



InsTech.ie

Response to CP156 – Central Bank Approach to Innovation Engagement in Financial Services February 2024

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Introduction

Instech.ie was established as a not for profit, company limited by guarantee in November 2021. We commissioned a report by Deloitte (The Insurtech Review of Ireland) that explored the need, potential and development requirements of such an organisation.

The *InsurTech Review of Ireland*, informed by stakeholder engagements, highlighted that all of the core components are in place to develop an Insurtech ecosystem in Ireland. Building critical mass and buy-in from across the ecosystem will be fundamental to what can be achieved. The Irish insurance market is mature, but with a need for regeneration. Insurance firms are feeling increased pressure on legacy infrastructure and the ever-increasing need to accelerate the shift to cloud-based, modern architectures and keep pace with global market developments. Development of this ecosystem will unlock substantial opportunities for Ireland's insurance sector and wider economy, enabling it to push ahead of other locations and create a supportive, future-proofed ecosystem, whilst enabling new and emerging technologies to be tested in a safe, well-regulated environment. Ultimately, this will result in new growth opportunities for Insurers and consumers across Ireland as well as driving wider macroeconomic benefits.

The organisation is collaborative and open to all stakeholders in the insurance ecosystem – Insurance firms, brokers, start-ups, academic and research institutions, government, enterprise support agencies and regulators.

Instech.ie is tasked under the Department of Finance plan, IFS 2025, with building an insurtech hub in Ireland. It is a member of the Financial Industry Forum convened by the Central Bank of Ireland.

Instech.ie has three strategic pillars upon which it will deliver on its mission to build Ireland's reputation as an innovation test bed for insurance:

- Drive innovation capability and talent in Insurance firms, brokers and MGA's in Ireland
- Become the destination of choice for international Insurtechs establishing an EU presence
- Build a pipeline of Irish Insurtechs that can compete globally

Founding members of Instech.ie include :



In addition to (re) insurers, Instech.ie tracks 100 + indigenous Irish companies selling innovative products to the insurance sector (see our Insurtech map - <https://www.instech.ie/instech-ie-insurtech-map-2024>)

The regulatory friction to innovation in insurance can be a significant barrier to both the development of indigenous insurtechs and also to disruptive innovation from within insurance firms. Regulation can act as a barrier to innovation because there can be significant upfront investment required before the technical or commercial risk is yet tested. An innovation testbed that creates a safe and cost effective environment to design and test new products before they are launched into the formal regulated market is highly attractive to our community. This could take the form of a digital sandbox (where anonymised pools of data allow for technical and commercial value testing) or a regulatory sandbox (where the commercial deployment is managed in a way that gives comfort to the regulator that risk is managed appropriately).

Ireland has all the hallmarks of becoming a successful insurTech ecosystem; a globally recognised traditional insurance centre, with a wealth of knowledge and expertise to match. There is a clear opportunity to remain at the forefront of this sector and push further above rival locations to create a future-proof ecosystem that is inclusive and supportive whilst

enabling new and emerging technologies to be tested in a safe and well-regulated environment.

Through the development of a vibrant Insurtech ecosystem substantial opportunities will arise for the insurance industry to embed a new generation of technology, analytics tools and AI to transform insurers' abilities to detect, anticipate and avert risk. Ultimately, these efficiencies will result in greater cost savings for the Irish insurance firms, domestic consumers, and also drive wider macroeconomic benefits to Ireland.

Soliciting feedback from our network

Our community of (re)insurers and indigenous insurtechs contributed to our response to this consultation. Their contributions and insight were achieved through a roundtable of insurers, and a survey to our database of Irish insurtechs. In addition Instech.ie contributed feedback to Insurance Ireland's response and the aggregated response on behalf of the industry representatives on the CBI Financial Forum Innovation subgroup.

Overall Observations

Instech.ie welcomes this consultation on the Central Bank approach to Innovation Engagement, signalling the open and engaged nature of the Central Bank for interactions with the insurance ecosystem. The two primary proposals (1) to enhance the Innovation Hub to a deeper engagement model and (2) the establishment of an innovation sandbox programme, represent a significant elevation in the Central Bank's innovation approach toward innovation-related engagement with the insurance ecosystem. This also reflects the important role the regulator plays in fostering an innovative culture and contribute to a more dynamic and productive exchange of ideas and concepts which ultimately support innovation that benefits consumers, businesses, and the economy and build on Ireland's reputation globally as a centre of excellence for innovation in insurance.

Low awareness of the Innovation Hub amongst insurers

It is clear through the feedback from our community that, to date, there is a low level of awareness of the Central Bank's innovation Hub and how to engage with it amongst (re)insurers. The value proposition for engagement is unclear but it was noted that there is significant interest in exploring a deeper relationship with the Innovation Hub.

There has been limited engagement from insurtechs with the Innovation Unit that also reflects a low level of awareness amongst that stakeholder group.

Innovation in a regulated environment is a team sport

Although some insurtechs do seek direct authorisation, the trend is very much towards insurtechs partnering with (re)insurers to enable new products our consumer experiences. While incumbent regulated entities and entities who are currently proceeding through an authorisation process are familiar with engaging with the Central Bank of Ireland, the same may not apply for some insurtechs who are not regulated and do not propose to be regulated, but instead are offering solutions to regulated entities and their customers or clients. This 'partner' approach should be actively considered in the development of any sandbox as it may give greater comfort to the Central Bank as there will be an existing well-regulated

partner involved. An understanding of how regulations impact on an insurer's partner ecosystem will encourage a greater propensity to partner.

Fostering a greater understanding of innovation within the Central Bank

Increasing engagement by the Innovation Unit with industry is to be supported. However, it is crucial that the wider organisation within the Central Bank evolves to a culture of curiosity and understanding regarding innovation and its role in a regulated environment. This will be a significant cultural shift within the organisation and it is imperative that the Innovation Unit is not isolated in this journey. It is as important to engage and educate around innovation internally within the Bank as it is to engage externally with industry.

Lack of Consumer engagement

As currently proposed, there is no consumer testing envisaged in the Sandbox. This reduces the relevance significantly to (re)insurers. Friction to innovation comes from the 'one size fits all' approach to validating a new product or experience and leads often to incremental innovation, rather than transformative innovation that delivers great impact to consumers. Consideration to the nature of collaborative innovation (a strongly regulated insurer partnering with an insurtech) could give greater comfort around consumer protection and allow for a more proportional application of regulations to allow for limited testing with consumers. Technological developments are significantly changing consumer's expectations of insurance and the digital environment enables both established companies and new start-ups to bring innovations to market much faster and better meet these emerging needs.

Positioning of Sandbox within Insurers' Compliance teams

(Re)insurers have made significant investment in compliance teams and have deep expertise within their organisations already. Consideration should be given as to how this expertise is leveraged effectively to engage with the Sandbox. There is benefit to a platform for a more informal engagement on regulatory matters, but this should not displace the role that

compliance teams currently hold. Securing their involvement at the earliest stages of innovation exploration will ensure that regulatory implications are understood at the outset and lead to an increased success rate in terms of bringing an innovation to the market. If not engaged, having parallel conversation between insurer and regulator and being perceived as a ‘work around’ internal compliance teams may cause challenges.

An Integrated approach

As significant amount of innovation within the insurance sector relies on well-regulated insurers partner with unregulated insurtechs. To encourage a greater understanding of compliance and regulation within these unregulated insurtechs, we would encourage the Central Bank to actively promote the Innovation Hub to all players in the sector, including non-regulated entities so that they can benefit from the Innovation Hub, which in turn fosters a culture of compliance across the sector. Partnering with Enterprise Ireland and the IDA would be an effective way of reaching many of these entities.

The Central Bank should also look to other regulatory bodies that impact on the consumer and explore providing a mechanism with them to give a ‘single view’ from a regulatory perspective. Creating an open innovation approach to the sandbox that supports all regulatory bodies to engage would provide significant value.

Role of the Financial Forum Innovation sub group

Instech.ie is a member of the innovation sub group of the Financial Services Forum and this group could act as an advisory committee to the Central Bank of Ireland’s Innovation Hub 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.

Specific Observations on the Questions in the Consultation Paper

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

Instech.ie fully supports the enhancements underway with the Innovation Hub. It is a welcome step in fostering a deeper communication and engagement model between the regulator and the insurance ecosystem.

The enhancements proposed are ambitious and it will be important to resource the unit appropriately. It will be equally important to ensure that the Innovation Unit is embedded appropriately within the Central Bank and not evolve into an ‘outlier’ within the organisation. A respect for, and understanding of, the role of innovation within a regulated industry will be essential right across the Central Bank.

Financial services is a broad church and there is a concern that if engagement themes are too broad then specific verticals, such as insurance, may not be able to engage as much as they would like to. Consideration should be given to how best to ensure the voice of specific sectors are heard and accommodated. Instech.ie strongly supports the enhancements and is ready to engage on how best to increase innovation engagement with the insurance sector.

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?

As currently proposed, there is no consumer testing envisaged in the Sandbox. This reduces the relevance significantly to (re)insurers. Friction to innovation comes from the ‘one size fits all’ approach to validating a new product or experience and leads often to incremental innovation, rather than transformative innovation that delivers great impact to consumers. Consideration to the nature of collaborative innovation (a strongly regulated insurer partnering with an insurtech) could give greater comfort around consumer protection and allow for a more proportional application of regulations to allow for limited testing with consumers. Technological developments are significantly changing consumer’s expectations of insurance and the digital environment enables both established companies and new start-ups to bring innovations to market much faster and better meet these emerging needs.

It is hard to see how, without meaningful consumer engagement, the sandbox (as currently envisaged) can deliver on impactful and transformational innovation in the insurance sector. It may however lead to incremental, internally focussed innovation.

The pace of innovation, particularly those based on technological advances, is constantly accelerating. An annual call to a sandbox does not appear to match the pace of change in the market, nor does it reflect the competitive pressures of firms to bring product to market. This challenge is further compounded by a perceived requirement for a theme to appeal to the broad financial services sector. The relatively small number of anticipated participants in the sandbox also limits the impact of such a sandbox.

The Sandbox, as currently outlined, would appear to appeal more to insurtechs that are seeking authorisation than incumbent firms (who already have a depth of compliance knowledge).

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

We believe that the operating model is a positive, structured approach.

In terms of pros and cons of a cohort-based approach versus an approach one with an unrestricted application window where innovators can apply at the right time depending on their development lifecycle, it may be more efficient and practical for the Central Bank to organise the workload and resources needed on the cohort-based approach and we agree with this approach to the operating model initially. As the Innovation Sandbox Programme increases its capability over time it should consider an “always open” approach which may provide more flexibility for applicants, as projects that are ready for testing would need to wait until the opening of a new cohort window otherwise. It is important that the approach allows for a multiple themes in a given 12-month period.

It would be beneficial that the datasets/inputs and outcomes are easily accessible by all companies - not just those who participated in a given 'cohort'.

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

Innovation Sub Group

As part of the work programme under way through the Financial Services Forum's 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 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's as well as agenda items for the CBI's outreach and engagements with industry in 2024.

Align with themes across other European sandboxes

As many of our (re)insurers and insurtechs operate across different European markets, it would be beneficial to align and complement activity in other jurisdiction's sandboxes.

From the basis of our discussions with members a number of common policy themes could be considered a good fit to address through the Innovation Sandbox Programme:

1. Digital Credentials

Exploring how access to digital documentation such as birth certificates, driving licenses and passport details through a digital wallet would undoubtedly deliver economic benefits and be transformative in terms of service delivery. Digital wallets, contactless payments, and embedded transactions are now a considerable part of everyday life. While the use cases and economic benefits are limitless in trusted third parties having access to digital credentials with the permission of the user, some of use cases and benefits include;

- **Enhancing the Customer Experience:** The exchange of Digital credential empowers customers to quickly access the information they need. Customers expect consistent, integrated experiences across different channels and to access insurance products and services in a more customer centric manner. Insurers continue to evolve and adapt to meet these changing demands and needs of consumers.

- **Increases efficiency:** Exchanging digital credentials can be undertaken outside of business hours and give citizens flexibility, when undertaking life administration tasks while also reducing the cost and friction of doing business, which will ultimately benefit customers over time.
- **Decrease in transaction time/costs:** The time spent to complete any transaction from complex financial (house purchase, borrowing, account opening) to daily needs (registering children in schools, sports clubs etc) is reduced for customers and insurers.
- **Fraud:** The sharing of credentials with a trusted partner protects customers from fraud or identity theft, as well ultimately reducing fraudulent claims across different insurance products by verifying identity in line with Anti-Money Laundering (AML) legislation and Know your Customer (KYC) requirements, which will ultimately benefit the economy and wider society.
- **Swifter Claim process:** The use of digital credentials can help to speed up the claim adjudication process at times when people are most in need and at sensitive times in their lives such as after an accident, injury, death, or at a time of financial loss due to damage to their property/vehicle. This technology enables a more efficient service and will in faster claim settlement.
- **Environmental Impact:** Societal expectations around sustainability are achieved by limiting the use of unnecessary physical documentation, and could eliminate routine carrying of physical driving licences, motor insurance certificates & discs and other such documents.
- **Decrease in transaction time/cost:** The time spent to complete any transaction from complex financial one (house purchase, borrowing, account opening) to daily needs (registering children in schools, sports clubs etc) is reduced.
- **Account opening:** All documentation is digitally supplied reducing need for manual checks and reducing the opportunity for identity fraud, reducing compliance costs and increasing effective compliance.
- **Renting:** both landlords and tenants are certain of the identity of the respective party, providing confidence in the exchange of deposits and/or keys and credits availed of from revenue.

- **Employment:** the veracity of educational and prior employment reference checks can be automated reducing the burden on both sides of the verification process. From an insurance perspective this would help when it comes to recruitment where there are already challenges, and when it comes to Compliance with annual Fitness and Probity requirements from the Central Bank.

2. Regulatory Reporting/Disclosures

A sandbox with industry data inputs (pseudonymised/synthesised), and example processing of those inputs to create sample regulatory outputs/disclosures. This would be useful for regulations which require disclosures to the CBI, Customers, and/or Shareholders e.g Solvency II, PRIIPs, MiFID, AIFMD, IDD, SFDR, CSRD, etc. By running a sandbox with real world data it would allow for best practices to be identified for areas of ambiguity within these regulations. These best practices can be used by regulated entities and RegTechs alike to ensure their systems adhere to these best practices - which would help to improve the consistency and accuracy of disclosures.

3. Climate Risk Modelling

A sandbox with industry data inputs (pseudonymised/synthesised), and example processing of those inputs to model climate risks (e.g physical and transition risks) for portfolios of assets. This would be beneficial to a wide range of companies within the financial services sector in terms of creating a common/baseline approach to assessing the climate risks associated with their assets.

4. Parametric Insurance

The term parametric insurance describes a type of insurance contract that insures a policyholder against the occurrence of a specific event by paying a set amount based on the magnitude of the event, as opposed to the magnitude of the losses in a traditional indemnity policy.

Both parametric and traditional indemnity insurance policies exist for the purpose of reimbursing a loss event. However, the manners in which the policies reimburse these losses are fundamentally different. When a claim occurs for a traditional indemnity policy, the trigger is met, and the claimant is able to recoup the actual loss amounts (subject to policy terms). As mentioned above, in a parametric policy, once the specified trigger(s) have been met, then the policy pays the predetermined amount, which may or may not reimburse the full loss amount. Arguably, one of the most important benefits that parametric policies have over indemnity policies is that they completely remove the claim adjustment process. Claim adjustment costs can be expensive, particularly for longer-tailed lines of business.

A greater understanding of the regulatory implications of deploying parametric solution could lead to greater deployment of such solutions.

5. Open Insurance

Open insurance solutions should meet data protection considerations, insurance, and competition regulations while supporting innovation, efficiency, consumer protection and financial stability. Enhanced data sharing and openness, in compliance with data protection and competition rules, could enable the insurance sector to fully embrace data-driven innovation.

This could lead to creating innovative products:

- **for consumers**, such as making it easier for consumers to compare offerings and switch providers; new advice services
- **for businesses**, such as increased efficiency and interaction with third parties or more efficient compliance practices
- **for supervisors**, such as more effective and responsive oversight capabilities

However, this could also give rise to new/amplified risks such as data security, cyber risks, interoperability, liability, ethical issues and broader consumer protection risks.

Collecting and sharing data about insurance policies or other open insurance-related data can reveal sensitive information about the health, sexuality, and political views or other personal

details of a person. Increased data sharing, especially if combined with Artificial Intelligence/machine learning tools, could also increase financial exclusion.

It could also raise the question of level playing field, for example the question of providing equal access to data for all insurance undertakings/intermediaries, including small ones and/or through reciprocity in the sharing of consumer data between all market participants.

6. Embedded Insurance

An “embedded” insurance product is an insurance product that has been integrated in the purchase of a product or service. While embedded insurance offerings could be offered in relation to virtually any product or service, it is most common to see these insurances embedded in credit card schemes, and in the purchase of cars and bicycles.

It may be argued that embedded insurance products improve customers’ access to insurance products, since it is no longer necessary for them to acquire a separate insurance contract to cover risks relating to their property or service, and it also improves the coverage “protection gap”. However, the embedded aspect also raises some challenges for compliance with certain regulatory requirements relating to the offer and distribution of insurance products.

Understanding these challenges better could lead to new product development in this space.

7. AI

The adoption of Artificial Intelligence (AI) technologies offers significant potential for insurance companies and insurtechs. Understanding the regulatory environment within which these technologies can be deployed would be highly attractive to insurers and insurtechs alike. The use of artificial intelligence in the EU will be regulated by the AI Act, but other supervisory bodies will also have a role to play.

8. Fraud

The use of data, digital technologies and a more collaborative approach across insurers could lead to significant impact on fraud in the industry. Exploring how a collaborative approach to

fraud could co-exist within the existing regulatory environment would be a very attractive them for industry to engage with.