX4 eVTOL aircraft. However, limitations in infrastructure and capacity for these modes of transport are key reasons why a combination of solutions may be more effective than a focus on just one.

Industry and investor initiatives

In January 2022, Aircraft Leasing Ireland (ALI) published an Environment, Sustainable and Governance (ESG) narrative. The collection of 31 aircraft leasing companies based in Ireland have agreed to take a more active role in global aviation and climate change. An ALI Charter will be published by the end of 2022 to address greenhouse gas reduction within the industry.

Separately, a group of 20 international aviation banks and institutions are in the process of establishing an independent association to promote sustainable aircraft financing. This initiative, called IMPACT (Initiative to Measure and Promote Aviation's Carbon-free Transition), intends to develop credible standards to eliminate box-ticking and greenwashing, promote data transparency and "provide an engine for change for the entire aircraft finance industry worldwide that is independent of vested interests".[3]

3. ISHKA, Aviation banks partner for new sustainable aviation initiative: IMPACT, 17 January 2022

To start, IMPACT will focus on five projects[4]:

Transition finance: What does sustainability in aviation mean specifically, and what criteria must financing instruments such as green finance and sustainability-linked finance meet? Which metrics are needed to underpin the different types of financing? How can certificates encourage and support compliance with these standards?

Metrics: How can the transparency of airlines' CO_2 emissions be improved? How should metrics such as Scope 1, Scope 2, and especially Scope 3 be defined so that they can be consistently applied, monitored, and reported for the entire aviation value chain? What metrics can be used to measure aircraft and engine efficiency, decarbonisation effectiveness and the centrally important decoupling of CO_2 emissions trends from capacity growth? How can more targeted KPIs help to prevent greenwashing?

Policies and reports: IMPACT will accompany and support political and corporate discussions with an annual report on the status and progress of decarbonisation in aviation. Accordingly, position papers are to be written on current topics that set out, independently of individual interests, which paths are on track and where further action is needed.

Networking: IMPACT seeks to exchange with all companies in the aviation value chain and with regulators, trade unions, and scientific institutions. It will promote teaching and research on the topic of sustainability in air transport. IMPACT wants to cooperate with other initiatives in this area and ensure that there is no competition to the detriment of the common cause of climate alignment.

Know-how: How can modern digital knowledge management tools help members of the IMPACT initiative and others to ensure data, scientific studies, and other sources of relevant knowledge on the topic of sustainability in aviation are kept as up-to-date, structured and easily accessible as possible?

4. ISHKA, Aviation banks partner for new sustainable aviation initiative: IMPACT, 17 January 2022

These projects will help frame the aviation financing arrangements that have already been launched, including green financing arrangements driven by investor demand in the aviation industry.

Last November, the Korean leasing platform Crianza Aviation announced sustainability-linked operating leases. These are an important first milestone for the leasing sector in how it can begin to reward lessees' good environmental stewardship. In January, Société Generale partnered with Air France/KLM to provide the first sustainability-linked aircraft secured loan. Japan Airlines issued a transition bond to upgrade to fuel efficient aircraft citing Airbus 350s and Boeing 787s. Rockton, a Swedish Asset Manager, launched the first sustainable aviation fund last year, targeting investment of €200 million between 20 to 30 assets. Air Lease Corporate and Aviation Capital Group have both publicly committed to supporting ESG funds. The list goes on and on.

In conclusion, decarbonisation has become a global imperative and a priority for government, companies and society at large. Aviation remains fundamental to the world economy and to reconnecting people after the COVID-19 pandemic. While the path to decarbonise the sector is clear, it needs to be more ambitious. The industry should front-load efforts to scale up demand and production of SAF, speed up technological developments, ultimately driven by aviation finance investors.

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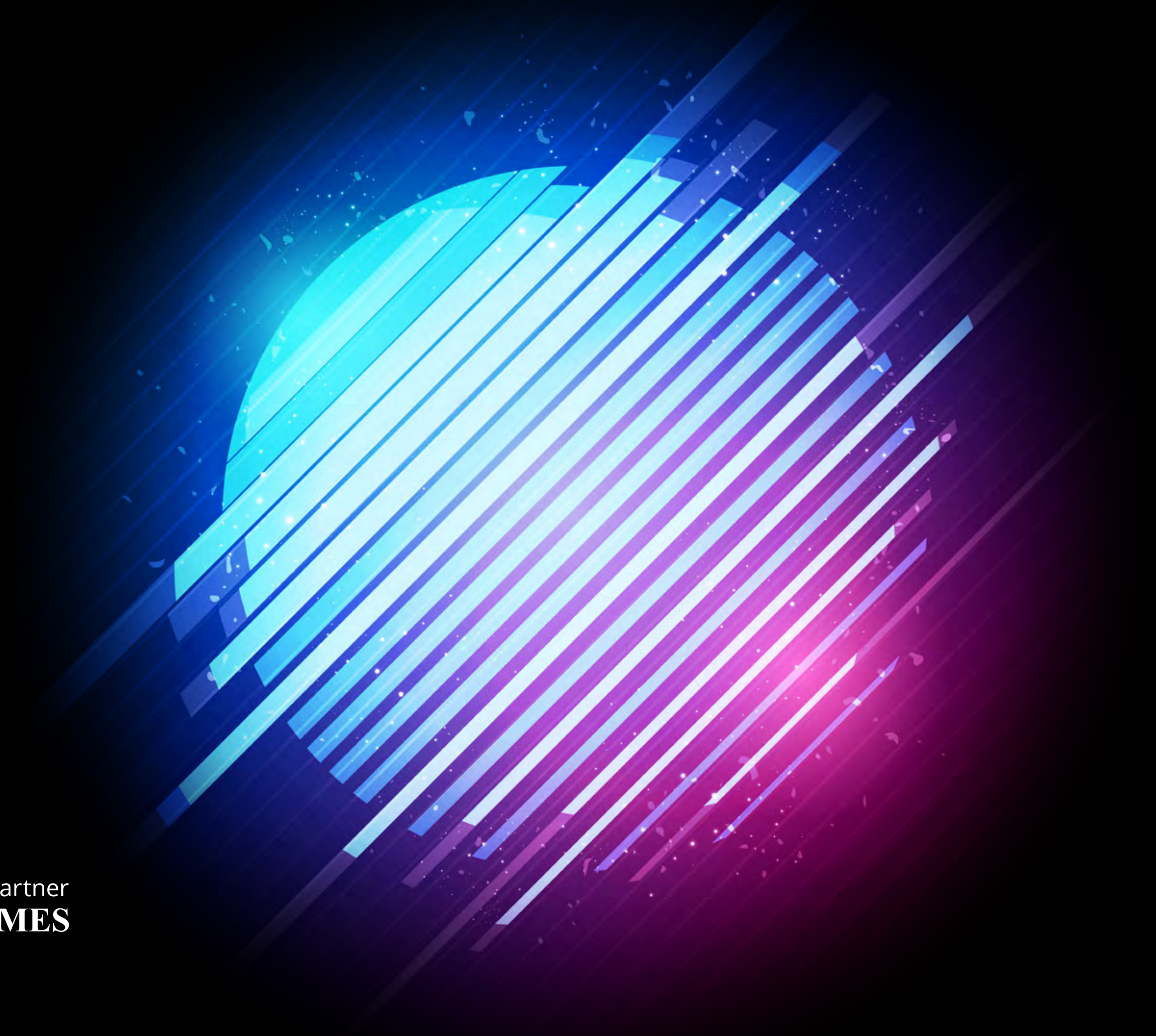

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