

Dogpatch Labs - Response, CP156 Central Bank Approach to Innovation Engagement in Financial Services



Governor of the Central Bank engaging with the ecosystem, September 2022



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Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem



Forward

As the CEO of Dogpatch Labs, I'm thrilled to join this important conversation about innovation in finance, initiated by the Central Bank of Ireland. We believe this marks a pivotal moment for the ecosystem, offering a unique opportunity to catalyse growth and advancement within the sector.

Whilst researching for this submission, we've talked to a number of fintech startups and big financial players here in Ireland. They all agree: Ireland is a special place for fintech. With a strong startup scene and being home to many of the world's top financial and tech companies, we have a solid foundation to build on. But we want to do more than just support the global players. As we compete on a global stage, it is becoming increasingly important to focus on innovation, both to remain relevant to the FDI's that call Ireland home, and to build new indigenous FinTech companies.

A supportive regulatory environment is key to making this happen. Our discussions with global leaders like the FCA in the UK and MAS in Singapore, and innovation hubs like Lloyd's Lab in London, have reinforced the significance of regulatory sandboxes in nurturing innovation. These sandboxes are viewed as a competitive advantage, providing startups and large institutions alike with a safe environment to test new ideas and technologies. The Brexit context has further highlighted the importance of such initiatives. We have witnessed first hand London's increasingly aggressive posture in attracting FinTech businesses by offering comprehensive support and resources to facilitate innovation.

Whilst we recognise the importance of a consistent and stable regulatory environment, this must be balanced with the need for innovation. We broadly welcome the proposed enhancements to the Central Bank's innovation approach. However, we also recognise that it is the beginning of a journey and we have much work to do to compete on an increasingly competitive stage. It is our sincere hope that we can build upon these proposals. In particular, we must emphasise the importance of introducing a regulatory and digital sandbox in the near future. As we engaged with large financial institutions and startups alike, this was often the first question we were asked about the proposals, often followed by an inquiry on when a more complete sandbox would be available.

At Dogpatch Labs, our focus is on building a world class innovation ecosystem in Ireland. To that end, we offer our full support to these proposals, and we hope our experience in innovation and the insights below will prove useful. We will continue to engage as required and we thank those that had a hand in creating this consultation. We believe this will greatly enhance Ireland's competitiveness.

Patrick Walsh



Patrick Walsh
CEO





Our Approach

For the most part, we have avoided direct quotes from individuals as their individual view may not represent the view of the organisations they work for. Instead we have created a composite view from those we engaged with. This is both to preserve their anonymity and to give a more holistic picture. Should the Central Bank wish to deep dive on any of the points below, we are happy to facilitate further engagements.

Under each question we have composed a view, with clear recommendations. We have created headings that we believe enumerate the individual enhancements in an effort to ensure we give comprehensive feedback.

For the most part we have remained “within our wheelhouse” and have focused on the impacts of the proposed Innovation Enhancements. Dogpatch Labs has considerable expertise in delivering impactful innovation programmes for startups and corporates alike.

With this in mind, we would like to endorse the submission provided by Blockchain Ireland, which gives a more comprehensive view on policy as it affects new technologies that impact future finance.



Q1 What is your feedback on the enhancements underway with the Innovation Hub? Are there other areas that should be developed?

Creating a structured engagement process/outreach and engagements

We believe firmly in an Open Innovation model, that is, encouraging collaboration across the ecosystem. With this in mind, we suggest that any engagement model should be designed primarily to encourage engagement and make it as easy as possible to have an initial engagement. Generally, this is just an early discussion carried out either by the CBI or a 3rd party that understands the scope of the support offered and can offer guidance on a path forward. Given that broadly the supports proposed consist of advice/learning opportunities we do not envision large demand initially. 375 engagements have occurred over 5 years, with 40% of those engagements focused on questions pertaining to authorisation, 33% related to crypto and a further 31% focused on payments. This volume is easily manageable. We suggest an open door and an iterative approach to process design, with maximising engagement as the guiding principle initially, followed by swift filtering, and avoid being overly prescriptive in the setup phase. Learn and iterate.

We broadly welcome the proposed **outreach and engagements**. There are key aggregators within the innovation ecosystem that may be leveraged as initial “push” channels, including innovation hubs, universities, industry representative associations etc. As we discuss later, we also advocate a “pull” approach - creating a centre of gravity where potential sandbox stakeholders naturally aggregate.

It is also critical in our view to ensure regional focus. Liam Cronin, CEO of the RDI hub says: “We have a thriving FinTech ecosystem in Munster. For example the RDI hub is adjacent to Fexco in Killorglin, one of the great Irish FinTech companies. Although they may be located locally, they think and act globally.

We have a unique perspective, and face unique challenges - for example rural areas have less access to traditional banking services.”

Some regions also represent FinTech clusters. For example, SETU in Carlow is home to the InsurTech Network Centre (INC) and The Centre for Insurance, Risk and Data Analytics Studies (CIRDAS). Both work with large Insurance FDI's located in the region. These are active participants in the national ecosystem.

Ireland must also compete on the international stage. Although we recognise that the CBI currently has no mandate to play a role in the attraction of outside firms, the reality is that as organisations consider the jurisdictions in which they operate, a key consideration is the regulatory environment and how that environment supports innovation.

For example, the Winkelvoss twins latest startup, Gemini, has decided to locate in Ireland. From the Irish Times:

In a statement, the company said that the decision to establish Gemini's European headquarters in Dublin was partially based on its “positive view of the Irish regulatory landscape”.

“The Central Bank has a very strong reputation,” Cameron Winkelvoss told The Irish Times. “There's also a community of technologists and an ecosystem in Ireland, which made a lot of sense. So we did look at a number of different countries in the region. We felt this was the right fit.”

However, more recently Gemini have threatened to leave Ireland for France due to what they consider Ireland's conservative view of how EU law should be applied.



Regardless of the actual case they have to make, it is nonetheless clear that regulation plays a key role in attracting innovators.

This of course, is also true when it comes to retaining FinTech startups in Ireland. We are aware of several startups that have left for London, Germany and France because they have either failed to get a licence or required access to a digital or regulatory sandbox.

It is also worth noting that in the case of the Winkelvoss', had they sought a regulatory sandbox, they would not have found one in France. However, France does operate a flexible regulatory regime - something that may be considered to fall within the scope of these proposals.



The Winkelvoss twins announce Gemini's European HQ in Ireland.

Participating in Innovation Activities

Dogpatch Labs and many other innovation hubs run a wide variety of innovation programmes including hackathons, incubators etc. and we heartily endorse participation from the CBI. We believe this level of proactivity would be a great addition to the innovation ecosystem.

Launching a Digital Centre for knowledge sharing

Given the volume and type of enquiries that have come through the Innovation Hub to date, it would seem prudent to filter many of these low touch questions into a digital channel that can probably answer many of the questions posed and ensure focus is on more meaningful engagements.





Are there other areas that should be developed?

A Physical Hub

We believe that there is growing consensus for a physical FinTech hub. In particular, Minister Jennifer Carroll MacNeill said: *“I am working towards Ireland having its own dedicated FinTech Hub to foster innovation and help FinTech companies with their speed to market and capacity to scale.”*

She further references the Station F Model in France which she visited in 2023. Station F is a large innovation hub located in Paris. What’s notable about Station F is the extent to which government functions are integrated into the hub, with relevant government entities occupying physical space in Station F with a view to offering startups and innovative companies the support they need to succeed. It is also an opportunity for those government functions in turn to increase their knowledge about financial innovations by being at the coalface.

Of course, a physical hub invites **further questions**. In this evolving landscape, several critical questions emerge regarding the Central Bank's role and strategy in this initiative.

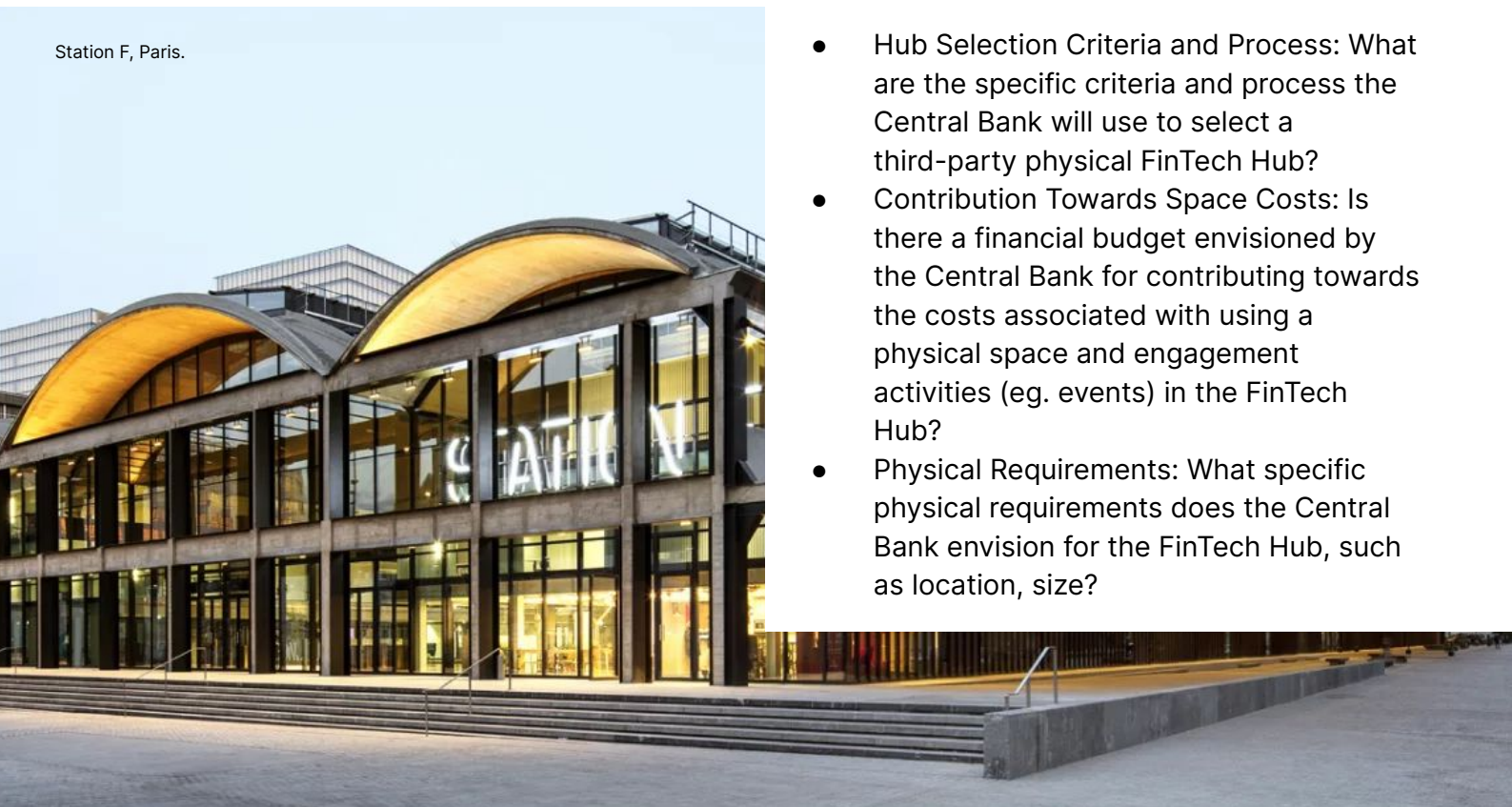
- How does the Central Bank integrate into such a hub - through a 3rd party or a physical co-location?
- Is there a clear, integrated vision aligning the Central Bank's plans, as detailed in their innovation paper, with the Department of Finance's broader objectives for establishing a FinTech hub?

Understanding the Central Bank's perspective on these matters is crucial, as their involvement could represent a significant shift in regulatory engagement, promoting a dynamic and collaborative approach to fostering innovation in financial services.

Other Considerations:

- Hub Selection Criteria and Process: What are the specific criteria and process the Central Bank will use to select a third-party physical FinTech Hub?
- Contribution Towards Space Costs: Is there a financial budget envisioned by the Central Bank for contributing towards the costs associated with using a physical space and engagement activities (eg. events) in the FinTech Hub?
- Physical Requirements: What specific physical requirements does the Central Bank envision for the FinTech Hub, such as location, size?

Station F, Paris.





Recommendations for Q1

- ✓ Consider creating an open door policy
- ✓ Consider keeping the engagement process light initially and refine as you learn
- ✓ Consider Filtering rapidly and create defined processes
- ✓ Consider a change of mandate for the CBI to support innovation and growth
- ✓ Consider the international view and the CBI's role in attracting talent and FDI
- ✓ Consider using the proposed Digital Centre for knowledge sharing as a filter for lower touch, lower value engagements
- ✓ Consider the CBI's role in a physical FinTech hub
- ✓ Consider the impact a physical hub could have on the proposed Sandbox

Q2 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?

Our Feedback

We welcome the establishment of a Sandbox Programme, in fact we believe that is a key component of Ireland's wider ambition to succeed in the Financial Services sector. It is clear Minister McGrath has also embraced a balanced approach to the benefits and risks FinTech represents:

“That balance is one of the issues that the Central Bank of Ireland put front and centre in the consultation paper they published last week on how they engage with innovation in the sector stating that “Innovation in financial services has the capacity to bring many benefits to consumers, businesses and society”.

- *Minister for Finance, Michael McGrath*

However, we don't believe the Sandbox Programme in its current proposed form will have the desired impact as it is difficult to assess the impacts of new innovations without the ability to experiment and iterate. The focus of the proposed sandbox as we understand it is regulatory advice and developmental support and aims to align innovations with regulatory frameworks but does not include consumer testing or regulatory waivers. Although we acknowledge that this fulfils the central mandate of the CBI to safeguard monetary and financial stability, it will not facilitate true innovation, or as the Minister puts it, the “capacity to bring many benefits to consumers, business and society”. The balance is skewed heavily towards mitigating risk rather than seeking benefits, although we understand that such engagements can also ultimately inform the evolution of core regulations.



Further, throughout our interviews we did not find a pressing market need for advice or regulatory support from either the startup FinTech Community or the large institutions we interviewed. Our own results could be skewed here as our own community consists of more established startups rather than very nascent startups. But we would consider these engagements as somewhat lower value as many of the very nascent startups have a much lower probability of survival.

Continued...

The majority of mature startups we interviewed tend to have a great deal of experience in financial services, and have familiarity with the regulatory environment, or have access to mentors with the expertise they require.

Nonetheless, on the whole they expressed support for the proposed Sandbox Programme, primarily as they saw it as a first step and a cultural shift from the CBI. They also understood that the CBI is well aware of other models in other jurisdictions and there seems to be a desire from both the CBI and the Dept. of Finance to embrace innovation, citing the Governor's recent conference appearance;

Earlier, Mr Makhlouf said the Central Bank plans to set up a regulatory “sandbox” to allow financial and technology firms to test innovative products in a safe environment before launching them on the market. The move comes almost a year after the Department of Finance said in a report on the banking system that the regulatory body should review its existing innovation hub and consider setting up a sandbox programme – similar to one offered in some other countries, such as the UK – to allow companies to test new products in a live setting.

Comparing approaches

1	Central Bank's Approach	The Central Bank's programme doesn't involve direct consumer testing, representative data sets or derogations. This approach focuses more on understanding and aligning innovations with regulatory frameworks rather than market testing.
2	FCA's Approach	The FCA's regulatory sandbox, on the other hand, often includes the testing of new products and services with consumers under a controlled environment. This allows firms to test their innovations in real-market conditions while ensuring consumer protection measures are in place.
3	Germany's Approach	Germany, representing a leading EU approach, tends to blend regulatory alignment with market experimentation. Its sandbox allows for consumer testing within a regulated environment, fostering innovation while managing risks and protecting consumers.
4	Singapore's Approach	The Monetary Authority of Singapore (MAS) incorporates a robust and practical approach to consumer testing in its FinTech regulatory sandbox. This allows firms to test their products and services directly with consumers under specific, controlled conditions.

Recommendations for Q2



Reconsider the balance between benefit and risk. The current CBI approach appears overly cautious compared to leading jurisdictions.



Consider further extensions to the sandbox to include regulatory and digital sandbox components. Experimentation is key to innovation for consumers.

Q3 What is your feedback on the operating model of the Innovation Sandbox Programme?

Thematic Approach

We are concerned that there are simply not enough entities, startups or otherwise, to facilitate a thematic approach. In the case of startups, the decision to access a Sandbox is very much based upon the need to access certain supports at a very specific time on their journey. For example, if crypto was not a chosen theme the majority of startups in this space are immediately disqualified, and by the time the theme comes around it may be too late or too early.



Consider evaluating applicant on likely market impact/disruption

Calls for Proposals

It is proposed that the calls take place annually. Again, timing is critical for a startup in particular. Ireland has approx. 200 FinTech Startups. When taken with the thematic approach, the timing of the calls is unlikely to suit a sufficient number of startups to constitute a cohort, and limits the ability of CBI to choose more impactful innovations.

In the past the FCA adopted a similar approach, but since 2021 has moved to an “always on” model. “Firms can now access our testing services at any point throughout the year, at the right point in their development lifecycle, at a time that works best for them.”



Consider an always on model

Calls for Applicants

We do not recommend a cohort approach as once again, timing is key for startups. It may be a useful approach for nascent startups, but strictly from an impact perspective many of the participants' propositions are unlikely to succeed. It makes more sense to focus on later stage startups in this regard.

We believe the concise application form and FAQ's followed by a filtering process proposed is a prudent way to select applicants.



Consider engaging with startups/firms as the need arises and filter for impact



Innovation Sandbox Programme

Through the NDRC programme, Dogpatch Labs offers a series of early stage support to startups at the beginning of their journey. We only take a cohort approach for the very high touch pre-accelerator and accelerator programmes, which lend themselves to much deeper interaction. And even then, we run these multiple times per year. We provide Office Hours and Master classes, which are broadly educational, as a calendar of events throughout the year and are roughly analogous to the proposed programme;

- Sessions on the CBI's regulatory approach
- Provision of sector expertise
- Regulatory case studies
- Dedicated workshops

It may be possible to “productise” some of these elements - for example, record videos of sessions and make them freely available on a website. Dedicated workshops could be run monthly/quarterly and open to those beyond the proposed cohort. It appears the desired impact of this programme - a better understanding of the regulatory framework - could be better achieved through a calendar of events rather than a defined programme.



Consider a calendar of events approach rather than a programmatic cohort approach.

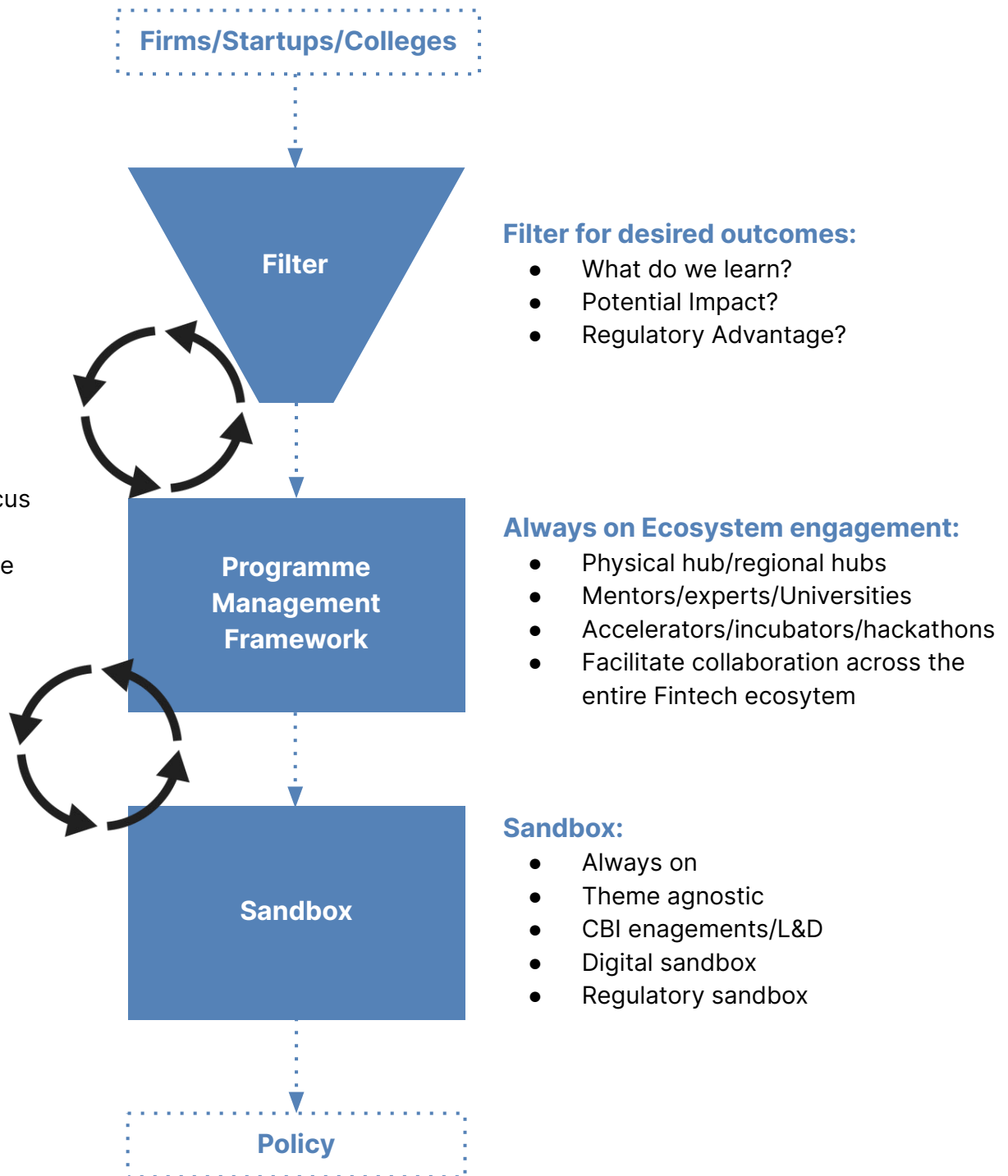
Off boarding/Exit from programme

We don't believe the proposed programme warrants a detailed Off-boarding, but we do agree that clear next steps required to engage with the CBI is very useful.



Consider where this proposal fits within a holistic approach to FinTech Innovation, integrating various aspects of the FinTech Ecosystem.

We believe a holistic approach to FinTech innovation is a potential competitive advantage for Ireland, attracting talent, startup and retaining and enhancing our FDI position. The Station F model has proven integration of key ecosystem components, and Ireland has the opportunity to take this model even further.



Iterate as the programme cycles using learning. Focus on risk mitigation, refining programme and sandbox parameters and desired outcomes



Q4 Are there specific themes or areas of innovation that the Central Bank Innovation Sandbox Programme should address?

As outlined above, we believe a themed approach is too restrictive and would much prefer to see an “always on” model that allows startups to access the programme at the right point in their development lifecycle, at a time that works best for them



Thank you



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