FINTECH FUTURES | REPORTS

Northern Ireland

Northern Ireland Fintech: Leaders in ESG

Introduction

In the past decade, Northern Ireland has emerged as a hub for innovation across the financial services sector. The UK region is home to a dynamic and diverse ecosystem of fintech and regtech companies comprised of home-grown start-ups as well as many of North America's leading financial multinational corporations. It's no surprise that the capital city of Belfast was identified by fDi Markets as a top three Fintech Location of the Future (after London and Singapore).

A host of global financial services institutions have established operations of scale here, including Allstate, Citi, CME Group, FinTrU, IQ-EQ and TP ICAP, to name just a few. These giants now rub shoulders with cutting-edge Northern Irish companies that the world has turned to for fintech solutions that include fund administration, investment operations, regulatory compliance and risk management, in support of the global capital markets, asset management and banking industries.

These companies thrive in a supportive entrepreneurial ecosystem in which collaboration and innovation is encouraged and supported by the government and two of the world's leading universities for high technology skills development.

Northern Ireland has the highest concentration of fintech employment in the UK, with one in five financial and tech roles in Northern Ireland being in this sector (Fintech NI Report, Whitecap Consulting, 2020). Northern Ireland has been identified as one of ten key clusters in the UK producing high-growth fintechs (Kalifa Review of UK Fintech, 2021).

The community is thriving, in part due to a highly developed entrepreneurial ecosystem, vibrant networking scene and active promotion of sector collaboration. It is self-perpetuating.

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>
> *Kevin Donaghy, AuditComply*

As more and more companies have been attracted to Northern Ireland over the last couple of decades, so the expertise in the region has built up, which can in turn be drawn on by start-ups and other new arrivals.

In addition, the region’s two universities and strong network of regional colleges have aligned themselves with the market needs, with highly relevant courses helping to create the next generation skills needed for innovation.

Kevin Donaghy, CEO at Belfast-based enterprise risk management specialist AuditComply, says: “Due to the foreign direct investment in Northern Ireland typically by large firms, such as cybersecurity firms and the banking industry, these companies have been investing heavily over the last 20 to 25 years and what you are now starting to see is really good ecosystems, including skills in areas such as regulation, cybersecurity and AI. So we have quite a mature workforce and that’s fed back into the universities in terms of their courses.”

All of Donaghy’s staff have an engineering focus, with a roughly equal gender split. “It is a male dominated industry and we’re really excited about the gender equality [at AuditComply] and will continue along this track,” he says.

The vibrant ecosystem brings partnership opportunities. This is highlighted by Pieter Lishman, regulatory lead and expert on ESG at risk and investment compliance, regulatory reporting and governance specialist Funds-Axis. "While we operate at a global level, it is clear that there are world-class partners on our doorstep, thanks to the fast developing and maturing fintech scene in Northern Ireland," he says. "As the challenges of ESG compliance become more complex, creative collaboration and partnerships will be key."

Maria Diffley, co-founder at SustainIQ, agrees that, as well as "great funding programmes" and lots of direct foreign funding, Northern Ireland is an excellent place for start-ups due to its talent pool. While the amount of activity in the fintech and start-up spaces means there is a lot of competition for staff, the universities are well aligned with the sector's needs. "There's a pipeline of really great tech students coming through," she says.

In addition, Diffley says, "there is the quality of life; Belfast is a small city with brilliant culture, lower cost of living than in England and good transport system links. We hear a lot more English and American accents nowadays."

Northern Ireland is also well connected from both a transport perspective - access to three international airports and excellent rail, road and sea connections – and a tech perspective – it is the top location in the UK and Ireland for full-fibre access and has a rapidly expanding 5G network.

Also providing support to the sector is Invest Northern Ireland (Invest NI), which is the primary economic development agency for the region. It promotes inward investment and trade support from a network of offices that span the globe.

One company to benefit has been SustainIQ, a 2018 start-up that developed a software tool that measures, monitors and reports on social, economic and environmental impacts.

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SustainIQ co-founder Liam McEvoy says: "This investment was a game changer for SustainIQ. It allowed us to bring our tech in-house and establish customer success and marketing teams as well as helping us build our profile and our brand. It has allowed us to accelerate our growth, which has been so important due to the direction of travel of ESG and the increase in net-zero commitments."

Following the UK's exit from the European Union, Northern Ireland continues to have free access to the Great Britain and EU markets for goods. This means that Northern Ireland is a gateway for the sale of goods to two of the world's largest markets and the only place where businesses can operate free from customs declarations, rules of origin certificates and non-tariff barriers on the sale of goods to both GB and the EU.

SustainIQ's Diffley believes that the post-Brexit Northern Ireland protocol offers opportunities to businesses here. She feels the benefits outweigh any of the remaining issues that need to be resolved. "What it's creating here is a regulatory haven for UK companies to be able to trade easily with Europe," she says. "This is a benefit for companies looking to locate in Northern Ireland as well as start-ups."

Northern Ireland: Leaders in ESG

Sustainability is ever-more about a company's business model - how its products and services contribute to sustainable development and what is the impact on areas such as climate change, resource depletion, waste, pollution, deforestation and bio-diversity.

It is also about a company's risk management - how it manages its operations to minimise negative impact.

The social aspect relates to a company's responsibility for its employees and contractors as well as its impact on the societies in which it operates – in areas including working conditions, labour rights and diversity.

SustainIQ is a specialist in this sector. When it started up, the term ESG was not prominent, says co-founder Maria Diffley, with activities typically being more generally related to corporate responsibility and sustainability. ESG has made things more commercial, she feels, linking these areas to what really makes a difference for the business.

> *In the wider scope of things, all companies will have to publish their net-zero transition plans. They typically don't know where to start; it seems like a minefield for them.*
> *Maria Diffley, SustainIQ*

"We were tasked with pulling together enough data to report on client contractual requirements or corporate responsibility reports at the end of the year," she says. "And it was just a nightmare to get that data. The area is so broad and touches on so many different facets and parts of the business. The data was languishing in so many siloes, in spreadsheets, in different formats, on different peoples' laptops."

The big driver for ESG reporting is regulation, says Diffley. This comes from government but also now from industry regulators, such as the UK's Financial Conduct Authority (FCA).

For fintechs, there are two sides to this. There will be regulations that they will need to comply with, on the one hand, as well as the solutions they provide to their customers to help navigate the regulations on the other. "In the wider scope of things, all companies will have to publish their net-zero transition plans," says Diffley. "They typically don't know where to start; it seems like an absolute minefield for them."

SustainIQ's solution allows customers to bring all of the data into a central hub in a standardised form. This is no longer a "nice to have", it is about remaining competitive including, in the public sector, to win bids, with ever more weightings on this area. The overall shift is for ESG to be inherently linked to a firm's overall financial reporting and business plan.

Another Northern Ireland company, Funds-Axis, offers solutions to capture a broad range of structured and unstructured data from multiple sources, allowing customers to normalise that data, apply data taxonomies and to report or monitor against the same. "In this regard, ESG solutions build nicely upon existing solutions, including KIIDs, sector monitoring, sanctions monitoring and a range of regulatory reporting," says Pieter Lishman, regulatory lead and expert on ESG at Funds-Axis.

He adds: "The investment management industry is now actively in solution finding mode as regards ESG. A notable point on ESG is the breadth of solutions required, including data, data matching tools, analytics, reporting, governance solutions, the legal and audit aspects. As ESG investing gains further prominence, compliance departments are having to tackle an expanding universe of responsibilities, including the challenges of new regulations and increased regulatory scrutiny. Addressing these challenges has emerged as a critical priority within organisations."

While Europe has taken the regulatory lead on ESG investing, Funds-Axis has also had an eye firmly on the US. US regulation on ESG has gone back and forth a few times in the last couple of decades, says Lishman, fluctuating between a neutral stance to actively discouraging it. The tide then turned again under the Biden administration with new proposals that recognise that fiduciaries may consider sustainability factors when assessing investment opportunities.

Most recently, the Securities and Exchange Commission (SEC) has proposed rule amendments that would require a domestic or foreign registrant to include certain climate-related information in its registration statements and periodic reports, such as on Form 10-K.

Additionally, the SEC is scrutinising how investment advisers and investment companies incorporate and disclose ESG factors that are part of their investment strategies.

> *"Good practices around sustainability are now part and parcel of doing business. [However], the complications are myriad."*
>
> *John Carroll, Datactics*

Another Northern Ireland-based specialist that works in this area is Datactics. Its niche is providing business-user focused data quality and matching technology.

Since the Paris Climate Accord, there has been an emphasis on sustainable long-term investment decisions and operations, says John Carroll, head of customer success. There have been macro- and geo-political drivers including investor demand and the need for transparent supply chains, heightened by Covid and events in 2022.

"Good practices around sustainability are now part and parcel of doing business," he says. However, "the complications are myriad".

First, there is the question of definition, particularly for the social value element, which can elicit widely differing interpretations. A study by NYU's Stern School, Putting the 'S' in ESG, examined 12 of the most popular approaches and extracted more than 1,700 different measures required to assess a firm's commitment to social sustainability alone.

Then there is the operational challenge that stems from "a highly fragmented alphabet soup of regulations and standards". He says: "There's significant divergence across North America, Europe and Asia Pacific… there isn't a GAAP for ESG."

> *[Transparency] has been at the heart of all post-crash regulations and it is the same with ESG.*
>
> *John Carroll, Datactics*

There is plenty of "greenwashing" out there, he feels, and there needs to be a healthy degree of scepticism but he takes heart from the seriousness with which ESG reporting is now taken by the likes of Facebook, Netflix, Amazon and Apple.

The data challenges – which is where Datactics is focused – include the sheer volume of structured and unstructured data that needs to be pulled in, from a wide range of sources. Even then, there are likely to be gaps.

There also needs to be transparency ("this has been at the heart of all post-crash regulations and it is the same with ESG") and there are challenges when it comes to timeliness, particularly where there is reliance on disclosure from firms.

Within ESG, environmental criteria is the most mature element, with a focus on active disinvestment in companies that produce externalities - costs not captured in the manufacturing process – such as carbon, waste or other forms of pollution.

Carroll is encouraged by developments in harnessing alternative data analysis, especially with regards the decision-making surrounding social criteria. He cites as an example the sentiment analysis of news and other media undertaken by Truvalue labs (now part of FactSet).

ESG is about proactively improving a company's transparency and openness in the way it conducts its business. It is no longer a "tick box exercise'; it is fundamental to its competitiveness. Despite the lack of standardisation at present around the globe, its rise to prominence has been rapid and will continue to evolve.

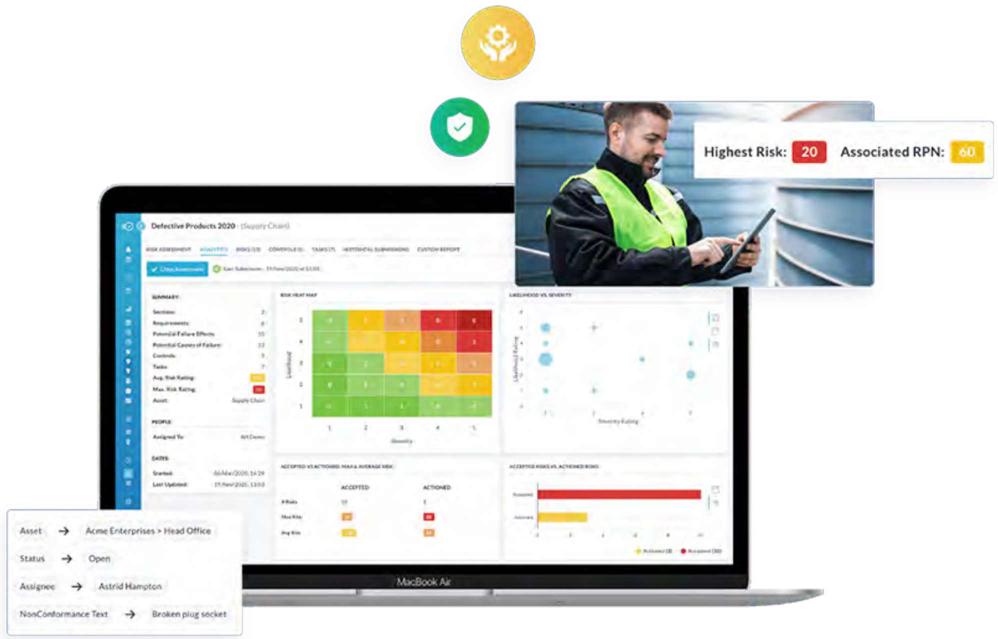
AuditComply

AuditComply is an enterprise risk management platform that can handle assessments for any type of regulation. The roots of that solution came from many conversations with companies about their risk challenges.

CEO, Kevin Donaghy, explains: “What we found were most of them were using Excel and Word, pen and paper, perhaps some kind of mobile app, but actually with a disconnect from their business processes.”

AuditComply started out in 2016/17 with this challenge in mind.

“It soon became evident that if we wanted to work in large enterprises that had a global footprint – assets all over the world and multinational supply chains – we had to build a really dynamic asset management system and assessment engine,” says Donaghy. “This would allow auditors and risk and compliance officers to really do the assessments, build their workflows and analyse that data.”



Donaghy adds: "We've made it pretty easy for the business owners to set up and use themselves without having to code or involve programmers."

AuditComply began working with food manufacturers (one user is North America's second largest company in this sector), then automotive companies, oil and gas, and legal firms. "We focused from the beginning on solving the issues at scale," says Donaghy. "Big companies will have already tried to do this multiple times with multiple solutions but when you ask, what are you actually using, they'll laugh and say, it's Excel and Word, of course."

It now has clients across North America, the Middle East, Asia Pacific and Europe, including Fortune 100 companies.

As with others, AuditComply sees ESG reporting as a current hot topic. Big companies following best practice will already be aligned with ISO45001 standards so will be on board and have elements in place for what's needed for ESG reporting, says Donaghy: "The challenge is rolling that up into an enterprise risk and compliance level."

> *"I see no one dominating the world of enterprise risk management with an SaaS-based solution and I think that's the opportunity."*
>
> *Kevin Donaghy, CEO, AuditComply*

The precise nature of the challenge varies from sector to sector and there is a degree of subjectivity, he says. For finance firms, for instance, a key element is likely to be how they lend money, regardless of whether they are VC firms, private equity or banks.

AuditComply has one large UK retail bank using its solution for auditing and risk management in the area of algorithmic trading. It also had a North American client that works off the blockchain with smart contracts. The latter uses AuditComply to audit the blockchain events and to analyse and report on them from a quality and regulatory perspective.

Donaghy concludes: "I see no one dominating the world of enterprise risk management with an SaaS-based solution and I think that's the opportunity. That cuts right across a wide range of risk and reporting, with a huge demand within finance."

Queen's University Belfast

Datactics

Datactics was a spin-off from Queen's University Belfast and, almost 20 years later, is a company that develops business-user focused data quality and matching technology. It started out in capital markets and now sells across a variety of vertical sectors and around the globe.

Its pre-built and customisable rules libraries allow users to measure, visualise and fix broken data to streamline regulatory compliance. Clean and usable data is made accessible for end-users. Financial services remains an important market, with users spanning hedge funds, asset managers and traditional sell-side institutions.

Typically, says John Carroll, head of customer success, there's a dual mandate from customers – to optimise the data for competitive advantage and meet regulatory requirements.

The Datactics platform offers support for BCBS 239, FSCS, AnaCredit, IFRS 9 and other regulations in a customisable front-end for rapid deployment in financial services. Definitions of ISINs, CUSIPs and other common data elements are also pre-shipped.

There is native connectivity to reporting tools such as Wolters Kluwer and Moody's Analytics and reports can be directly generated for regulators. A 'Data Quality Clinic' application empowers those who know the data to fix that data through integrations with off-the-shelf visualisation dashboard software.

The Datactics solution also maps instruments, people and entities at scale to streamline KYC and onboarding, with the ability to consolidate and enhance reference data from multiple sources including Companies House, Bloomberg, Refinitiv and Dun & Bradstreet.

There is in-built connectivity to data lakes, silos and cloud sources, including Azure, Google Cloud Platform and AWS. And it comes with facilities to automate, schedule and monitor workflows, enabling rapid access to data systems and stores, with a full audit trail to monitor AI algorithms and detail decisions.

In North America, customers include a large hedge fund/asset manager, who is using the platform to provide data to buy-side institutions.

In terms of Datactics' Northern Ireland heritage, Carroll points to the build up of knowledge economies in a range of areas, such as regtech, through the arrival of multinationals and indigenous growth. It is an environment in which Datactics has flourished for almost two decades, making it one of those companies that has a track record of taking best-of-breed solutions to the rest of the globe.

Funds-Axis

Funds-Axis provides technology solutions covering risk and investment compliance, regulatory reporting and governance for global investment managers, administrators and custody banks.

The privately-owned company was set up around 15 years ago and now has a broad client base, including in North America. It was born out of risk, compliance and regulatory reporting in the European funds market, says founder and CEO, Darren Burrows. Subsequently it has expanded into the global funds market as regulations have become more expansive.

North America is described by Burrows as “undoubtedly Funds-Axis’ largest target market for growth. It has had clients here for the last five or six years, including some large custodians. We are very familiar with US regulatory reporting and supporting our clients with that.”

Across the globe, investment managers and depositaries are having to comply with increasing demands for investment compliance, risk and regulatory reporting. Funds-Axis’s solutions are designed to allow them to meet these needs without costly implementations and high-risk projects.

> *Particularly in the regtech area, there is a big need for strong collaboration and that is a strength here from a sector knowledge perspective.*
>
> *Darren Burrows, founder and CEO, Funds-Axis*

Among other areas, the investment management industry is now actively in a solution-finding mode in regards ESG, says Funds-Axis' regulatory lead and expert on ESG, Pieter Lishman.

ESG investing has grown rapidly over the past decade, with the latest GSIA report[1] providing estimations that professionally managed portfolios with key elements of ESG assessments now exceed $35.3 trillion globally. According to Bloomberg[2], global ESG assets are on track to exceed $53 trillion by 2025.

This huge growth is not just in the equities market. Further estimates by Bloomberg suggest that $2.5 trillion of debt[3] advertised as green or ESG-oriented (including green, social and sustainable or sustainability-linked bonds and loans) could be issued in 2022.

Lishman feels that transparency, investor protection and greenwashing concerns are ultimately driving the regulatory agenda. "Regulators are concerned that the growing demand for ESG investments is not matched by adequate transparency, which in turn can harm investor protection," he says.

To have a meaningful impact on climate change, what we need to see from the fund industry is a global approach with harmonised international standards. There is some hope for this in terms of company reporting, with the launch of the International Sustainability Standards Board (ISSB), with the objective of creating a global company reporting standard for sustainability metrics.

Unfortunately, in terms of investment products, Lishman feels a global harmonised approach is unlikely in the foreseeable future: "On a positive note, what we are seeing in 2022 is increased regulation change and scrutiny in the EU, US and APAC, with the EU leading the way. Although we are already seeing divergence in the standards imposed by regulators, overall, they are targeting three distinct areas.

"Sustainable finance regulation keeps coming at a dizzyingly fast pace," Lishman says. With ESG compliance facing greater scrutiny and tougher regulations, he says the pressure is now for investment firms to establish the right technology solution to ensure compliance across their portfolios.

"Whether the massive deployment of capital is enough to save the planet remains to be seen," he says. "What is clear, however, is that there are millions being deployed measuring, monitoring and reporting."

As with others, Burrows emphasises the collaborative opportunities as a key benefit of being located in Northern Ireland. "Particularly in the regtech area, there is a big need for strong collaboration and that is a strength here from a sector knowledge perspective," he says. This particularly applies to ESG, he feels, which has been a term known for many years but is only now seeing a strong regulatory thrust. Burrows believes there is an ideal opportunity for new locations to become centres of excellence.

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[1] http://www.gsi-alliance.org/wp-content/uploads/2021/08/GSIR-20201.pdf

[2] https://www.bloomberg.com/professional/blog/esg-assets-may-hit-53-trillion-by-2025-a-third-of-global-aum

[3] https://www.bloomberg.com/news/articles/2022-01-05/bank-fees-for-green-debt-surpass-fossil-fuel-financing-green-insight

SustainIQ

SustainIQ is a young, dynamic company that has built an integrated software tool that measures, monitors and reports on social, economic and environmental impacts. It enables companies to meet their ESG commitments by measuring and reporting on impacts across the entire organisation.

Co-founders Liam McEvoy and Maria Diffley saw a need for a solution that would help organisations use their sustainability performance to drive business improvement.

Diffley had worked in the public and voluntary sectors and holds an MSc in Sustainability and CSR, with particular expertise in social value. McEvoy had worked with construction and manufacturing clients for more than 15 years developing sustainability strategies for their corporate clients. He holds a BSc (Hons) in Environmental Management.

SustainIQ's customers were initially in Ireland and the UK. It started in construction, as this was the most regulated sector at the time but, says Diffley, early on it was clear its solution was replicable across other sectors, with minor changes. Around 90% is "plug and play", she says, rather than bespoke development.

It now has more than 600 sites, having started trading in late 2018. It has moved into financial services and has begun to make inroads in continental Europe and North America.

In the latter, it has been testing the solution with several fairly large US business management software providers that are looking to take the tool to their customer bases.

In North America, Diffley sees tech companies at the forefront with sustainability initiatives at present, with a surge of interest as well from financial services.

There is good buy-in from SustainIQ's staff aided, she feels, by the nature and ethos of the company, which is enabling its customers to harness change and meet their net-zero goals. "Our team get really excited by the fact that they are working on different projects every day, led by the customers, and they can see the difference it is making to the environment, society and economy," says Diffley.

SustainIQ set out to develop a solution that would allow firms to bring all relevant data into a central hub in a standardised form to then measure, monitor and report on social, economic and environmental impacts, including for ESG.

> *"We are coming out of the Covid pandemic and any company that employs staff has a responsibility to focus as much on the S as the E."*
>
> *Maria Diffley, co-founder, SustainIQ*

"We're making it simpler for them to collect the data on the one hand and, on the other side, we give them access to a dashboard that can be used by anyone from a C-level suite executive seeking a snapshot to someone working in an environmental management role and wanting to drill down into the data, to someone in marketing or comms or preparing data to enter awards."

The 'S' in ESG – social – is important, she points out: "We're coming out of the Covid pandemic and any company that employs staff has a responsibility to focus as much on the S as the E."

Diffley adds: "If you want to remain competitive, you now need this capability. That has been the big change since I started in the sustainability space well over a decade ago. It was originally really an added benefit; a nice appendix to add to your report at the end of the year. But the shift is that it is now interlinked to financial reporting and business strategy."

About Northern Ireland

Northern Ireland – a region of the UK uniquely located on the island of Ireland – is a centre of excellence for fintech and regtech.

Northern Ireland is the world's top region for fintech inward investment thanks to its world-class talent, competitive operating costs, research excellence and resilient infrastructure. Global names such as Citi, Cowen, CME Group, Allstate, Liberty Mutual, Aflac, PEAK6 and Agio have established and expanded operations there, seeking the right balance of technology, talent and industry expertise.

This growth in the financial services means $500 billion (10% of the global FX market) flows through Northern Ireland every day, and its capital Belfast was ranked in the top three Fintech Locations of the Future, after only London and Singapore.

Northern Ireland is also home to a thriving cluster of fintech and regtech companies creating technology trusted by the world's leading financial and professional services firms. Their products and services improve trading, fund administration, client services, investment operations, payments, regulatory compliance, risk management, cybersecurity and analytics.

As the drive for enhanced transparency and security in global financial services continues, look to Northern Ireland for the latest fintech and regtech solutions. Its technology helps power the markets.

[Invest Northern Ireland can connect you with the right technology partner for your company.]

About FinTech Futures

FinTech Futures is the trusted digital publishing platform for the worldwide fintech community – providing daily news, in-depth analysis, and expert commentary to industry veterans across a comprehensive range of areas.

Our solid reputation, combined with in-depth coverage across global fintech, makes us the leading resource for technology buyers, sellers, developers, integrators, and other specialists across the sector.

With an active presence across key B2B social media platforms including over 50,000 followers on both our Twitter and LinkedIn pages, we deliver upwards of 400,000 impressions monthly through social media alone. This combined with over 200,000 monthly page views on our website, makes us the complete platform for connecting with a relevant audience in the fintech space.

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