

Subject: EMA responses to the Innovation Engagement Consultation

Paper 156

Date: 8 February 2024

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

We welcome the proposed enhancements to the Innovation Hub, including the engagement strategy of the Hub, and believe it can bring great benefits for both industry and the Regulator. This in turn can continue to support the development of a mature and responsible fintech industry in Ireland.

In particular we welcome the structured approach for firms wishing to use the Innovation Hub, as well as the engagement activities you propose, as many EMA members were unaware of the Hub's existence before this consultation was launched. Timelines and the use of determined steps of pre-engagement, standardised forms and follow-up engagement will ensure the best use of time and resources of both the innovators seeking to use the Hub, and the Regulator facilitating its use.

EMA members are particularly interested in the launch of the Digital Knowledge Centre, as the sharing, more broadly, of knowledge between Regulator and innovation stakeholders would benefit the industry. The suggested approach of "FAQs, case studies, best practices and webinars" appears comprehensive and would be welcomed. We recommend the collection and collation of all responses to queries, particularly where there is a theme that seems to emerge regularly, and publication of the CBI's views on this theme or other regular queries in order to allow the wider industry to have a better view of the CBI's approach.

We would emphasise the importance of ensuring that learning from the Innovation Hub is dispersed throughout the other teams within the CBI, such as authorisation, supervision, policy and enforcement divisions. EMA members would welcome the opportunity this proposal brings to share and deepen the knowledge and understanding of innovative businesses in Ireland amongst the wider departments in the CBI.

We noted with interest the data indicating that the largest volume of queries over the past year have been queries related to the regulation of payments and crypto-assets, by quite a significant margin. We would very much welcome a more granular analysis of this data, for example drawing out what queries related to payments or crypto were the most prevalent, and thus giving an indication to the CBI as to where there might be current gaps in understanding.

We would also recommend identifying data points against which to measure the success of both the Innovation Hub and the sandbox. This could be measured by way of number of queries per sector, number of queries answered, number of firms who move on to complete authorisation process (although of course not all firms wish to take this route), as well as more qualitative feedback from the users of the Hub. We note that the CBI proposes a 6-monthly review following Innovation Hub contact.

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It has been suggested that the development of a “Graduate” programme would be beneficial. This would be a facility whereby those seeking information from the Regulator can engage with others who have been through the authorisation process already.

The EMA, as a member of the Financial Industry Forum Innovation sub-group, remains available (within and outside of this sub-group membership) to assist the CBI with any input gathering or analysis needs as the strategies around enhancements develop.

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?

The EMA supports the proposal to establish the Innovation Sandbox Programme; it is welcome to see that the Regulator has taken on board the feedback received through different fora such as the Financial Industry Forum Innovation Sub-Group, responses to the “Innovation and Disruption” section of the Consumer Protection Code Discussion Paper, and other engagements to date.

The addition of the Innovation Sandbox Programme may result in potential new product offerings in Ireland, thus increasing competition choices for consumers, benefitting the economy as a whole. Having additional visibility of innovative products at the Sandbox stage will also allow regulation to develop on par with the innovative products being brought through the programme, thus protecting consumers and ensuring financial system stability in the jurisdiction.

We reiterate that the proposals and steps towards a usual Sandbox regime are very welcome. We recommend that eventually efforts should be made towards including advisory and testing elements, thus amounting to a truly operational Sandbox environment. This will bring much more value to sandbox participants.

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

The CBI’s proposed operating model, including the 5 stages of : Thematic Approach, Call for Proposals, Call for Applicants, Innovation Sandbox Programme and the Off boarding/Exit from programme seems to make sense. We recognise that this is the first time the CBI is attempting to run a sandbox, and as such there is a need to design a time and theme limited approach that can be improved upon in future iterations.

We note the CBI’s intention to run the sandbox over a period of 12 weeks, and would like to highlight that in some markets (e.g. payment services), the ability of a firm to go to market quickly may impede their ability to participate in a sandbox, and run to the CBI’s planned schedule.

We note the plan to make use of “third party innovation programme” partners to run the sandbox, and request that the use of these partners would not introduce barriers to

entry for firms wishing to enter the sandbox. It is essential that the Sandbox Programme be accessible for all innovators to at least enquire at the first stage.

We acknowledge the rationale for the CBI's plan to adopt a thematic approach, but would recommend that the CBI develop a mechanism whereby all types of interested products/services or firms can approach the sandbox, even where they do not fall within the parameters of that theme. This way, the CBI can monitor whether certain themes or products are appearing more often, and consider this for the theme of the next sandbox cohort.

Regarding Stage 1, the Thematic Approach, the EMA only seek to ensure that the 'evaluation panel,' when identifying the current/next phase of the Sandbox Programme, will ensure that no section of innovator typology is excluded in the longer term, i. e. that all types of innovation theme are considered as time progresses, and the approach does not result in unintended restrictive measures. It is very welcome that the CBI suggest it 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."

On the Stage 2 Call for Proposals, the clarity and ease, and reference to 'transparency of application process' is welcome. Again, further understanding of the type of "third party operators to partner with" would be welcome.

A separate issue, not addressed in the Consultation Paper, is the relationship with GFIN, and whether the CBI might be able to facilitate sandbox testing across several jurisdictions. Most EMA members operate across the EU on a passporting basis, and several have more than one licence. Where a firm is considering launching the same product in more than one market, being able to test in two different sandboxes in their target jurisdictions could be very beneficial, particularly where it allows the relevant regulators to speak to one another.

Finally, we note the consultation suggests that the costs of the sandbox would be covered by the annual levy payable by regulated institutions. We welcome the CBI's intention to keep costs low by using internal resource as much as possible when outsourcing the running of the sandbox to a third party, and would strongly support the CBI's commitment to this objective.

As we highlighted earlier in our response, an advisory and testing facilitation service would provide more value to sandbox participants. In the same vein, we would strongly encourage the CBI to consider developing a live testing environment in the short to medium term, so that this will operate in the manner of a Sandbox benefitting users, the Regulator and the financial system participants generally.

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

We believe that the Innovation Sandbox Programme should be open to all innovators, and not restrictive of any type of innovation, from the outset. We note that the themed approach means that there will be certain types of innovators called to apply to take part in the Innovation Sandbox Programme on different occasions, however we seek to see that all aspects of innovation offerings will be allowed access the Sandbox over time.

Some current themes that should be considered include:

- Application of AML requirements
- Anti-fraud controls
- Artificial Intelligence (A.I) 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)
- Instant payments in Ireland
- Use of smart contracts
- Climate, ESG & Sustainable Finance
- Digital assets
- Digital payments and remittances
- Embedded finance
- Blockchain, Decentralized finance (DeFi) & distributed ledger technology (DLT)
- Open Finance/FiDA and API-driven innovation