

Submission to the Central Bank of Ireland

**Re: Central Bank approach to innovation
engagement in financial services
Consultation Paper 156**

Background

CUDA (the Credit Union Development Association) welcomes the opportunity to make a submission on behalf of its member credit unions to the public consultation by the Central bank of Ireland (CBI) in respect of its approach to innovation engagement in financial services.

As a representative body and development association for many of Irelands largest and most progressive credit unions, CUDAs membership is supportive of any initiatives containing a commitment from the CBI to structured engagement processes. Credit Unions operate under a culture and ethos of service to their membership. This ethos is enshrined in credit union specific legislation that safeguards the economic, social and cultural well-being of its members as well as their communities¹.

There is a high degree of uncertainty in the world that impacts, directly and indirectly, on credit unions and their members. Indeed the only constant is change and therefore credit unions need to be agile and have the ability to adapt to market and consumer changes. Furthermore, we believe that financial services will continue to change significantly in particular as non-bank FinTechs continue to make an impact on the payments sector in Ireland, and are now diversifying into more areas of consumer financial services. While this puts increasing pressure on traditional players to innovate and demonstrate greater agility than has been customary in financial services, the opportunity to partner with firms from the impressive FinTech ecosystem that has developed in Ireland over the past decade is exciting and presents tremendous opportunities for all players.

This should be beneficial for consumers, and we welcome the stated regulatory approach to ensuring that firms identify consumer protection safeguards. It is our hope that all providers of financial services, resulting from the approach to innovation engagement with the CBI, will face the same regulatory requirements. This will ensure alignment of all providers from a consumer protection and financial stability perspective.

Submission

In our Submission, we respond to questions which are relevant to the credit union sector.

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

¹ Credit Union Act 1997, Section 6(2)

The participation of the Central Bank in Irish, EU, and international programs and forums is essential for staying abreast of global trends and best practices. Engaging in innovation activities such as hackathons and incubators will not only provide insights but will also build the essential skills required within the CBI. The launch of the Digital Centre as a centralised hub for knowledge sharing further enhances accessibility and collaboration within the innovation ecosystem.

The Innovation Hub has potential for supporting education and skill development in emerging technologies such as artificial intelligence, blockchain, and data analytics. This can empower innovators and regulators to harness the full potential of these technologies. Providing training programs, workshops, and mentorship opportunities can equip individuals with the knowledge and skills needed to thrive in the rapidly evolving innovation landscape.

From a credit union perspective, the launch of the Digital Centre as a centralised hub for knowledge sharing is a welcome development. However, there is potential to enhance its utility by incorporating resources and content specifically tailored to the needs and interests of credit unions. Providing practical guidance, case studies, and best practices relevant to the unique operational context of credit unions.

Looking ahead, there are several areas where the CBI could further support and empower credit unions to drive innovation. One such area is the promotion of collaborative partnerships between credit unions, FinTech startups, and other stakeholders. Regular pitching sessions would be mutually beneficial for credit unions and FinTechs. Facilitating networking opportunities and fostering relationships between innovators and credit unions can catalyse innovation and drive meaningful impact within the financial services sector.

It would also be welcomed to nurture collaboration between industry, academia, regulators and government departments / bodies to accelerate innovation and address complex challenges more effectively. Initiatives such as joint research projects and public-private collaborations could leverage complementary expertise and resources. We would welcome the opportunity for credit unions to connect and collaborate on data-driven 'Proofs-of-Concept' aimed at providing customer-centered solutions. This could include enhancing financial inclusion among underserved populations.

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?

We appreciate the CBI's proactive approach in proposing an Innovation Sandbox Programme. The initiative demonstrates a commitment to fostering innovation within

the financial services sector, which is essential for driving positive outcomes for both consumers / society and the financial system. However, from a credit union perspective, there are specific considerations and suggestions that could enhance the effectiveness and inclusivity of the proposed programme.

Firstly, while the thematic approach outlined in the proposal has the potential to address specific areas of innovation, it's crucial to ensure that the themes selected are relevant and accessible to credit unions. Given the diverse nature of credit union operations and their focus on community-oriented financial services, themes should be broad enough to accommodate a variety of innovative solutions that align with credit unions' priorities and capabilities.

Furthermore, the call for proposals and applicants process should be designed to be inclusive of credit unions, acknowledging their unique role within the financial ecosystem. Clear guidance and support should be provided to credit unions interested in participating in the programme, including assistance in navigating regulatory requirements and demonstrating the potential benefits of their innovations to both consumers and the financial system.

Additionally, while engaging third-party operators to facilitate the delivery of the sandbox programme can bring valuable expertise and resources to the process, it is essential to ensure that these operators have a thorough understanding of the needs and challenges faced by credit unions. Collaborating with organisations that have experience working with credit unions or community-based financial institutions can help tailor the programme to better meet their needs and foster meaningful innovation within this critical consumer serving sector.

We will welcome where the off-boarding process provides guidance on how credit unions can continue to develop and implement their innovations beyond the programme, considering their unique organisational structures and regulatory environments.

In summary CUDA considers the proposal for an Innovation Sandbox Programme is a positive step towards fostering innovation within the financial services sector. From our perspective it is essential to consider the unique needs and perspectives of credit unions. By ensuring inclusivity, providing tailored support, and fostering collaboration with relevant stakeholders, the programme has the potential to drive meaningful innovation and positive outcomes for credit unions and the communities they serve.

The second part of the question regarding the CBI proposal meeting the CBI objectives can only be answered in the positive. The proposal to establish an Innovation Sandbox Programme has the potential to support the CBI by fostering innovation within the financial services sector, the programme can contribute to several key objectives, including the following:

- providing a platform for innovators to develop new products and services that enhance consumer protection safeguards. Through close engagement with participants, the CBI should identify and promote solutions that prioritise consumer welfare, ultimately improving financial outcomes for consumers.
- gain insights into emerging financial innovations and risks, the CBI should be positioned to better assess and mitigate potential threats to financial stability. The programme's focus on understanding the regulatory implications of innovations helps ensure that new products and services are introduced in a manner that does not compromise the stability of the financial system, while ensuring a level playing field for all financial service providers.
- the Innovation Sandbox Programme has potential to support economic growth by facilitating the development and adoption of innovative solutions within the financial services sector. By providing regulatory guidance and support to innovators, the CBI can encourage entrepreneurship and foster an environment conducive to 'protected' consumer innovation.
- the CBI can also enhance its regulatory effectiveness by gaining firsthand knowledge of emerging trends and developments within the financial services industry. By engaging with innovators and assessing the impact of regulatory frameworks on innovation, the CBI can refine its approach to regulation.

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

While the proposal is aimed at FinTech organisations, we wish to share a credit union perspective, the proposed operating model of the Innovation Sandbox Programme presents several strengths that align with the needs and priorities of our sector. Here is feedback on the key components of the operating model:

- **Thematic Approach (Stage 1)**

The thematic approach to identifying key areas of innovation is a positive aspect of the proposal. It allows for a focused exploration of specific themes which (understandably) we wish will be relevant to credit unions, which may include areas such as digital banking, financial inclusion, or community-based financial services. This approach ensures that the sandbox programme addresses the unique challenges and opportunities faced by credit unions in adopting innovative solutions.

- **Call for Proposals (Stage 2)**

The annual 'Call for Proposals' provides credit unions with an opportunity to engage with the sandbox programme and contribute their expertise and insights. It's important to ensure that the selection criteria for third-party operators prioritise

inclusivity and relevance to credit unions, allowing for meaningful participation and collaboration.

- Call for Applicants (Stage 3):

The cohort-based approach to admitting applicants ensures manageable oversight and support, which is beneficial for credit unions with limited resources. However, it's essential to ensure that the eligibility criteria and application process are transparent and accessible to credit unions, allowing them to demonstrate their willingness, readiness and potential benefits of their (service / partnering) innovations.

- Innovation Sandbox Programme (Stage 4):

The provision of developmental support, such as regulatory sessions and workshops, is critical for guiding credit unions through the sandbox programme. It's important to tailor these sessions to address the specific needs and challenges faced by credit unions, providing practical guidance on navigating the regulatory framework and implementing innovative solutions.

- Off-boarding/Exit from Programme (Stage 5):

The emphasis on providing guidance and support to participants upon completion of the programme is essential for ensuring that credit unions can effectively implement and scale their innovations. It's important to clarify the next steps for credit unions, including how they can continue to engage with the Central Bank and the regulatory framework beyond the sandbox programme.

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

Suggestions for specific themes or areas of innovation that the programme could address, consistent with the thoughts of the Industry Innovation sub-group, and aligned with the needs and priorities of our member credit unions are:

Financial Inclusion and Accessibility

- Exploring innovative solutions to enhance access to financial services for underserved communities and marginalised populations.
- Promoting the development of inclusive banking products and services tailored to the diverse needs of consumers, including those with limited access to traditional banking channels.

Digital Transformation and Technology Adoption:

- Supporting the adoption of digital technologies and innovative digital platforms to streamline processes, improve efficiency, and enhance customer experiences.
- Facilitating the integration of emerging technologies such as blockchain, artificial intelligence, and open banking into the financial services ecosystem.

Sustainable Finance and Environmental, Social, and Governance (ESG) Initiatives:

- Encouraging the development of sustainable finance solutions that promote environmental protection, social equity, and responsible governance practices.
- Supporting the integration of ESG considerations into investment strategies, risk management frameworks, and product offerings.

Cybersecurity and Data Privacy

- Addressing cybersecurity challenges and promoting the adoption of robust cybersecurity measures to safeguard customer data and financial infrastructure.
- Exploring innovative approaches to enhance data privacy protections and compliance with data protection regulations.

Artificial Intelligence (AI) in Financial Services:

- Harnessing the potential of artificial intelligence and machine learning to enhance decision-making processes, automate routine tasks, and improve operational efficiency within financial institutions.
- Exploring innovative AI-driven solutions for risk assessment, fraud detection, customer engagement, and personalized financial services.

Additional Comment - Costs

The CBI is proposing that the cost of its approach to the Innovation Hub and the sandbox and associated supports will be funded by the industry. Costs are not quantified. While we recognise the straightforwardness of including as part of industry regulatory cost, we believe that funding of the proposed Innovation Engagement is crucial to its success, and there are several potential approaches that are worth consideration:

- Government could allocate funds specifically for innovation initiatives within the financial services sector as part of broader innovation funding programs.
- Financial institutions, including banks, non-banks, credit unions, and other stakeholders within the financial services industry, could contribute financially to support the Innovation Engagement Programme structured as a membership fee or a voluntary contribution based on the size and resources of each institution.

- CBI could seek grants from international organisations or other funding bodies that support innovation and financial inclusion.
- Implement cost recovery mechanisms, such as charging fees for certain services or activities within the programme, e.g. participants could be required to pay a fee to cover the costs of regulatory advice or specialised training sessions or a simple 'pay as you use' mechanism.
- CBI could explore collaborative funding arrangements with other regulatory authorities, both domestically and internationally, who have a shared interest in fostering innovation within the Irish financial services industry.

Many thanks again to the Central Bank of Ireland for accepting our input. As always, CUDA is happy to meet to discuss any of the points raised in this submission.



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