



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# Consultation Paper 156

Central Bank approach to innovation  
engagement in financial services

November 2023

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# Introduction

Our financial system has changed significantly in recent years – in part driven by innovation bringing new entrants, new products and new ways of serving customers and the economy. Such innovation has potential benefits for consumers, businesses and society and is an essential component of a competitive economy and a well-functioning financial system.

Ireland's position as an international financial centre and hub for global technology firms is reflected in the growth of fintech in the jurisdiction. In that regard, the number of Payment and Electronic Money Institutions (PI/EMI) regulated by the Central Bank of Ireland has more than tripled in the last 6 years, with a 10 fold increase in safeguarded funds held by this sector. In addition, 16 of the top 20 global tech companies and the top 3 enterprise software providers have a significant presence in Ireland.

While this growth offers many potential opportunities for Ireland and Europe, it also presents risks – to consumers and the economy. As such, to harness the benefits of innovation these risks must be adequately managed.

The Central Bank of Ireland's mission is to serve the public interest by maintaining monetary and financial stability while ensuring that the financial system operates in the best interests of consumers and the wider economy. It is in this context, and noting our wider EU and international responsibilities, that we seek to have deeper engagement with innovation in financial services.

We see this engagement as being necessary to our public policy aims, by:

- Deepening our understanding of innovation in the financial services sector, which allows us to better understand the opportunities and risks for consumers and the economy.
- Better informing our regulatory approach, allowing us to ensure that our regulation is aligned with a well-functioning financial system based on good levels of competition and innovation.

- Better explaining to innovative firms what being regulated entails so firms can build regulatory requirements and safeguards into their early stage development.
- Embedding a regulatory culture in nascent and fast growing firms to ensure they are properly prepared for the responsibilities that come as regulated firm, as well as properly run once authorised.

Since April 2018 and the launch of the Innovation Hub<sup>1</sup>, the Central Bank has engaged widely with both existing firms and the growing fintech and innovation sectors. The Innovation Hub is a direct and dedicated point of contact for innovators—both start-ups and incumbents—developing or implementing innovations in financial services based on new technologies.

To date, we have had 375 engagements with the innovation ecosystem via our Innovation Hub. Firms tell us that they appreciate having a dedicated point of contact, where they can engage with the Central Bank outside of the formal regulatory and supervisory processes. There is also feedback that the ecosystem would welcome an evolved engagement approach in line with the continued development of the innovation ecosystem. As such, we believe there is value in deepening our current approach by enhancing our Innovation Hub and its complementary outreach programme further.

This document outlines how we engage today on innovation, the enhancements we plan to make to deepen our current model of engagement, as well as a significant new proposal to introduce an Innovation Sandbox. Combined, these represent a substantial uplift in the Central Bank's innovation approach, and reflects our continued commitment to playing our part in fostering an innovative and resilient financial sector—serving the evolving needs of households and businesses into the future.

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<sup>1</sup> <https://www.centralbank.ie/regulation/innovation-hub>

# Our Approach to Innovation

## Aligned to our Mandate

The Mission of the Central Bank is to serve the public interest by maintaining monetary and financial stability while ensuring that the financial system operates in the best interests of consumers and the wider economy. The statutory objectives of the Central Bank include:

- Price stability
- The stability of the financial system overall
- The proper and effective regulation of financial service providers and markets, while ensuring that the best interests of consumers of financial services are protected
- The efficient and effective operation of payment and settlement systems.

Our multi-year Strategy<sup>2</sup> underscores our commitment to be future-focused by adopting a forward-looking approach so that we anticipate and respond proactively to changes in the economy and financial system. This approach is critical to enabling us to better understand, anticipate and adapt in the context of the far-reaching changes taking place within the financial services industry with a particular emphasis on technological innovation, climate transition and geo-political change.

## Balancing Benefits and Risks

Innovation in financial services has the capacity to bring many benefits to consumers, businesses and society. It is essential for a competitive economy and a well-functioning financial system. Innovation in financial services is important to the continued effective functioning of the financial system in supporting the economy and delivering for consumers. We need to be able to harness the benefits of innovation while also managing the risks.

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<sup>2</sup> Central Bank of Ireland – Our Strategy.

[https://www.centralbank.ie/docs/default-source/publications/corporate-reports/strategic-plan/our-strategy/central-bank-of-ireland-our-strategy.pdf?sfvrsn=3a55921d\\_4](https://www.centralbank.ie/docs/default-source/publications/corporate-reports/strategic-plan/our-strategy/central-bank-of-ireland-our-strategy.pdf?sfvrsn=3a55921d_4)

Within that context and as set out in our Strategy, we aim to anticipate and support innovation in central banking and financial services, which serves the evolving needs of households and businesses into the future. This is a key priority for us when we authorise and supervise innovative firms. To fulfil our mandate, maintaining a high-quality regulatory framework is essential.

In order for the Central Bank to play our part in fostering innovation, and in ensuring effective risk management it is important that we prioritise having a deeper engagement with innovation across all aspects of the financial services ecosystem.

The engagement to date has helped us achieve our public policy aims but, in an ever-evolving financial system, it is crucial for the Central Bank to continuously assess and evolve our methods of engagement.

# Our focus on Innovation – current approaches to Engagement

## The Innovation Hub

The Innovation Hub seeks to help innovators to gain a deeper understanding of our regulatory and supervisory expectations by sharing our perspective on innovation within financial services including with our subject matter experts.

Since 2018, we have had 375 engagements via the Innovation Hub. Each year, we publish an Innovation Hub report detailing data on the trends observed<sup>3</sup>.

Feedback from firms on their engagement with the Innovation Hub is largely positive. From our perspective, the Innovation Hub has helped us to monitor developments and growth in the fintech sector, develop our knowledge around innovation including business models and innovative products and services, and to understand the challenges and risks therein.

The Innovation Hub is supported by a network of experts from across the Central Bank, who have benefited from the regular engagement with innovators. The Innovation Hub remains a valuable mechanism for the Central Bank to engage and have dialogue with regulated and unregulated entities about innovation, as an element of how the regulatory framework seeks to play a positive role in the functioning of an innovative financial system.

Specifically, the majority of inquiries often stem from start-ups seeking insights into regulatory frameworks applicable to their business models. These initial interactions not only clarify the regulatory landscape but also acquaint firms with the Central Bank's processes, equipping them for future applications.

We recognise the benefit of continuously evolving our approach to innovation, building on the experiences from our Innovation Hub and outreach engagement, from our innovation-related policy

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<sup>3</sup> [https://www.centralbank.ie/docs/default-source/regulation/innovation-hub/innovation-hub-2022-update.pdf?sfvrsn=e0c5991d\\_4](https://www.centralbank.ie/docs/default-source/regulation/innovation-hub/innovation-hub-2022-update.pdf?sfvrsn=e0c5991d_4)

development, and from our supervisory engagements with innovative firms.

### **Engagement with our Peers and our Stakeholders**

The Innovation Hub is complemented by a fintech and innovation events and outreach programme where we bring together individuals and companies involved in fintech and innovation with Central Bank staff to learn from each other and amplify our innovation initiatives.

This year, we created three sub-groups under our Financial Industry Forum, one of which relates to Financial Innovation and which brings together the Central Bank and representatives from the financial services industry to discuss key themes related to innovation.

We recognise that innovation extends beyond national borders. As a member of the European Forum for Innovation Facilitators<sup>4</sup>, we collaborate, engage and share insights with our regulatory peers. We also engage extensively with EU and international institutions and with our peers, as we seek to understand their approaches to engage on innovation and to learn from their experiences. This engagement allows us to contribute to the harmonization of innovation facilities while staying informed about emerging trends and best practices.

We are also heavily involved in innovation-related committees across the three European Supervisory Authorities, the European Central Bank including Single Supervisory Mechanism, International Organization of Securities Commissions, Bank for International Settlements, and many more EU and international organisations.

As part of our new EU & International Strategy, we commit to further prioritising our engagement on innovation in International fora.

### **Feedback from our Stakeholders**

Feedback and input has been sought from the Financial Industry Forum's Innovation Sub-Group, from public submissions on

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<sup>4</sup> <https://www.eba.europa.eu/financial-innovation-and-fintech/european-forum-for-innovation-facilitators>



“Innovation and Disruption” through the Consumer Protection Code Discussion Paper and from our engagements with the wider ecosystem, bilaterally and via workshops.

In general, the feedback covered the following areas:

- The Innovation Hub was acknowledged as a good first step to enhance engagement but the ecosystem would welcome an evolved engagement approach in line with the continued development of the innovation ecosystem.
- Innovators have asked for greater structure in the engagement with the Innovation Hub. Feedback that there is a lack of awareness of format/purpose of the Innovation Hub.
- Stakeholders have expressed a strong openness to engage with the Central Bank within innovation programmes already taking place in the ecosystem.
- A Sandbox programme would be a welcome addition in the Irish financial system, where it would facilitate testing of innovative products and potentially digital IT developments required under new regulation.
- Feedback on the need for clarity on Central Bank’s regulatory and supervisory expectation on regulated entities’ use of new technologies.
- The Innovation Hub should be the “go-to centre” for regulatory information for new or existing financial services firms with a new idea, or a vision for a new regulated product.

### **The Approaches of our Regulatory Peers**

Our peers have also been evolving/maturing their engagement approaches to facilitate deeper level engagement with innovators, thus improving their intelligence, identifying risks, and monitoring how innovation operates within the regulatory framework.

They have developed new models to connect supervisors and financial market participants and to promote the appropriate regulatory framework for new activities, to mitigate the risks associated with innovation and to support innovation that has

potential for positive outcomes. These models generally take the form of a well-developed and transparent innovation hub and/or regulatory programmes that engage with innovators at the right moment of their development journey.

Typically, our regulatory peers operate one or both of two types of facilities:

- An Innovation Hub, by its very nature, acts as a dedicated point of contact for firms to raise enquiries on fintech-related issues and to seek non-binding guidance on the conformity of innovative financial products, financial services, or business models with licensing or registration requirements and regulatory and supervisory expectations. They operate as a communication, knowledge and information-sharing platform aiming to promote a better understanding among all stakeholders of the technologies, regulatory framework and business/use-cases, within well-defined limits.
- A Regulatory Sandbox is a scheme to enable firms, pursuant to a specific development programme agreed and monitored by the Regulator, develop innovative financial services or business models. Regulators can closely monitor and assess the potential risks and benefits while providing guidance and clarity for the firms involved. Typically, the aim of sandboxes is to allow regulators and firms better understand the opportunities and/or risks posed by innovations, which may be monitored through a testing phase. During a potential testing phase, the viability of the product/service/model may be assessed, as well as compliance with regulatory expectations. In some instances, discretions may be available from the regulator throughout the testing phase and where possible within the relevant legislation/regulation.

As of October 2023, there were 41 innovation hubs in 30 EEA countries and 15 regulatory sandboxes in 13 EEA countries established. Our analysis identified that the Innovation Hub and Sandbox models are complementary in approach for those providing them and that many of the innovators that engage through the Innovation Hub ultimately engage with Sandbox.

There are many articulated benefits of engagement between regulator and innovator via an established innovation facilitator. A Joint European Supervisory Authorities' report from 2019 on "Regulatory Sandboxes and Innovation Hubs for FinTech"<sup>5</sup> called out the key benefits for such innovation facilitators, particularly highlighting dialogue and experience sharing within innovation facilitators as helping supervisors gather valuable information and promoting supervisory understanding of new or altered risks brought by fintech.

## Enhancing the Central Bank's Innovation Approach

As the financial landscape evolves, we acknowledge the need to deepen our engagement with innovators and the wider innovation ecosystem and stakeholders. Having considered our experiences to date, the feedback from our many stakeholders and the experience of our regulatory peers, we are planning enhancements to our Innovation Hub and to increase our engagement with the innovation ecosystem in financial services.

The Central Bank mandate looks at the ecosystem as a whole and our approach is guided by such. We have devised a range of engagement initiatives that allow us to reach a wider audience, complemented by more targeted activities to drive specific engagement.

This will allow for more engagement on regulation, intelligence gathering, and participation in international initiatives. These enhancements will contribute to a more dynamic and productive exchange of ideas, ultimately supporting innovation that benefits consumers, businesses, and the economy while addressing the risks.

Moving forward we will:

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<sup>5</sup> <https://www.eba.europa.eu/esas-publish-joint-report-on-regulatory-sandboxes-and-innovation-hubs>

1. Enhance our Innovation Hub to deliver deeper, clearer and more informed engagement with the innovative ecosystem;
2. Establish an Innovation Sandbox Programme, which will involve informing the early stage development of selected innovative initiatives (which are consistent with public policy objectives) by providing regulatory advice and support within the programme.

## Engagement with the Ecosystem: Enhancing the Innovation Hub

Through engagement with stakeholders across Ireland and with our regulatory peers, we have taken the feedback and learnings on-board and looked to move quickly to enhance our existing facilities. We are currently undertaking a number of enhancements to the Innovation Hub and our engagement approach, with a focus on:

- Creating a **structured engagement process** for the Innovation Hub submissions, setting out timelines for Hub engagement and relevant information:
  - Pre-Engagement that outlines our expectations and provides timelines and relevant information.
  - Standardised form to collate information upfront to drive efficiency for all.
  - Follow-up engagement by the Innovation Hub to seek an update on the progress of the innovation.
- Enhancing our **outreach and engagements** with stakeholders to discuss learnings and trends, with an increased focus on regional engagements to support innovation across Ireland:
  - Regionally focussed roundtables and events for outreach and to promote Innovation Hub activities.
  - Annual themed workshops involving industry, academia, etc. and focussed on understanding emerging trends and future risks to consumers.
- Participating in relevant **Irish, EU or international sector/theme specific programmes**.
- Participating in relevant **EU and international forums**.
- **Participating in innovation activities**, such as Hackathons, Incubators, market-led skill programmes like Springboard, and

Tech Sprints to gain insights into market activities and trends and to develop skills and capabilities within the Central Bank.

- Launching a **Digital Centre for knowledge sharing of dedicated content** with all stakeholders in the innovation ecosystem:
  - Initially, the Digital Centre will contain existing materials but over time, we will develop dedicated content including **innovation-related FAQs, case studies, best practices and webinars.**

Our intention is that the Digital Centre becomes the “go-to” place for information on innovation from the Central Bank, including links to relevant information from our regulatory peers by linking to similar knowledge hubs and digital platforms such as BIS, European Commission, ESA’s and in particular the European Digital Finance Platform.

As set out above, a number of actions are in progress and in planning stage to enhance engagement with innovators, with rollout continuing into 2024.

## Targeted Engagement with the Ecosystem: A New Innovation Sandbox Programme

The Central Bank has assessed the different characteristics of sandboxes internationally and mapped against our statutory mandate and mission and against our current capabilities.

There is a diverse range of sandbox features internationally and we have identified a range of best practices from existing sandbox models that we believe will deliver effectively within our mandate, will support our regulatory and supervisory objectives and will address the feedback we have received from our stakeholders.

We propose to **establish an Innovation Sandbox Programme delivered in conjunction with a third party innovation programme** that allows innovative firms engage with the regulatory framework in a clear and transparent way and develop innovations that promote better outcomes for society and the financial system.

In addition, we propose that this **sandbox will take a thematic approach in engaging with innovation**. By tailoring to specific (evolving) themes that have potential for positive outcomes in financial services, this approach will allow us to focus on addressing the unique challenges/issues of that theme.

This Sandbox will provide a **robust programme over a specified period** where the innovation can develop allowing us to observe how the innovation would interact with the current regulatory and supervisory frameworks, to address any unintended barriers within the framework (where possible).

The methodology and delivery of these programmes will be subject to **continual assessment and impact review to ensure the Innovation Sandbox Programme delivers for its participants and the Central Bank**. Our intention is to operate it during 2024, and take the learnings from that experience to consider its effectiveness and any potential future developments/enhancements.

### **Objectives of the Innovation Sandbox Programme**

The Innovation Sandbox Programme provides innovators, both incumbents and new entrants, with access to regulatory advice and support. It is intended that the Innovation Sandbox Programme will be **open to a wide range of applications from all sectors of the financial system, such as authorised firms, start-ups, new entrants, and academic projects**. It is a key priority of the Central Bank to ensure a transparent application process and to share outcomes of all sandbox activity with stakeholders on an annual basis.

The Innovation Sandbox Programme aims to achieve the following objectives for participants and for the Central Bank:

- Increase Central Bank knowledge about financial innovations, risks posed and opportunities provided.
- Foster innovation in financial services so as to support better outcomes consistent with our public policy objectives.
- Assist firms in understanding the regulatory framework.
- Provide regulatory advice and support in relation to innovations.

- Facilitate the adoption of solutions able to control the different types of risk effectively and ensure we adapt our supervision accordingly.
- Support firms in identifying consumer protection safeguards that can be built into new products and services.
- Help us to evolve our regulatory frameworks to keep pace with developments and inform our approach to address any emerging gaps, including inform our input to the development of EU and international policy.

The proposed Innovation Sandbox Programme will engage innovators with relevant Central Bank experts - while respecting our mandate – who will provide **regulatory advice and support through a series of workshops, guidance mentorship, and educational components to financial intermediaries, start-ups, and research projects aimed at accelerating the development of projects and at promoting the quality and safety of specific innovations.**

This will involve close engagement with the innovators through ad hoc teams of Central Bank experts who meet with the innovators regularly to discuss the developments, progress or results. These teams will provide expert knowledge of regulation required, identify any arising regulatory gaps and areas of potential risk for the innovation development. They will also provide advice and support on the regulatory approach if required and this approach will **help firms understand the potential regulatory implications** of their innovative product or business model.

The Innovation Sandbox programme, as it proposed, will **not provide any derogation or waivers from regulation** but we will seek to apply the applicable regulatory frameworks proportionally with an outcome focused, risk-based approach. There will also **not be any digital testing** of products with consumers in the proposed programme. Nor will the Sandbox programme provide an endorsement of any innovative product or service, but rather support innovators in understanding the regulatory context.

### **The Innovation Sandbox Programme Operating Model**

In its initial iteration, the Innovation Sandbox Programme will operate as follows.

### *Stage 1: Thematic Approach*

An evaluation panel consisting of relevant expert staff and senior leaders within the Central Bank, and leveraging input from engagement with innovators through the Innovation Hub and the Financial Industry Forum's Innovation Sub-Group, will identify the key themes of the current/next phase of the programme.

### *Stage 2: Call for Proposals*

The Innovation Sandbox Programme will work via an annual '**Call for Proposals**' relating to different areas/themes of innovation as decided by the Central Bank.

These calls will look for third party operators to partner with the Central Bank to facilitate the delivery of the sandbox programme. Third parties will bring access to expertise, digital tools and, potentially physical space to help facilitate the programmes.

### *Stage 3: Call for Applicants*

The sandbox will operate on a cohort basis, i.e. applicants can only apply during a specific '**Call for Applicants**' window and each cohort will have a limited number of applicants admitted at any one time for a defined period of time.

In relation to pre-admission, the Central Bank will prepare clearly defined FAQs, coupled with a concise application form, which will set out the specific criteria for admission, in particular a high level of readiness, but also innovation and demonstrable consumer benefit.

If the application is eligible, it will be assessed by a panel of senior decision makers at the Central Bank and, within a specified time period, the applicant will be told whether the application has been accepted.

### *Stage 4: Innovation Sandbox Programme*

Successful applicants will be brought through a **specific programme over a pre-defined period of time**. The projects selected will receive developmental support such as:

- Sessions on the Central Bank's Regulatory approach.
- Provision of sector expertise areas such as banking, financial and insurance matters, etc.



- Regulatory in-depth case studies.
- Dedicated workshops.

#### *Stage 5: Off boarding/Exit from programme*

Upon completion of the programme, it is anticipated that the applicants will have received detailed guidance and support in relation to their innovation and **have a clear understanding of the necessary steps required to further engage with the Central Bank and the relevant regulatory framework.**

For clarity, an applicant's successful completion of the programme does not confer authorisation status nor guarantee any preferential treatment upon later application for authorisation.

#### **Outcomes**

It is envisaged that the Central Bank will be developing and enhancing existing skills and capabilities in partnership with the ecosystem as we develop the sandbox model. It is a priority of the Central Bank to share outcomes of all sandbox activity with stakeholders on an annual basis to ensure transparency and to share knowledge and learnings from the programme.

#### **Cost**

Since 2004, the total cost of financial regulation has been funded by a combination of regulatory levies and fees paid by the financial services industry and a subvention from the Central Bank (and ultimately the taxpayer). In 2015, the Central Bank signalled our strategy to move towards full industry funding and in line with this continuing strategy, we propose that the cost of our enhanced approach to the Innovation Hub and the sandbox and associated supports will be funded by the industry.

# Consultation Questions

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

**Question 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?

**Question 3:** What is your feedback on the operating model of the Innovation Sandbox Programme?

**Question 4:** Are there specific themes or areas of innovation that the Central Bank Innovation Sandbox Programme should address?

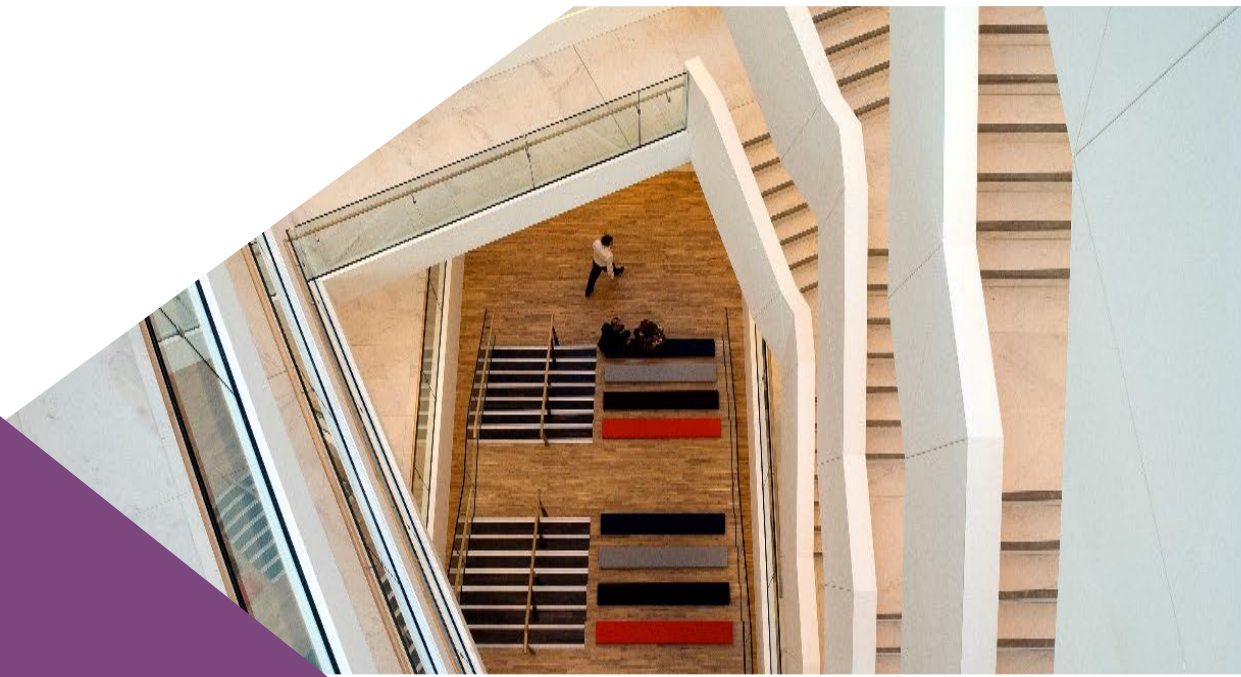
# How to make a submission

To make your submission please visit:

[centralbank.ie/innovationengagement](https://centralbank.ie/innovationengagement)

The closing date for responses is **8 February 2024**.

It is the policy of the Central Bank to publish all responses to its consultations on its website. Commercially confidential information should therefore not be included in consultation responses. We will acknowledge all responses submitted. If you do not receive an acknowledgement, please contact the us on +353 1 224 6000 to correct the situation.



T: +353 (0)1 224 5800  
E: [publications@centralbank.ie](mailto:publications@centralbank.ie)  
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