



**Financial
Services
Ireland**
ibec

CP156 – Central Bank approach to innovation engagement in financial services

Financial Services Ireland (FSI) submission – February 2024



**Financial Services Ireland response to
Consultation paper CP156 – Central Bank approach to innovation engagement
in financial services**

Consultation Paper 156

Central Bank of Ireland

North Wall Quay

Dublin 1

8 February 2024

Re: Consultation paper CP156 – Central Bank approach to innovation engagement in financial services

Dear Sir/Madam,

Thank you for the opportunity to engage with you in relation to the Central Bank's proposals on the Central Bank approach to innovation engagement in financial services. I would also like to acknowledge the Central Bank's wider industry engagement on this topic over the past number of months.

Financial Services Ireland Group ('FSI') is the Ibec group representing the financial services sector on a whole-of-industry basis. Our 160 members are engaged in domestic and international banking, insurance and reinsurance, asset management, fund administration, securitisation, aircraft leasing, payments/Fintech, and others.

FSI strongly welcomes this consultation by the Central Bank of Ireland ('CBI') and the opportunity to engage on key questions to drive innovation engagement in the financial services industry in Ireland. We fully support the goal of creating an ecosystem of regulated innovative fintech and financial services firms in Ireland, aligning with Ireland's ambition to become a leading country for developing regulated financial services companies.

Consultation paper questions

1. What is your feedback on the enhancements underway with the Innovation Hub? Are there other areas that should be developed?

FSI warmly welcomes the proposed enhancements outlined in the consultation paper, acknowledging their potential to enhance understanding for both the CBI and participating firms of the regulatory framework and how it applies to emerging products/innovations.

We emphasize the need for **transparency regarding timelines and processes** associated with the structured engagement process. We seek clarification on the expected rollout of the new process.

We see establishing a **transparent and efficient communication framework** as a primary focus for industry, with key learnings shared from each engagement, not only within the CBI, but also with industry peers and external stakeholders, as this collaborative knowledge-sharing approach is vital in fostering a collective understanding of regulatory requirements and propelling innovation.

We seek clarity on how the Innovation Hub's initiatives will directly impact the timely delivery of new solutions to the market, ensuring a comprehensive understanding of the expected outcomes.

We express the importance for the **agile framework**, that has the capacity to adapt with the rapid pace of technological advancements. We appreciate the idea of utilizing Hackathons, tech sprints and agile methods, as it showcases an openness to modern and dynamic approaches. The CBI should aim to position itself to stay ahead of the curve and continue to push boundaries of what's possible for industry.

To enhance both the CBI's and firms experience of the regulatory authorisation process, we emphasize the importance **that firms who engage with the CBI's innovation hub come away with a clear understanding of the regulatory requirements** needed, as this could help streamline and improve regulatory sign-offs and the overall approval process.

While expressing enthusiasm for the upcoming launch of a digital centre for knowledge sharing, we request information on the expected go-live date of this initiative.

Our suggestions on how the CBI can enhance its value through the **proposed improvements** encompass active involvement in various capacities, such as:

- CBI Financial Industry Forum Innovation subgroup would act as an advisory committee to the CBI's Innovation Hub/Sandbox activity. The subgroup would work with the CBI on selecting themes, selecting third party providers, ensuring both the needs of the CBI and industry are met and aligned, resulting in the development of an ecosystem of regulated, innovative firms in Ireland.
- Take an iterative approach to the sandbox enabling a more open and agile programme whereby if necessary, adapting the operating model after each cohort.
- Visiting firms' innovation labs.
- Attendance/participate in industry workshops/events facilitated through trade associations on specific public policy themes.

Additionally, we propose three specific considerations for **outreach and engagement**, namely:

- 1) Urging the establishment of a National Fintech Hub. We suggest a strategic role for the CBI Innovation Hub within a National Fintech Hub. This envisioned collaboration entails regular engagement with firms, providing constructive feedback on learnings, and conducting workshops. Such proactive involvement is seen as instrumental in creating a collaborative and dynamic environment fostering continuous innovation. Minister Carroll MacNeill's positive reception of the idea of a National Fintech Hub is encouraging, adding weight to the industry's vision for a comprehensive and collaborative regulatory ecosystem.
 - 2) Advocating for regular CBI visits to global innovation centres and a more proactive engagement with The European Forum for Innovation Facilitators.
 - 3) Implementation of a comprehensive calendar of events at the start of the year to facilitate effective planning by firms.
2. What is your feedback on the proposal to establish an Innovation Sandbox Programme? Will the proposal support the Central Bank in meeting our overall objectives, including the needs of consumers and the wider economy?

The proposal to establish an Innovation Sandbox is a positive and welcome step. We see it as a tool that can provide a controlled environment for testing new ideas and technologies and will help drive innovation and improve efficiency. By providing a safe space for experimentation, the CBI can help foster a culture of innovation and encourage the development of new products and services that benefit consumers and the economy as a whole

The **proposed operating model poses challenges for firms** as to the benefits of taking part:

- For well-established firms, the operating model outlined for the Innovation Sandbox Programme appears to be more akin to a regulatory advisory sandbox due to **lack of customer testing** and is seen as more suitable for firms seeking a regulatory licence.
 - Without the ability to test innovative propositions with customers it will be of limited value to the industry and will mean that sub-optimal solutions may be provided to customers.
 - Firms need assurance that if they invest in a product/innovation that their investment will meet with customer needs and will adhere to the regulatory framework.
 - Some financial services firms may require internal approval before applying to the sandbox. This can be a time-consuming process and without the opportunity for customer testing of their innovative products and waivers/modifications to the rules, they might find the Innovation Hub better suited to their needs.
3. What is your feedback on the operating model of the Innovation Sandbox Programme?

We express our support for the chosen thematic cohort approach, recognizing its potential to establish a nuanced understanding of regulatory dynamics. While we commend the emphasis on collaboration with third parties for a comprehensive service offering, in order to ensure that the third-party provider aligns with the requirements of both the CBI and the industry, and to maintain transparency in the



process, we suggest involving industry members of the CBI Financial Forum Innovation subgroup in the decision-making process.

Below, we present a detailed outline of our recommendations for a functional operating model:

- **Themes for Sandbox Cohorts:**

To facilitate effective preparation and alignment, we emphasize the necessity for timely communication of these themes by the end of Q1 2024. For commercial organisations, the competitive considerations may limit their ability to contribute fully to the innovation sandbox as currently proposed. The proposal to have ‘themes’ considered within the Sandbox will need to be very carefully assessed to ensure it does not breach the parameters of competition law. This will fundamentally limit the themes to matters that do not impact on customers, products, price or service and may only be of benefit for broader non-commercial themes. This could also encourage more innovators to apply for the programme and foster a more diverse and competitive fintech ecosystem.

- **Regulatory Approach and Business Testing in Sandbox:**

We seek clarity on the regulatory approach in Stage 4 and insights into the scope of business testing allowed, particularly concerning constraints related to testing with customer data.

To address this concern, we propose that the CBI allows firms to conduct testing on their employees and explore the utilization of EU synthetic data sources. The focal point is to make sure firms assess customer interest in their innovative products while ensuring alignment with regulatory requirements.

If live testing on customers will not be considered, then other mechanisms to consumers to solicit their feedback should be considered. Examples of mechanisms for consumer engagement include surveys, focus groups, or online platforms. This will gather insights on the needs, preferences, and expectations of consumers, as well as measure the impact and outcomes of the innovations tested within the programme. This should enhance trust and confidence of consumers in the fintech sector and the CBI’s innovation approach.

Additionally, relaxation of some regulatory requirements within the sandbox would provide participants with the flexibility they need to test and develop their ideas. The consultation paper confirms that there will be no derogations or waivers for innovators who participate in the Innovation Sandbox Programme. It would be beneficial to explore the possibility of granting some regulatory flexibility or exemptions for testing purposes, provided they do not compromise the CBI’s objectives or consumer protection.

- **Collaboration and IP Protection:**

The sandbox should be used to promote collaboration between startups and incumbents, to solve customer problems and drive innovation in the industry.

While we acknowledge the provision for collaborations within the sandbox, we stress the need for a comprehensive framework to ensure the robust protection of intellectual property. A well-defined structure is vital to foster trust and actively incentivize industry participation.



- **Review Process and Industry Feedback:**
We advocate for the establishment of a structured and transparent feedback loop. The operating model of the Innovation Sandbox Programme should be designed to be flexible and adaptable to the needs of different participants. A one-size-fits-all approach may not be appropriate for startups and incumbents.
 - **Timeline and Transparency:**
We seek clarification on the timeline for Stage 2 – Call for Proposals, and we emphasize the need for transparency in the application process. Clear communication on obligations and timelines for all parties involved is essential to set the stage for a smooth and informed engagement.
 - **Government Support and Collaboration:**
We recommend exploring strategic partnerships with state agencies such as EI, IDA, and ISIF to harness collective expertise and resources. We see the establishment of a National Fintech hub as an imperative to guarantee both consistency and accessibility.
 - **Cost Allocation:**
We note the proposed spread of costs through levies, and we encourage a transparent breakdown of these costs, ensuring equitable distribution and fostering a sense of collective responsibility.
 - **Role of Regulators:**
It would be helpful to clarify the roles and responsibilities of different regulators, as well as the mechanisms for cross-border cooperation and information sharing. Of particular benefit would be details on how the Innovation Sandbox Programme will interact with other regulators, such as the European Central Bank, the European Banking Authority, the Data Protection Commission and on future European sandboxes.
4. Are there specific themes or areas of innovation that the Central Bank Innovation Sandbox Programme should address?

A range of different themes emerged from industry for consideration for the Innovation Sandbox Programme as listed below. FSI convened a meeting of the industry representatives on the CBI Financial Industry Forum Innovation subgroup to discuss the themes as a collective. We agreed the following as our top five themes that the Innovation Sandbox should address.

1. Artificial Intelligence (AI) and its applicability to the financial services sector such as Machine Learning, Generative AI, Back-office vs front office uses of AI, Utilising modern data infrastructure and data science (Data Modelling and Predictive Analytics)
2. ESG & Sustainable Finance
3. Anti-Money Laundering (AML)
4. Digital assets
5. Financial inclusion and access to financial services

As part of the work programme under way through the innovation subgroup, an innovation radar is being developed by industry which will be shared with the CBI ahead of the March 2024 meeting.



The radar will incorporate the additional themes industry felt the Innovation Sandbox should address. We recommend that the additional themes form part of future sandbox iterations, focus for how the CBI displays content on the new digital centre, as well as agenda items for the CBI's outreach and engagements with industry in 2024.

Full list of themes suggested:

1. Artificial Intelligence (AI) and its applicability to the financial services sector such as Machine Learning, Generative AI, Back-office vs front office uses of AI, Utilising modern data infrastructure and data science (Data Modelling and Predictive Analytics)
2. ESG & Sustainable Finance
3. Anti-Money Laundering (AML)
4. Digital assets
5. Financial inclusion and access to financial services
6. Build resilience & the Protection Gap
7. Cyber security and encryption
8. Open Finance/FiDA and API-driven innovation
9. Digital payments and remittances
10. Embedded finance
11. Blockchain, Decentralized finance (DeFi) and distributed ledger technology
12. Digitalisation and communication with consumers
13. RegTech
14. Investor education
15. Private markets
16. Talent
17. Use of smart contracts

Please do not hesitate to contact us if you require further detail on any of the points raised above.

Yours faithfully,

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